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**INDIAN AUDIT & ACCOUNTS
DEPARTMENT**



**REVENUE SECTOR AUDIT MANUAL
(STATE EXCISE)**

3rd EDITION

February 2018

OFFICE OF THE PRINCIPAL ACCOUNTANT
GENERAL
(E&RSA), ODISHA, BHUBANESWAR

PREFACE

(To the Revised Edition)

The Manual has been prepared for the guidance of those entrusted with the audit of State Excise receipts and refunds. In this book, the basic provisions of Excise Duties and Fees including rules and executive instructions issued by the Excise Commissioner, Odisha, have also been incorporated. This manual is not a substitute for the original law and is exclusively meant for departmental use. It may not be quoted as reference in the course of audit. Such references should always be made to the Sections of the Act/Rules or proper orders of the Government/Excise Commissioner, Odisha.

State Receipt Audit Wing headquarters will be responsible to keep this book up-to-date. The Assistant Audit Officer, Audit Officer and the Sr. Audit Officer of the field parties will bring to the notice of Headquarters Section Revenue Sector Audit Wing any inaccuracy or omission or orders which have become obsolete or which require amendment. This Manual should be treated only as a guide and the audit checks mentioned therein should not be taken as exhaustive.

BHUBANESWAR
The February 2018

Pr. ACCOUNTANT GENERAL (E&RSA),
ODISHA, BHUBANESWAR

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Receipt Audit Manual on State Excise Duties

CHAPTER - I

Constitutional Provisions

1.1 INTRODUCTION:

The statutory responsibility for the audit of all receipts of the Central and State Government is vested in the Comptroller and Auditor General on enactment of Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. Section-16 of the Act specifically enjoins upon the Comptroller and Auditor General to audit all receipts of the State and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on assessment, collection and proper allocation of revenue. For this purpose, the Comptroller and Auditor General of India is authorised to undertake such examination of the accounts as deemed fit and to report thereon.

Consistent with this statutory responsibility the audit of state excise duty in Odisha has been taken up by this office from the year 1973-74 (C&AG's instructions issued in letter No. 1320-Rev.A/8-73 dated 05.03.1973). The effectiveness of audit depends largely on the documents and records available for audit in the offices of the taxing authorities. The general principles of audit of receipt are described in Chapter-3 of Section II (paras 2.3.1 to 2.3.15) of Manual of standing order (Audit) –Second Edition 2002.

1.2 GENERAL:

The State Government is empowered under Article 246 of the Constitution of India and Entry-51 of the State List in the Seventh Schedule of the Constitution of India to levy duties of Excise on alcoholic liquors for human consumption, opium, Indian hemp and other narcotics drugs and narcotics manufactured in the State or countervailing duties on similar goods manufactured in India and imported into the State.

1.3 LAW IN GENERAL

Excise duties are levied and collected under the authority of the following Central and State Laws and Rules made thereunder: -

(a) CENTRAL LAWS

- (i) The Opium Act, 1878 and rules made thereunder to control the cultivation of poppy and manufacture and sale of opium.
- (ii) The Dangerous Drugs Act, 1930 and Rules made thereunder to suppress contraband traffic and control the abuse of dangerous drugs, especially those derived from opium, Indian hemp and Coca leaf.
- (iii) The Medicinal and Toilet Preparation (Excise Duties), Act, 1955 and Rules made thereunder providing for the levy and collection of duties of excise and medicinal and toilet preparations containing alcohol, opium, Indian hemp or other narcotic drugs or narcotics.

- (iv) The Molasses Control Order, 1961 - The production and sale of molasses are regulated under the above Act. Any distillery, factory, industrial undertaking, requiring molasses should obtain a permit from the molasses controller (Excise Commissioner).

(b) STATE LAWS-

- (i) The Odisha Excise Act, 2008 effective from 1st April 2017 regulate production, manufacture, possession, transport, purchase and sale of intoxicating liquor and drugs and the levy of duties and countervailing duties on alcoholic liquors, opium, Indian hemp and other narcotic drugs.
- (ii) In exercise of powers conferred by Section-90 and 94 of the Odisha Excise Act, 2008, the State Government of Odisha has prescribed rules (Odisha Excise Rules, 2017) in suppression of Odisha Excise Rules, 1965, the Board's Excise Rules, 1965, the Odisha Excise Exclusive Privilege Rules, 1970, the Odisha Excise (Exclusive Privilege) Foreign Liquor Rules, 1989, the Odisha Excise (Methyl Alcohol) Rules, 1976, and the Odisha Excise (Mohua Flower) Rules, 1976
- 1) For regulating the manufacture, supply or storage of any excisable articles.
 - 2) In fixing the strength, price and for prescribing a standard of quality for any intoxicant.
 - 3) Percentage of Wastage of spirit allowed for a Journey of not greater duration than Five days each 0.5 *per cent* and for a journey of duration exceeding five days each 1.0 *per cent* per day of the journey.
 - 4) For prescribing the scale of fees or the manner of fixing the fees payable in respect of any licence, permit or pass or storage.

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CHAPTER - II

ORGANISATIONAL SET UP, DEFINITION, TERMINOLOGY AND NATURE OF DUTY

2.1 ORGANISATIONAL SET UP

The Excise Department of Government of Odisha is the Administrative head for the administration of Excise Laws and Rules in Odisha. The Excise Commissioner being the head of the Department is responsible for administration of Excise Acts and Rules. In a district, the matter relating to the administration of such Acts and Rules are under the charge of the Collector who is the head of the district excise administration. The Superintendent of Excise (SE) is also known as District Excise Officer who carries out all the excise functions on behalf of the Collector.

The Excise Commissioner is the ex-officio Controller of Molasses for exercising powers of control and distribution of molasses in the State. The SE is assisted by the Deputy Superintendent of Excise (DSE), Inspector of Excise (IE) and other staff. The Excise Commissioner is also assisted by three Excise Deputy Commissioners i.e. (i) Central Division (Consisting of 10 SEs), (ii) Southern Division (Consisting of 11 SEs) and (iii) Northern Division (Consisting of 10 SEs).

Besides, matters relating to detection, investigation and trial of offences under the Acts are entrusted to a special unit, Intelligence Branch, headed by the Excise Commissioner and assisted by a Deputy Commissioner of Excise (Enforcement).

2.2 DEFINITION

1. **Foreign Liquor:** Foreign liquor means every liquor imported into India, other than India made foreign liquor and country liquor and such other intoxicants as may be declared by the State Government to be foreign liquor.

Section 2(p) of Odisha Excise Act, 2008

2. **India Made Foreign Liquor (IMFL):** means liquor produced, manufactured or compounded in India and made in colour and flavour to resemble gin, brandy, whisky or rum imported from foreign countries into India.

Section 2(s) of Odisha Excise Act, 2008

3. **Beer:** "Beer" means any liquor prepared from malt or grain with or without addition of sugar and hops and includes black beer, ale, stout, porter and such other substance as may be specified by the state Government.

Section 2(b) of Odisha Excise Act, 2008

4. **Alcoholic Beverages:** It means any beverage which is intoxicating and is fit for human consumption

Section 2(a) of Odisha Excise Act, 2008

5. **Country Liquor:** All liquor produced or manufactured in India other than foreign liquor and India made foreign liquor and includes

(i) Plain spirit which has been made in India from materials recognised as bases for country spirit, like Rice, gur, treacle or molasses and on which duty has not been imposed at the rate fixed for the importation of spirit into India

(ii) Tari or toddy

(iii) All fermented liquid made from Mohua, Rice, Millet or other grain according to indigenous process. And

(iv) Such other intoxicants as may be declared by the state Government to be country liquor.

Section 2(g) of Odisha Excise Act, 2008

6. **Denatured spirit:** To mix spirit with one or more denaturants in such manner as may be prescribed and “denature spirit means” spirit so mixed.

Section 2(h) of Odisha Excise Act, 2008

7. **Rectified Spirit:** Rectified spirit means plain spirit of strength of not less than fifty degrees above proof and includes absolute alcohol.

Rule 2(zb) of Odisha Excise Rules, 2017

8. **Tari or toddy:** Tari means fermented or unfermented juice drawn from any coconut, palmyra, date or other kind of palm tree.

Section 2(zg) of Odisha Excise Act, 2008

9. **Pachwai:** It means fermented rice, millet or other grain whether mixed with any liquid or not and any liquid obtained there from whether diluted or not diluted but does not include beer.

Section 2(y) of Odisha Excise, Act 2008

2.3 TERMINOLOGY

(1) **LPL:** A litre containing liquor of strength of London Proof.

(2) **London Proof:** means the strength of liquor as ascertained by means of the Sykes’s hydrometer or any other instrument prescribed for the purpose by the Commissioner and denotes that spirit which at the temperature of 10-55 degrees Centigrade weighs exactly 12/13th part of an equal measure of distilled water and which has a density of 0.91984 at the temperature of 15.55 degrees Centigrade and contains 49.24 per cent by weight of alcohol and 50.76 per cent by weight of water or 57.06 per cent by volume of alcohol;

(3) **B.L.:** Bulk Litre. Bulk Litre varies according to strength of spirit.

(4) **O.P.:** Over Proof. Over Proof signifies a liquor containing a percentage of alcohol higher than in “London Proof” Liquor.

(5) **U.P.:** Under Proof. Under Proof signifies a liquor containing a lesser percentage of alcohol than in “London Proof” liquor.

Conversion for calculation of duty:

$$(i) \quad LPL = \frac{BL \times \text{Strength}}{100}$$

$$(ii) \quad BL = \frac{LP \times 100}{\text{Strength}}$$

$$(iii) \quad \text{Proof Strength} = \frac{LPL \times 100}{BL}$$

(6) E.N.A: Extra Neutral Alcohol. To produce E.N.A., four columns are used. Re-distillation of spirit through E.N.A. columns is an advanced process of distillation.

2.4 NATURE OF DUTY AND FEES

The receipt under state excise accrues mainly from:

- (i) Duties levied on issue of spirit from the distillery or bonded warehouses.
- (ii) Countervailing duties on liquor manufactured elsewhere in India and imported into the State.
- (iii) Duty on sale of country spirit.
- (iv) Duty on Low alcoholic beverages.
- (v) Duty on India made foreign liquor/FMFL/Wine/Beer.
- (vi) Duties on medicinal and toilet preparations containing alcohol, opium.
- (vii) Cost price/duty on Bhang.
- (viii) Sale price of medicinal opium.
- (ix) Licence fees for retail, wholesale or sale to trade of an intoxicant
- (ix) Bottling fees, EAL Fee
- (x) Label registration fee on I.M.F.L, Beer and C.S
- (xi) Import/Export/transport Fee on intoxicants
- (xii) Vend Fee on liquor imported into India from outside the country.
- (xiii) Licence fee and Utilisation fee for Molasses.
- (xiv) Composite Label Registration Fee by Retail licensees.
- (xv) Storage fee and utilisation fee of Mohua Flower.

Annual Excise Policy 2017-18

2.5 Label registration of IMFL, Beer and Country Spirit

Permission for use of label:

(1) No Foreign Liquor, IMFL, Beer and country spirit which are manufactured within Odisha in accordance with the provisions of this Act and Rules or which are manufactured outside the State in India by licensed manufacturers and allowed to be imported into the State or foreign liquor imported into the State from outside India, shall be stored in any warehouse or sale-to-trade premises or any retail or any other licensee's premises for the purpose of sale, unless and until the brand name under which and the label with which it is to be sold is approved and the permission is granted by the Commissioner in writing on that behalf.

(2) The manufacturer shall, after the bottles are filled, corked and capsuled, affix on each bottle a label approved by the Commissioner for the purpose of affixing such label and the labels shall contain such particulars as may be specified by the Commissioner, from time to time.

(3)(a) Person who intends to store any liquor mentioned in sub-rule (1) shall apply for approval of brand names and labels and for issue of permission to use such brand name and label directly to the Commissioner and if IMFL, Wine or Beer is manufactured outside Odisha, he shall apply to the Commissioner for approval of the brand

names and labels and for issue of permit through the Excise Authority of that State.

- (b) Applications for approval for a new brand name of foreign liquor IMFL, Wine, Beer or Country Spirit mentioned in sub-rule (1) and the labels corresponding to it, shall be made to the Commissioner at least two months prior to its sale or offer for sale but the application for renewal of approval of existing brand name and label shall be made to the Commissioner, within the last working day of the months of February of each year.
- (c) The Manufacturer licensed to manufacture IMFL within the State and outside the State of Odisha besides 750 ml., 375 ml, 180 ml. and 90 ml. may also manufacture, IMFL and bottle in quantities of any other suitable size prevalent in national or international market for sale only in shops licensed to sale IMFL, but in case of Beer, the same may be approved for sale in size of 650 ml., 500 ml. or 330 ml. or any other suitable size prevalent in national or international market and the said manufacturers shall have to apply for approval of the brand name and labels for sale to trade inside the State of Odisha:
- (4)** All applications for approval of brand name and labels, and renewals of such brand name and labels and for issue of permission shall be accompanied by such fees as may be notified by the State Government, from time to time.
- (5)(a)** The Commissioner, before approval of the brand name and labels and issue of permission, shall make such inquiries as deemed fit and may also require samples of the liquor to be chemically examined before such approval to ensure that the liquor meets required standard;
- (b) The correct and up to date record of all brand names and labels which are approved or whose approval is renewed, from time to time, shall be maintained by the Commissioner.
- (c) The list of brand names which are approved by the Commissioner up to the 28th of February of every year shall be published by him within the 31st March of the following year.
- (6)** The Commissioner may refuse approval of brand name and label if he is not satisfied;
- (a) in the case of IMFL that the bottler whose name is stated in the application holds a valid licence from the Government or any State or Union Territory in India to distil, compound, blend or bottle spirits or brew beer; and
- (b) in the case of foreign liquor brought into India from any foreign country and bottled in India, that the brand name under which or the label with which it is proposed to be sold is distinguishable from other brand names or labels which have already been approved or whose approval has already been applied for;

Provided that while refusing to approve a particular brand name, the Commissioner will state reasons, to be recorded in writing, and such refusal shall be made after giving the affected party a reasonable opportunity of being heard.

(7) The permission which has been once issued shall remain valid until the 31st of March of the following year.

(8) A permission already issued may be withdrawn at any time by the Commissioner for reasons to be recorded in writing and after giving the affected party reasonable opportunity of being heard.

Rule 102 of Odisha Excise Rules, 2017

2.6 Rate of duty

'Duty', which includes both excise duty and countervailing duty, is levied at the rates fixed under Section-28 and 29 of the Odisha Excise Act, 2008 and Excise policy as declared by Government each year. The rates of different nature of duty and fees in force for 2017-18 are indicated in **Annexure-A**.

2.7 Excise Adhesive Labels (EALs)

Affixing Polyster/Paper based hologram Excise Adhesive Label (EAL) shall be compulsory on IMFL, Beer and C.S bottles/can. Non-affixture of EAL by any company will invite penalty as specified in Annual Excise Policy (AEP). Any retailer found selling any IMFL, Beer & C.S without affixture of EAL supplied by the Excise Administration shall invite penalty as specified in AEP. The above fine will be in addition to other legal action as per law.

AUDIT CHECK

(1) During audit of O/o the Excise Commissioner, it is to be seen whether the label registered for the audited year is supported with payment of application fee and label registration fee.

(2) Whether imposition of label registration fee is based on the supply of the brand made to OSBC during last calendar year.

(3) EAL A/c

(4) Enforcement Activities

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CHAPTER - III

DISTILLATION

A. DISTILLERIES/BOTTLING PLANT

3.1 Definition: 'Distillery/Bottling plant means the manufactory where spirits are distilled, compounded, blended, processed, fortified and/or diluted to produce wines or Indian Liquor other than arrack, beer or toddy and includes an operation for bottling of such liquor.

3.2 Object: Distilleries may be opened for all or any of the following purposes:

- (i) Manufacture and supply of country spirit.
- (ii) Manufacture and supply of foreign liquor
- (iii) Manufacture and supply of spirit for the manufacture of chemicals and medicated articles etc., or for other industrial purposes.

Rule 61 of Odisha Excise Rules, 2017

3.3 Distillery Licence

Submission of application for licence and particulars of licence

(1) Any person, desiring to obtain a licence to work a distillery at any place within the State of Odisha, may, in response to the notice to be issued by the Commissioner or otherwise, apply in writing to the Commissioner for the grant of a licence.

(2) The application shall, besides such other particulars as may be required in the said notice, contain the following particulars, namely;

(a) name and address (local and permanent) of the person, in case of a firm, the name of the firm and of every partner thereof, and in case of a company, the registered name and other particulars thereof;

(b) the purpose for which the distillery is proposed to be opened specifying in detail the nature of the business which the applicant desires to carry on therein; (c) land particulars of the site as per record of right along with the building in which the distillery is proposed to be constructed and operated;

(d) if applicant does not possess a land of his own, a valid lease deed in his favour duly executed and registered by a bonafide land owner free from all encumbrances;

(e) the number and full description of the stills, vats and other permanent apparatus which the applicant wishes to work or set up, and the size and capacity of such stills, etc;

(f) the date from which, in the event of a licence being granted to him, the applicant proposes to commence working the distillery;

(g) the amount of security as may be determined by the Commissioner which the applicant is ready to furnish for due compliance and performance of the conditions on which a licence may be granted to him;

(h) correct plan of the buildings, which he intends to use or to construct for his distillery, showing the position of stills, vats and other permanent apparatus therein, and a list of store rooms, warehouses and other rooms connected therewith;

(i) value added tax clearance and I.T. return and PAN CARD; and

(j) such other particulars as may be required by the Commissioner;

Provided that in no circumstances, license to operate a distillery on Government land shall be considered.

Rule 62 of Odisha Excise Rules, 2017

3.4 Pre-requisites for grant of licence

(1) After receipt of the application and after consultation with the Collector of the district, in which the distillery is proposed to be opened, regarding the suitability of the site and of the existing building, if any, for the purpose, as well as on any other points, and on receipt of the Collector's opinion thereon and after such further inquiry, as he may think fit, the Commissioner, with prior approval of the State Government, shall decide under section 13, subject to the provisions of section 20, whether the licence for establishing the distillery should be granted.

(2) If the Commissioner sanctions the establishment of a distillery, he shall inform the Collector of the district, in which the distillery is to be opened, and the applicant, directing him to make arrangements for the construction of the distillery, if such construction is necessary.

(3) Upon completion under sub-rule (2) of the construction of the building and after the stills and other appliances and apparatus have been set up, the applicant shall furnish two fresh copies of the plans to the Collector who shall cause them to be verified in any manner he thinks fit and then submit with his observations, if any, one such copy of the plan to the Commissioner for examination and for comparison with the plans first submitted by the applicant and for any further verification which the Commissioner may think necessary.

(4) After the Commissioner approves the plan, he shall instruct the Collector to grant a licence to the applicant.

(5) The applicant shall be bound to conform to the orders of the Commissioner regarding any addition or alteration to the buildings or plans, whether before or after final plans are submitted, for proper security of revenue and to render illicit practices impracticable.

(6) Whenever any addition or alteration to the buildings, stills or other apparatus as shown in the plans submitted under sub-rule (3) becomes necessary, the applicant shall submit fresh plans through the Officer-in-charge who will check the same regarding correctness of the existing portions of the plan and submit them, with his comments on the suitability and feasibility of the changes proposed to the Collector who shall obtain the orders of the Commissioner and no such addition or alteration shall be made without the previous sanction of the Commissioner.

Rule 63 of Odisha Excise Rules, 2017

3.5 Execution of bond and written instrument and grant of licence

(1) Before the licence to work the distillery is granted by the Collector, the applicant shall execute a bond in Form XV pledging the premises, stills, all apparatus and utensils employed in the manufacture or supply of the product for the due discharge of all payments which may become due to Government or in lieu of executing such a bond, the applicant may submit Bank guarantee of such value as the Commissioner may direct.

(2) In addition to the requirement under sub-rule (1), the Collector shall also, at the same time, ensure that the applicant executes a written agreement agreeing to such terms and conditions as may be called upon by the Commissioner to guarantee the manufacture and supply of the required quality and quantity of the product.

(3) On execution of the bond and the written instrument referred to in sub-rules (1) and (2), the Collector shall grant a licence in a Form XII (DW1).

Rule 64 of Odisha Excise Rules, 2017

3.6 Licence fee

The fee payable on licence to manufacture spirit in a distillery, issued to the grantee of an Exclusive privilege for supply of potable spirit shall be in the following scale per annum which shall be payable in advance prior to issue of licence.

The license fee for those distilleries that have supplied over 100,00,000 (1Crore) LPL to the wholesale depots between January to December of the preceding year is fixed at (₹ 0.50/ LPL). For those distilleries that have supplied less than 100,00,000 (1Crore) LPL, but more than 50,00,000 (Fifty Lakh) LPL to the wholesale depots between January to December of the preceding year, the license fee is fixed at ₹ 1/ LPL. For those distilleries that have supplied less than 50,00,000 (Fifty Lakh) LPL to the wholesale depots between January to December of the preceding year, the license fee shall be fixed @ ₹ 1.50 per LPL. However, the annual license fee for those distilleries and bottling units that have failed to utilize less than 10% of their installed capacity in the period between January to December of the previous year, shall remain the same as what was fixed in the preceding year 2016-17.

Sl. No.	Production capacity (In proof litre)	Category-wise amount (₹ in Lakh)
1.	Annual Licence Fee for a new Distillery	20
2.	Annual Licence Fee for a new Bottling Unit	20
3.	Annual Licence Fee for E.N.A Columns	9
4.	Annual Licence Fee for wine producing Units	2.5
5.	License Fee for supply and manufacture of CS (M/s ACSIL)	36

(Annual Excise Policy, 2017-18)

This shall come into force with effect from 1.4.2017

3.7 Storing of spirit

(1) Spirit shall be stored in sound casks or vats and no cask or vat shall be used for storage of spirit or for conveyance of spirit from the receivers to the store room until it has been examined and registered by the Officer-in-charge or by such other officer as the Collector may depute for the purpose.

(2) Each cask or vat shall be so placed as to admit the contents being accurately gauged and its internal parts must also be clearly visible and it shall also be fitted with a proper dipping for gauging.

(3) The distiller shall not cause or allow the dipping place or level of any vessel to be altered or any device to be used to deceive the Officer-in-charge in taking the gauge of any vessel, or to prevent him from taking a true account of all wash or spirit in any vessel.

(4) All spirit collected in the receiver shall be transferred or conveyed into the store room or Warehouse without any delay, but no spirit shall be transferred between 10 P.M. and 6 A.M.

Rule 68 of Odisha Excise Rules, 2017

3.8 Loss in distillery

Responsibility for loss, damage or theft of spirit in a distillery:-

(1) The Government shall not be made responsible for the destruction, loss or damage by fire, theft or any other cause whatsoever, occurring to any spirit stored, received, gauged, weighed or verified in the distillery or warehouse.

(2) In case of fire or other accident in the distillery the Officer-in-charge shall immediately attend to and open it at any hour of the day or night.

(3) With a view to providing sufficient protection to the persons affected in any accident referred to in sub-rule (2), the distiller shall insure the unit at least with third party coverage with a public sector General insurance company.

Rule 69 of Odisha Excise Rules, 2017

3.9 Chemical examination of spirit

Samples of materials used in distilleries for the manufacture of spirit and of spirit manufactured therefrom shall be sent to the Chemical Examiner for examination, once in July and again in December, and at other times if required, and the cost of dispatch of the samples and also the fee as may be specified by the State Government for the examination shall be borne by the distiller.

Rule 72 of Odisha Excise Rules, 2017

3.10 Operation of distillery, bottling unit and brewery beyond the scheduled hour:

(1) All operations in a distillery, and other production unit which require the presence of an Excise Officer shall be stopped, subject to the provisions of this rule, on Sundays, other public holidays and specially declared holidays.

- (2)** The licensee of any distillery, other production unit shall also so arrange its operations that no Excise Officer or any of his employees need be on duty for more than eight hours per day which is specified as the scheduled hours of duty per shift.
- (3)** If it becomes necessary for the licensee to run the second shift of 8 (eight) hours, then he can do so only with the prior permission of the Commissioner.
- (4)** If the distillery and other production unit functions more than one shift, additional staff shall be posted as would be determined by the Commissioner and the cost for payment to such additional staff shall be such as specified under sub-rule (2) of rule 93 and shall be borne by the said unit.
- (5)** The Distillery or other production unit shall pay to the State Government a sum of three thousand rupees per each extra hour of operation of their such unit beyond the scheduled hours as specified in sub-rule (2), in addition to the overtime fees payable to the Excise Staff in pursuance of the provisions prescribed hereunder.
- (6)** The Officer-in-charge of the unit, distillery and other production unit shall collect the amount due under sub-rule (5) for each day of its operation beyond the scheduled hours and deposit in the current account of the concerned D.D.O.-cum-Superintendent which will be disbursed in accordance with the provisions contained in sub-rule (13) and the Officer-in-charge shall submit a detailed report to the Superintendent of the district with a copy thereof to the Commissioner, at the end of the month indicating the work done and the number of hours engaged in such unit beyond the scheduled hours of each occasion and the fee realized thereof, for a verification at the level of the Superintendent.
- (7)** On Sundays, public holidays or specially declared holidays, the Officer-in-charge shall not be required to attend the operation in the distillery and other production unit unless a written requisition is received from the licensee and for which overtime fee besides the fee specified in sub-rule (5), is claimed and allowed for such attendance.
- (8)** A licensee when requiring the presence of the Officer-in-charge for operation of the distillery, other production unit beyond the scheduled hours specified in sub-rule (3) or on holidays specified in sub-rule (7), he shall submit a written requisition to the Officer-in-charge indicating the work to be done and the approximate time the work is likely to cover and the hour at which Officer-in-charge is required to attend.
- (9)** All claims for overtime work must be accompanied by a full statement of work done and the time spent, stating the hour and minutes and by a copy of the requisition of the licensee for attendance.
- (10)** No claim for overtime work shall be paid by the licensee until it has been examined and passed by the Superintendent.
- (11)** When an Officer attends on a requisition of the licensee made in accordance with the foregoing provisions, the minimum charges, whatever may be the time spent, shall be for one hour.

- (12) The fee to be charged for each hour of overtime work done shall be one-fifth of a day's pay of the officer concerned.
- (13) The Distillery, other production unit shall disburse the fee for the overtime work to the Current Account of the D.D.O.-cum-Superintendent who shall pay the same to the account of the concerned Officer-in-charge of the unit after sanction of the same by the Collector of the district as recommended by the Superintendent.

Explanation-For the purpose of this part, the expression "Other Production Unit" shall mean bottling unit or brewery, unless the context otherwise requires.

(Rule 79 of Odisha Excise Rules, 2017)

3.11 Recovery of dues from distillery

Without prejudice to the procedure prescribed for recovery of dues by section 95 of the Act, all sums due to Government may be recovered from the amount of deposit made by the distiller or by sale of the premises, stills and other things pledged under the bond or the Bank guarantee mentioned in rule 64.

(Rule 77 of Odisha Excise Rules, 2017)

Action to be taken by commissioner on expiry of the licence

(1) On termination of the licence, either on account of expiry of the term or on account of cancellation or suspension of the licence, the Commissioner may take over, or permit the distiller's successor to take the balance of liquor in the distillery at twenty per centum below the contract rate.

(2) Consequent upon cessation of the distillery under sub-rule (1), the Officer-in-charge shall immediately seal the same and report to the Commissioner under intimation to the Collector for alternative arrangements.

Rule 78 of Odisha Excise Rules, 2017

3.12 Distiller to report on offences in distillery

(1) It shall be the duty of the distiller to bring any breach of the excise and allied laws, or of any rules made thereunder, committed by any person in his employ, to the notice of the Officer-in-charge of the distillery who shall report the matter to the Superintendent, and the Superintendent shall apprise the Collector about it.

(2) The distiller shall be bound to comply with the orders of the Collector passed on the report mentioned in sub-rule (1).

Rule 81 of Odisha Excise Rules, 2017

Action by Officer-in-charge against offenders in the distillery

The Officer-in-charge may expel for some or all times, from the premises of the distillery warehouse, any person whom he finds to have committed, or to be committing, or about to commit, any breach of the excise and allied laws or rules made there under or who is intoxicated or disorderly and he shall, immediately report the action so taken to his official superior for approval or

for further inquiry as may be considered necessary in each case by such official superior.

Rule 82 of Odisha Excise Rules, 2017

3.13 ANNUAL STOCK TAKING

Stock-taking and calculation of duty on wastage or deficiency of spirit

(1) An account of the distiller's stock of spirit shall be taken by the Superintendent, at least once every quarter and wastage allowance up to a maximum two per-centum of all spirit manufactured in proof liters in the process of re-distillation of rectified spirit shall be allowed.

(2) The distiller shall pay to the State Government, duty at the rate specified by the State Government under section 29 on all spirit which may not be forthcoming in the stock-taking mentioned in sub-rule (1) and for which he is unable to account for to the satisfaction of the Commissioner, in excess of a wastage allowance of one and one-half per centum calculated on the number of proof litres passed into the store room.

(3) Wastage for the purpose of collection of duty on the excess as referred to in sub-rule (2) shall be calculated annually, that is, at the end of the year for which the licence is in force.

(4) If it is proved to the satisfaction of the Commissioner, or such officer, as he may specify, that the deficiency or wastage, mentioned in sub-rule (2), in excess of one and one-half per centum has been caused by accident or other unavoidable cause, the payment of duty at the above rate on such deficiency shall not be required.

Rule 75 of Odisha Excise Rules, 2017

B. Denaturation of spirit

3.14 Purpose of denaturation

(1) The purpose of denaturing spirit or alcohol by admixture of denaturants is to render the mixture fit for the purposes of scientific, mechanical or commercial work, arts and manufacture and unfit for human consumption whether as a beverage or internally as medicine or in any other way.

(2) The denaturants shall be procured by and at the expenses of the person licensed to denature spirit and the expenses for their examination by the Chemical Examiner for the purposes referred to at shall also be borne by such person.

Rule 116 Sub-Rule (1) and (2) of Odisha Excise Rules, 2017

Sl. No.	Licence fee of denatured spirit		Amount ₹ in Lakh
(i)	D.S.-I	:	₹0.35 Lakh/- per annum
(ii)	D.S.-II	:	₹0.28 Lakh/- per annum
(iii)	D.S.-III(Carpentry)	:	₹0.21 Lakh/- per annum
(iv)	D.S.-III (For industrial use)	:	₹0.36 Lakh/- per annum Annual Excise Policy 2017-18

3.15 Chemical Examination

(1) Spirit can be said to be denatured and in the case of spirit originally imported under bond, the bond can be treated as released, only after the Chemical Examiner has declared it to be unfit for human consumption whether as a beverage or internally as a medicine or in any other way.

(2) If the Chemical Examiner's report be otherwise, stating that the spirit has not been thoroughly denatured or is still fit for human consumption in any manner, the spirit may, if the licensee so desires, be further mixed with denaturants and treated in the manner specified in Rules 118 to 120, and duty shall be levied on such spirit at the rate as may be specified by the State Government under section 29 for the kind of spirit as the one to which the spirit not thoroughly denatured may be declared to belong by the Chemical Examiner in his said report, or subsequently on further reference for the purpose from the Collector and after such realization of duty the said spirit shall be issued under orders of the Collector, as such kind of spirit which it is so declared to be.

Rule 121 of Odisha Excise Rules, 2017

3.16 Issue of denatured spirit

Denatured spirit may be issued from a distillery or warehouse only in quantities exceeding five litres at a time and only on the production of— (i) a pass in Form VII granted by the Collector in case of transport within the district; (ii) a pass in Form VII granted by the Collector of that district to which the denatured spirit is to be transported or imported.

Rule 122 of Odisha Excise Rules, 2017

3.17 Licences or exclusive privilege for sale of intoxicants to whom not to be granted

Licences or exclusive privilege for the retail of intoxicants shall not ordinarily be granted: -

- (a) to a person, who has been convicted by a Criminal Court of a non-bailable offence; or
- (b) to a former licensee who;
 - i. is in arrear to the State Government; or
 - ii. whose conduct has been found to be unsatisfactory; or

iii. who has been found guilty within the previous years of any serious breach of the conditions of his licence; or

(c) to a person who is known to be insolvent or who fails to provide adequate proof in support of his solvency;

Provided that nothing contained in this sub-rule shall apply where the license granted to Military Canteens.

Rule 35 of Odisha Excise Rules, 2017

C. **Manufacture of IMFL**

3.18 **Separate licence required for manufacture or compounding and blending etc., IMFL:**

(1) Distillers who desire to manufacture IMFL for sale shall apply for separate licences for the purpose in the same manner as specified in rules 62 to 64 whether the spirit is manufactured in his own distillery or in the premises owned by the Government.

(2) Manufacturers of IMFL must also take out separate compounding and bottling licences in accordance with the provisions of rule 92 to 104 prior to taking up or conducting such operations.

(3) All processes connected with bottling, flavouring, blending or colouring IMFL shall be conducted in a separate building within the distillery enclosure and shall be according to the provisions of rule 92 to 104.

Rule 83 of Odisha Excise Rules, 2017

3.19 **Bottling of IMFL**

The bottling of India made foreign liquor is done under the bottling licence in Form XII(FL8) which is granted to the distiller or warehouse keeper by the Collector with the approval of the Commissioner. The bottling unit licence fee per annum presently in force is detailed in **Annexure-A**. The Bottling Fee for IMFL is as below.

The bottling fee for IMFL

Sl. No.	Category(Non Refundable)	Amount in ₹
1	Bottling Fee own Brand Per LPL	13
2	Bottling Fee other than own Brand Per LPL	16
3	Bottling Fee for export of IMFL Per LPL	3

Annual Excise Policy, 2017-18

3.20 **Appointment of Officers for distillery**

Posting of officers and staff

(1) Subject to the sanction of the State Government, the Commissioner shall appoint such officers and staff as he thinks fit, having regard to the type and nature of work in a distillery.

(2) The Superintendent shall post Constables to the distillery and transfer them at suitable intervals to execute work.

Rule 84 of Odisha Excise Rules, 2017

Accommodation for officer and staff

(1) The distiller shall provide suitable rent-free accommodation for the Officer-in-charge and for other staff in close proximity to the distillery.

(2) He shall also supply such office furniture as may be reasonably required for the use of the Officer-in-charge and for the staff within the distillery.

Rule 85 of Odisha Excise Rules, 2017

3.21 Chemical examination

- (i) The Officer-in-charge shall, without prior notice to the licensee, take sample in duplicate of not less than 750 ml from the IMFL of different categories like Whisky, Rum, Brandy and Gin bottled for chemical analysis and declaration of true strength and obscuration from each batch of IMFL manufactured.
- (ii) If the strength, reported by the Chemical Examiner is more than two *per centum* proof degree than the strength declared by the manufacturer on the labels pasted on each bottle, the manufacturer shall pay the differential duty and a penalty at the rate of ten times the difference in duty but not exceeding fifty thousand rupees.
- (iii) If such differences are found to occur frequently, the Commissioner may order, for cancellation of the licence held by the manufacturer.
- (iv) Samples of finished products may also be taken at any time by the Commissioner and such other Excise Officer authorized by him.
- (v) The Officer-in-charge shall carefully pack and forward sample from each batch of IMFL manufactured of different categories for chemical analysis and keep the duplicate sample under lock and key in his custody until receipt of Chemical Examiner's reports or required by the Chemical Examiners to replace the previous sample.
- (vi) The Officer-in-charge shall take samples in presence of the licensee or his authorized agent and affix his seal and record the batch number on the label and sign on it.

Rule 97 of Odisha excise Rules, 2017

3.22 Wastage allowed

The deficiency in operation is allowed up to a maximum of 1.5% by the Commissioner on an application made by the licensee through the Collector at the end of each quarter.

3.23 Removal of bottled liquor

(1) The licensee shall remove all bottled IMFL, Wine and Beer from an approved store-room within three months after it is bottled:

Provided that in case of non-removal of the bottled IMFL, Wine or Beer from the store room within the specified period, the Commissioner may allow

removal of said stock within a further period of three months after being satisfied that the stock is fit for human consumption on chemical examination and on payment of three rupees over and above the bottling fees per LPL and under no circumstance further extension shall be allowed.

(2) No IMFL, Wine or Beer shall be removed or sold from a warehouse or storeroom except under a pass granted by the Officer-in-charge.

Rule 98 of Odisha excise Rules, 2017

AUDIT CHECKS

In the audit of distillation, the following audit checks are to be exercised: -

- (i) that the terms and conditions of licences are being followed strictly.
- (ii) In case of IMFL, Wine and CS, supply quantity to OSBC in the preceding year may be verified against payment of annual Licence fee of the distillery/bottling unit.
- (iii) that the duty of export pass fee are being realised at the rates prevailed either in cash or Treasury challan or by debit to ledger account.
- (iv) that the entries made in Ledger Accounts in respect of amount deposited and bottling fee adjusted therefrom.
- (v) that the wastage allowance is within limit and in case of excess wastage the duty has been realised promptly.
- (vi) the chemical examination report is to be seen to ascertain the materials used by the distillery are not of deleterious nature.
- (vii) The label registration of brands are done.
- (viii) Removal of bottled liquor was made within three months of production and in case of delay ₹3 per LPL is collected with permission of the Excise Commissioner.
- (ix) It is to be seen, if the strength, reported by the Chemical Examiner is more than two *per centum* proof degree than the strength declared by the manufacturer on the labels pasted on each bottle, the manufacturer shall pay the differential duty and a penalty at the rate of ten times the difference in duty but not exceeding fifty thousand rupees.

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CHAPTER - IV

LICENCING AND REGULATION OF BREWERIES

4.1 Brewery means a building where beer is manufactured and includes every place where beer is stored or issued.

The procedure for licensing and regulation of breweries etc. are described in Chapter -X of Odisha Excise Rules, 2017

4.2 Requirements from the brewer before grant of licence

(1) Any person intending to brew liquor for sale as beer shall submit to the Commissioner through the Collector a description in writing, signed by himself, of all premises, rooms, places and vessels intended to be used in the brewing operations and sale of beer specifying the purpose for which each is to be used and the distinguishing mark of each.

(2) Before the licence to brew is granted, the Excise Officer authorized by the Commissioner shall inspect the premises and vessels, check the correctness of the particulars stated in the written description mentioned in sub-rule (1) and report to the Collector on his such checking.

(3) If the written description mentioned in sub-rule (1) is correct and found satisfactory and if the applicant is considered a fit person to receive a licence, the Collector will grant the licence in Form XII (BW1) to the applicant with the prior approval of the Commissioner on execution of a bond as prescribed under rule 64.

Rule 105 of Odisha Excise Rules, 2017

4.3 Operation of brewery beyond the scheduled hour

(1) All operations in a distillery, and other production unit which require the presence of an Excise Officer shall be stopped, subject to the provisions of this rule, on Sundays, other public holidays and specially declared holidays.

(2) The licensee of any distillery, other production unit shall also so arrange its operations that no Excise Officer or any of his employees need be on duty for more than eight hours per day which is specified as the scheduled hours of duty per shift.

(3) If it becomes necessary for the licensee to run the second shift of 8 (eight) hours, then he can do so only with the prior permission of the Commissioner.

(4) If the distillery and other production unit functions more than one shift, additional staff shall be posted as would be determined by the Commissioner and the cost for payment to such additional staff shall be such as specified under sub-rule (2) of rule 93 and shall be borne by the said unit.

(5) The Distillery or other production unit shall pay to the State Government a sum of three thousand rupees per each extra hour of operation of their such unit beyond the scheduled hours as specified in sub-

rule (2), in addition to the overtime fees payable to the Excise Staff in pursuance of the provisions prescribed hereunder,

(6) The Officer-in-charge of the unit, distillery and other production unit shall collect the amount due under sub-rule (5) for each day of its operation beyond the scheduled hours and deposit in the current account of the concerned D.D.O.-cum-Superintendent which will be disbursed in accordance with the provisions contained in sub-rule (13) and the Officer-in-charge shall submit a detailed report to the Superintendent of the district with a copy thereof to the Commissioner, at the end of the month indicating the work done and the number of hours engaged in such unit beyond the scheduled hours of each occasion and the fee realized thereof, for a verification at the level of the Superintendent.

(7) On Sundays, public holidays or specially declared holidays, the Officer-in-charge shall not be required to attend the operation in the distillery and other production unit unless a written requisition is received from the licensee and for which overtime fee besides the fee specified in sub-rule (5), is claimed and allowed for such attendance.

(8) A licensee when requiring the presence of the Officer-in-charge for operation of the distillery, other production unit beyond the scheduled hours specified in sub-rule (3) or on holidays specified in sub-rule (7), he shall submit a written requisition to the Officer-in-charge indicating the work to be done and the approximate time the work is likely to cover and the hour at which Officer-in-charge is required to attend.

(9) All claims for overtime work must be accompanied by a full statement of work done and the time spent, stating the hour and minutes and by a copy of the requisition of the licensee for attendance.

(10) No claim for overtime work shall be paid by the licensee until it has been examined and passed by the Superintendent.

(11) When an Officer attends on a requisition of the licensee made in accordance with the foregoing provisions, the minimum charges, whatever may be the time spent, shall be for one hour.

(12) The fee to be charged for each hour of overtime work done shall be one-fifth of a day's pay of the officer concerned.

(13) The Distillery, other production unit shall disburse the fee for the overtime work to the Current Account of the D.D.O.-cum-Superintendent who shall pay the same to the account of the concerned Officer-in-charge of the unit after sanction of the same by the Collector of the district as recommended by the Superintendent.

Explanation: For the purpose of this part, the expression "Other Production Unit" shall mean bottling unit or brewery, unless the context otherwise requires

4.4 Brewery licence

The licence to establish a brewery is granted under Form No.XII (B.W 1) by the Excise Commissioner and this licence is valid for one year commencing from 1st April and expiring on 31st March every year.

“The licence to establish or work breweries and for the sale of beer from such brewery may be granted on payment of fees on the following scales: -

Sl. No.	Production capacity	Amount (₹ in Lakh)
1.	Annual Licence fee of a New Brewery	25
2.	Annual Licence fee for Micro brewery	7.5

The license fee for those breweries that have supplied over 10000000 (1 Crore) BL to the wholesale depots between January to December of preceding year is fixed at ₹ 1.00/ BL. For those breweries that have supplied less than 10000000 (Crore) BL, but more than 5000000 BL to the wholesale depots between January to December of the preceding year, the license fee is fixed at ₹ 1.50 per BL. Those licensees who have supplied up to 5000000 BL shall pay license fee @ ₹ 2.50 per BL. The annual license fee for those breweries that have failed to utilize less than 10% of their installed capacity in the period between January to December of the previous year, shall remain the same as what was fixed in the preceding year 2016-17.

Annual Excise Policy, 2017-18

4.5 Control of brewery

The brewery is placed under the charge of an Excise Officer and staff. The officer-in-charge of the brewery works under the direct supervision of the Superintendent of Excise in whose jurisdiction the brewery is situated.

4.6 Control over manufacturing process

(1) On the outer side of the door of every room and place for brewing operations and sale and on some conspicuous part of each of the vessels, there shall be legibly painted in oil colour the name and number of the vessel, utensil, room or place according to the purpose for which it is intended to be used and if more than one vessel is used for the same purpose, each such vessel shall be distinguished by a progressive number.

(2) Mash-tuns, under backs, coppers and collecting and fermenting vessels shall be so placed and fixed that the contents can be accurately gauged and measured.

(3) The brewer shall not alter the shape, position or capacity of any vessel without giving two days' previous notice in writing to the Excise Officer mentioned in sub-rule (2) of rule 105.

(4) The brewer shall enter correctly in the brewing book in Form XXII at least twenty-four hours before beginning to mash any malt etc., or dissolve any sugar—

- (a) the day and hour of brewing, with the date of making the entry and the time which shall be two hours before mashing or dissolving, the quantity of malt and unmarred corn, rice, rice grits, flaked rice, maize grits, flaked maize, separately;
 - (b) other similar preparations and quantity of sugar to be used; and
 - (c) the hour when all the worst will be drawn off the grain in the mash tun.
- (5)** The brewer shall also enter in the brewing book the quantity and specific gravity before fermentation of the worst collected, the number and description of the vessel or vessels in which the worst were collected, and the date and hour when the entry is made and such entry must be made within one hour after the collection has been completed.
- (6)** The brewer shall at all times keep the book on the licensed premises accessible to the Excise Officer mentioned in sub-rule (2) of rule 105 or to any Excise Officer superior in rank to such Excise officer for inspection.
- (7)** The brewing book shall be the property of the State Government.
- (8)** In the brewing book, the brewer shall not cancel, obliterate or alter any entry, or make any entry which is incorrect in any respect.

Rule 106 & 107 of Odisha Excise Rules, 2017

4.7 Issue of beer

Beer cannot be issued or removed from the brewery until the duty imposed under Section-29 of Odisha Excise Act 2008 has been paid in full or until a bond has been executed by the brewer for import, export, and transport of beer inside or outside the State. For this duty is realised either: - (i) by payment of duty in cash in the treasury (ii) by debit Ledger Account.

Section 15 of Odisha Excise Act, 2008

The beer is issued under a pass granted in form (Form No. xvii) by the officer-in-charge of the brewery on proof of full payment of duty or in case of export out of Odisha on executing necessary bond.

Rule 98(2) of Odisha Excise Rules, 2017

4.8 Micro brewery

In order to facilitate innovative variety of low strength liquor, ON license may be granted for the retail sale of freshly crafted Draught Beer to be produced and consumed locally within the premises of the Microbreweries with an installed capacity not exceeding 1000 BL per day. The license fees, duties and other statutory levies are as explained in Part A and Part B of Excise policy 2017-18 **Annexure-A**.

- 1)** It is aimed to establish Micro Brewery to manufacture Draught Beer for consumption of the Customers within the premises with an installed capacity 1000 Liters/day.

- 2) These can be established in 3 Star and above rated hotels in six major cities i.e. Bhubaneswar, Cuttack, Puri, Rourkela, Sambalpur and Berhampur.
- 3) In case of independent licenses, the licensed premises must have 10000 Sqft. area with a functioning restaurant and required parking facilities.
- 4) The licensee shall arrange to check the quality of raw materials used and the liquor produced in the microbrewery in all days by a certified chemist.
- 5) The beer so produced in the microbrewery shall be released for sale only after the Chemist certifies that such beer is fit for human consumption.
- 6) The licensee shall arrange to draw the beer samples once in every week and forward the same to laboratory for analysis.
- 7) The report so obtained shall be displayed along with the rate chart & statutory warning in the premises of the microbrewery.
- 8) The alcohol content of the product consumed shall not exceed 8% v/v
- 9) The PH, temperature and gravities of the Brews up to maturation stage should be recorded and subject to inspection as and when called for by competent authority.
- 10) The premises must be maintained neat and clean with proper ventilation, lighting and to meet all safety and emergency standards.
- 11) The beer dispensing system including glasses and serving table must be maintained to ensure proper hygiene.
- 12) Periodic fumigation by certifying person of the storage facility and as well as the premises to be done regularly and records maintained thereof.
- 13) The licensee shall issue beer to the visitors only at the licensed premises.
- 14) While applying for license of Micro Brewery, appropriate clearance certificate must be obtained from the following Board/ Department like.
 - (i) Pollution Control Board.
 - (ii) Fire Safety Certificate.
 - (iii) Water testing/ use certificate from competent authorities etc.
- 15) The rate of duty shall be the 50% of the annual installed capacity @ Rs 15.00/BL which shall be paid with the license fee.
- 16) The Micro-Brewery licensee must have a valid bar license.
- 17) All general provisions contained in the prevalent Excise Act & Rules as applicable to establishment of Breweries shall apply to Micro-Breweries as necessary.

Annual Excise Policy, 2017-18

4.9 Draught beer to be sold from kegs/casks

Draught beer may be imported / supplied in Kegs/ Cask through OSBC in containers of 30/50 BL conforming to FSSAI standards to be sold in Beer Parlours, IMFL ON Hotels/ Clubs/ Restaurants in 6 major cities i.e. Bhubaneswar, Cuttack, Rourkela, Sambalpur, Puri & Berhampur by mounting on standardized vending machines with tamper proof unidirectional flow system duly certified and installed by the concerned Beer supplier. The Beer Parlours Proposing to sell such Draught beer must have suitable sitting/ lounge facilities. All such Beer shall be sold within 6 months from the date of manufacture.

Annual Excise Policy, 2017-18

4.10 Wastage allowance

(1) An allowance of five percent of the monthly total of the charges shall be made on account of wastage and no duty shall be levied on such percentage of wastage.

(2) Written application shall be made by the licensee to the Collector for an allowance mentioned in sub-rule (1) for sour or spoilt beer as wastage.

Rule 110 of Odisha Excise Rules, 2017

4.11 Stock taking

Correct accounts of IMFL, Wine and Beer for compounding, blending and bottling and of colouring and flavouring substances in the warehouse or storeroom shall be maintained by the licensee in the manner as may be specified by the Commissioner and the said accounts shall remain in the custody of the Officer-in-charge who shall check them at the end of each day's work and shall produce them for inspection by his official superiors.

Other rules applicable to warehouse or store-room for IMFL, Wine and Beer.— Rules 64 to 69, 75 to 78, 80 to 84, 86 to 88 and rule 91 relating to working in distilleries and warehouse within or attached to the distilleries and the rules relating to warehouses for country spirit outside distilleries shall apply to the work and functions relating to receipt, storing, compounding and blending, reducing, bottling, issue, or sale of IMFL, Wine or Beer in or from a warehouse or storeroom in bond so far as the said rules may be relevant and not inconsistent with these rules.

Rule 100 & 101 of Odisha excise Rules, 2017

4.12 Chemical examination

For the purpose of analysis, the Excise Officer mentioned in sub-rule (2) of rule 105 or any Excise Officer superior in rank to him, may take without payments samples not exceeding one litre of any beer or material used in the manufacture thereof.

Rule 113(2) of Odisha Excise Rules, 2017

4.13 Refund of excise duty

If on receipt of the reports of analysis from the laboratory the Commissioner is satisfied that refund is justifiable, he shall pass orders for refund of the proportionate duty to the brewer and inform the Collector to make the refund.

Rule 112 of Odisha Excise Rules, 2017

AUDIT CHECKS

In the audit of the brewery the following audit checks are to be exercised;

- (i) that the terms and conditions of licences are being followed strictly and any deviation thereof may be brought to notice of authorities.
- (ii) that the brewer possesses valid licence (Form XII(BW1) on payment of prescribed licence fees.
- (iii) that entries in brewing Book (XXII) are all correct.

- (iv) that the worts are not removed from the brewery until an account of them has been taken.
- (v) that the produces of such brewery as shown in the brewing book has been taken into account in Register maintained in form XVI-C
- (vi) That all issues have been made after payment of duty.
- (vii) that the entries made in Ledger Accounts in respect of amount deposited and duty adjusted towards issues are in order.
- (viii) that the rate of duty or export fees are levied correctly.
- (ix) that the wastage allowance is within limit of 5% and in case of excess wastage the duty has been realised promptly.
- (x) that the bond executed is to be maintained with a view to see that the issues are restricted to the quantity covered under bond.
- (xi) the Chemical examination report is to be seen to ascertain the materials used by the brewer are not of deleterious nature.
- (xii) that all refunds made are in order.
- (xiii) To check whether all rules are complied in respect of microbrewery and Draught beer provided by the licensees.

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CHAPTER-V

COUNTRY SPIRIT BONDED WAREHOUSE

5.1 Definition: 'Bonded Warehouse' means a licenced premises for the storage of country spirit without payment of duty.

5.2 Receipt and Storing of Country Spirit

Procedure for receipt of spirit:-

(1) Country spirit intended for a warehouse must be conveyed in sound and watertight casks, the exact capacity of which must be branded or carved thereon:

Provided that country spirit in such strength and capacity as may be determined by the Commissioner shall be packed in bottles in manufacturer's warehouse and sealed therein and on supply, such bottles shall be stored in Corporations Warehouses or Depots for issue to retailers:

Provided further that each sealed bottle shall be checked by the Officer-in-charge or Corporation Officer and if any such bottle is found to be leaking, its issue shall be held up and such bottles shall be sent back for repacking so as to prevent leakage:

Provided also that such leaked country spirit shall be collected in clean bottles both at the manufacture's warehouses as well as Corporation Warehouses or Depot:

Provided also that the Commissioner shall determine the period after which the country spirit in bottle shall expire and the mode of disposal of such expired spirit:

Provided also that samples of bottles shall be placed in closed envelope which shall bear the personal seal of the Officer-in-charge:

Provided also that issue or movement of bottled country spirit from manufacturing point to Corporation shall be made on the strength of a pass to be issued by the concerned Superintendent.

(2) No country spirit which has been manufactured within the State of Odisha in the manner prescribed under sub-rule (1) shall be stored in the manufacturers' warehouse and supplied to the Corporation for the purpose of sale until and unless labels to be printed on the bottles have been approved by the Commissioner and permit has been granted by him authorizing sale of country spirit in such bottles and the labels shall contain such particular as may be specified by the Commissioner, from time to time.

(3) The manufacturers licensed to manufacture country spirit in bottles within the State of Odisha shall apply for approval of the labels and for issue of passes to use such labels directly to the Commissioner.

(4) In case of renewal of labels the manufacturer shall submit application within the last working day of the month of February in each year.

(5) Application for approval of labels and for issue of pass shall be accompanied by fees as may be specified by the State Government, from time to time.

(6) The Commissioner, before approval of labels and issue of pass, shall make such enquiries as deemed necessary and may also require samples of the country spirit to be chemically examined before such approval to ensure that the country spirit meet the requirement as per rules within the 31st March, following the offer for sale.

(8) The Commissioner may refuse approval of label if he is not satisfied:

Provided that while refusing to approve the labels, the Commissioner shall state the reasons to be recorded in writing and such refusal shall be made after giving reasonable opportunity to the affected party being heard.

(9) The pass once issued shall remain valid upto the 31st March, next year.

(10) A pass issued may be withdrawn at any time by the Commissioner for reasons to be recorded in writing and after giving the affected party reasonable opportunity of being heard.

(11) The following particulars are to be printed on labels, namely:(a) name of the Manufacturer; (b) place of Manufacture; (c) month and date of Manufacture; (d) quantity; (e) batch No.; (f) serial No.; (g) date of expiry; (h) alcohol strength; (i) for sale in Odisha (Odia and English); (j) statutory warning (Drinking of liquor is injurious to health); (k) maximum Retail Price (MRP); and (l) any other information as required by or under any enactment for the time being in force.

(12) No country spirit in bottles shall be sold by the retail vendors or kept in the licensed premises unless the said bottled country spirit labels are permitted by the Commissioner.

(13) Soon after the receipt of a consignment at the warehouse, the officer-in-charge shall, for verification of the consignment, open the vessels and measure by bung rod or weight, if weighing machine has been provided and shall test the strength of the spirit in each vessel in the consignment.

(14) If on verification of the consignment by the officer-in-charge and on comparison of the result with the copy of the pass covering the consignment, any excessive deficiency is found to occur in any vessel, the whole contents of the cask shall be measured by litre measures and the actual deficiency ascertained.

(15) The officer-in-charge shall note the results in the concerned registers and also on the pass covering the consignment, then return one copy of the pass with the entries of receipt immediately to the officer who issued the consignment, and retain the other copy with entries thereon in the warehouse.

Rule 131 of Odisha Excise Rules, 2017

5.3 Quality of spirit to be supplied

(1) All spirit supplied to a manufacturers' warehouse shall be of good quality and correspond with the sample approved by the Commissioner.

(2) If any country spirit supplied is found by the officer-in-charge to be unfit for human consumption, he shall stop the issue of such spirit and submit a sample of such spirit with a detailed report to the Superintendent for transmission to the Commissioner who may direct the action to be taken in the matter or order the destruction of such spirit and in any case orders of the Commissioner shall be final.

Rule 132 of Odisha Excise Rules, 2017

5.4 Storing of spirit

(1) The country spirit supplied to a manufacturers' warehouse shall be stored in casks, vats or iron tanks which shall be furnished by the licensee along with all other appliances which may be required for the safe and proper storing, blending, reducing or issue of spirit and the cost of storing, blending or reducing such spirit shall also be borne by such licensee.

(2) Vats or tanks must be of such make, design, number and capacity and set up in such manner as the Commissioner may, by general or special order, direct.

Rule 133 of Odisha Excise Rules, 2017

5.5 Issue of Country Spirit

Working days and hours in a warehouse for issue of spirit: –

(1) The working day for a Corporation warehouse or depot shall be specified by the Corporation Officer considering the need of the retailers in consultation with the Superintendent and the warehouse or depot shall be opened for 8 hours but there will be no issue of country spirit to retailers after 5.30 P.M.

Provided that any change in working days shall be notified to all concerned one month prior to such changes.

(2) The warehouses shall remain open for 8 hours on the working days and issues of spirit shall be given in the order in which vendors present challans or money order receipts showing payment of duty and cost price and produce their transit casks or drums ready.

(3) Ordinarily 2 P.M. shall be the latest hour for presentation of challan or money order receipt, but the Superintendent may fix any other hour in consideration of local conditions:

Provided that no country spirit collected in the receiver bottled shall be transferred or conveyed into the Storeroom or Warehouse between 10 P.M. to 6 A.M:

Provided further that no country spirit or IMFL shall be issued from the Storeroom or Warehouse after sunset or 6 P.M.

(4) Any change in the working days shall be notified one month before the change and intimated to all concerned officers for communication to the licensee and all retail vendors.

Rule 134 of Odisha Excise Rules, 2017

5.6 Pass required for issue of country spirit

No country spirit shall be issued from the manufacturers' warehouse except under a pass issued in Form XVII granted by the officer-in-charge of the Warehouse:

Provided that no pass shall be required for any sample of spirit sent with the report or written authority of the Officer-in-charge or of any other officer specially authorized in this behalf by the Collector, to the Chemical Examiner or to an Excise Officer superior in rank to Inspector for examination.

Rule 135 of Odisha Excise Rules, 2017

5.7 Special issue of country spirit

Special issue of country spirit on nonworking days shall be made only under written orders of the Superintendent or the Corporation Officer passed on the application of any retail vendor for this purpose and on payment of a fee of one thousand rupees by such vendor.

Rule 136 of Odisha Excise Rules, 2017

5.8 Procedure for issuing sample bottles

The officer-in-charge shall retain two sealed bottles sealed in his presence and licensees as samples before issue of the country spirit to the retail licensee and the bottles shall be sealed by the following method, namely;

- (a) the cork shall be driven in flush with the top of the bottle and should be tied down before the cork is sealed;
- (b) the knot of the tying twine shall be put on the top of the cork and under the seal with shellac;
- (c) the bottle shall then be withdrawn, the personal seal of the Officer-in-charge impressed on the liquid shellac sticking to the cork and the ingress allowed to cool.

Rule 137 of Odisha Excise Rule 2017

5.9. Reduction of country spirit

(1) Reduction of country spirit of higher strength to the lower strength or strengths prescribed for issue of country spirit shall be made according to the instructions for the purpose in the Technical Excise Manual prepared by Lt. Col. C.H. Bedford.

(2) The receptacle in which country spirit is reduced by the addition of water shall be emptied before the operation is commenced and the wastage on account of reduction shall be calculated and noted after the country spirit is reduced.

Rule 138 of Odisha Excise Rules, 2017

5.10 Supply of country spirit to retailers

(1) Retail vendors shall take their supplies of country spirit in sealed bottles from the corporation warehouse which is established for the area in which the retail shops are situated.

(2) For special reasons, the Collector may permit retail vendors to take their supply of country spirit from any other warehouse owned or managed by the same licensee who owned or managed the warehouse mentioned in sub-rule (1).

(3) The source of supply shall not be allowed to be changed during the course of the financial year unless a necessity arises owing to flood or such other unforeseen situation and when such necessity arises, the statistics of supply made from the warehouse mentioned in sub-rule (1) shall be sent to the new source of supply by the Officer-in-charge or Corporation Officer of the said warehouse.

(4) The samples of bottles shall be placed in closed wrapper and the closed wrapper shall bear the personal seal of the officer-in-charge of the warehouse.

Rule 139 of Odisha Excise Rules, 2017

5.11 Procedure for issue of country spirit to retail vendors

A retail vendor desiring to obtain a supply of country spirit from a Corporation warehouse or depot shall pay the duty leviable on the country spirit and cost price by way of Bank Draft or Pay Order of a nationalized bank payable to the Corporation.

Rule 140 of Odisha Excise Rules, 2017

5.12 Payment of duty, etc. and issue of pass

When duty and cost price has been paid by a retail licensee and the application for Country Spirit along with bank draft or pay order showing payment of duty and cost price are submitted before the Corporation Officer, the latter shall make necessary entry in his register and issue the required quantity of country spirit under a pass to be issued by the Excise Officer-in-charge posted to such Corporation Warehouse or depot.

Rule 141 of Odisha Excise Rules, 2017

5.13 Licences required to be granted for bottling, warehousing, wholesaling, retailing of country spirit under the Act and the rules, shall be in the following Forms, namely: -

(i) for manufacture in a distillery in **Form XII (DW1)**;

(ii) for storage in warehouse in **Form XII (DW2)**;

(iii) For the purpose of supply of Country spirit from the Corporation for export or transport under general or special bond, pass shall be issued in **Form XII (DW-3)**

Rule 52 (2) & (3) of Odisha Excise Rules, 2017

AUDIT CHECKS

While conducting the audit of country spirit bonded warehouses the following checks may be exercised.

(i) the terms and conditions of licence, agreements and bonds (FORM No. XV) are adhered to and there is no deviation.

- (ii) the quantity of spirit received from distillery under bond agree with those shown in XVI(D) and for this passes issued by the distillery to be linked up.
- (iii) the transit wastage is within limit and in case of excess wastage the duty has been charged in the Ledger Account.
- (iv) the spirit issued for blending and reduction to be checked with reference to entries made in XVI(C).
- (v) daily accounts of spirit issued agree with the figures shown in XVI(C) and XVI(D).

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CHAPTER - VI

OUT STILL SYSTEM

6.1 Stills for manufacturing Out Still Liquor

By this system certain number of Stills for the manufacture of liquor made from Mohua flower are allowed within certain area and the holder of an Out Still license pay certain sum per month for manufacturing Out Still Liquor in his Out Still and sell it by retail in his premises.

Rule 221 of Odisha Excise Rules, 2017

The number of Stills for manufacturing Out Still liquor in an Out Still shop shall be determined by the Collector of the district allowed by the State Government for manufacturing and sale of Out Still Liquor made from Mohua flower.

Rule 226 of Odisha Excise Rules, 2017

The exclusive privilege area of Out Still liquor shop shall be fixed by the Collector with prior approval of State Government, but there should be minimum five Kilometres distance between two Out Still shops.

Rule 227 of Odisha Excise Rules, 2017

6.2 Licence and settlement

The licence for manufacturing and selling in retail of Out Still liquor shall be issued in Form XLV(O.S.-1) after settlement by auction or e-auction as provided in rule 34 and the holder unless specially authorized by the Collector, is permitted to work one Out Still only.

No definite area is fixed within which each Out Still has the monopoly of supply of Out Still liquor, but the number and location of Out Stills must be regulated according to these rules for the location of shops, so that one Out Still will not injuriously affect the sales of another Out Still for which five Kilometres may be taken as the minimum distance of one Out Still from another.

Rule 222 & 223 of Odisha Excise Rules, 2017

6.3 Minimum Guaranteed Quantity (MGQ) of Mohua Flower for preparing Out Still

(1) Every successful applicant for holding licence for Out Still shall, before obtaining licence, guarantee the utilization of the minimum guaranteed quantity (MGQ) of Mohua flower as fixed by the State Government for the month.

(2) The licensee shall utilize the monthly MGQ approved for that month before 6.00 p.m. on the last working day of that month and the right to utilize the monthly MGQ approved for that month and not utilized by 5.00 a.m. on

the last working day of the month shall be forfeited, unless specially permitted to be utilized in the subsequent month or months by the appropriate authority.

Rule 224 of Odisha Excise Rules, 2017

6.4 Out Still liquor Branch Shops

(1) Branch shops of the main Out Still liquor shop may be permitted up to fifteen numbers by the Collector with a monthly licence fee as determined by the State Government from time to time.

(2) A pass in Form XLV (O.S.-2) is required for the transport of liquor from main Out Still shop to a branch shop.

(3) The quantity of Out Still liquor to be transported from the main shop to the Branch shop shall be determined by taking the total quantity of liquor being distilled per day.

Rule 229 of Odisha Excise Rules, 2017

6.5 Account of Out Stills

The Out Still licensee shall maintain an account of the materials placed under fermentation and the liquor as distilled from day to day in Form XLV (O.S.- 3) and keep an account of daily receipt and sale of Out Still liquor in Form XLV (O.S.- 4). The Inspecting officer shall check the result of one whole distillation and make their calculation for ascertaining the sale-proceeds on the results of price current as found to be in existence on market days, when sales are brisk.

Rule 230 of Odisha Excise Rules, 2017

6.6 Forfeiture of Mohua Flower, F.M. wash and Out Still Liquor

On expiry or cancellation of the licence or surrender of license by the holder of Out Still License, the balance stock of Mohua Flower, Fermented Mohua Wash and Out Still liquor shall stand forfeited to the State Government.

Rule 232 of Odisha Excise Rules, 2017

AUDIT CHECKS:



While conducting the audit of out still system, the following checks may be exercised.

(1) the terms and conditions of licence, agreements and bonds (FORM NO XLV(O.S.-1) are adhered to and there is no deviation.

(2) Fixed MGQ of Mohua flower is utilised. In case of shortfall, due pass fee for the total quantity is to be deposited by the licensee.

(3) Consideration money fixed may be checked against last year figure. From 1.4.2017 annual increase is to be made at the rate stated in Annual Excise Policy, 2017-18.

(4) It is to be seen whether transport fee for utilised M.F is deposited in treasury.

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CHAPTER - VII

MOHUA FLOWER (M F)

7.1 Collection of Mohua Flowers

Mohua Flower may be lawfully collected by any person from tree belonging to him or from any other tree, subject to the limit of a retail sale fixed by the State Government under section 4 (Odisha Excise Act, 2008) and subject to the restriction imposed under the rules for storage or possession for any purpose, or for its sale, import, export and transport. Application for storage or possession beyond the limit of a retail sale may be applied by any firm, person, Co-operative Society or Government establishment desiring to store or possess Mohua flower for a period ordinarily not exceeding a year, and in a quantity exceeding the limit of a retail sale, fixed by the State Government under section 4 shall apply in Form XLIV(MF-1) to the Collector of the district within which the storage or possession is to be made or any other Excise Officer not below the rank of a Sub-Inspector as authorized by him. A permit in favour of the applicant specifying the place or premises where Mohua flower is to be stored or possessed, total quantity of Mohua flower to be stored or possessed at any one time, the purpose for which the Mohua flower is to be utilized and the period, which shall not ordinarily exceed one year, for which the permit is to remain current is to be issued in form XLIV (MF-2) after due verification.

Rule 206, 207 & 208 of Odisha Excise Rules, 2017

7.2 IMPORT, EXPORT AND TRANSPORT OF MOHUA FLOWER

A. IMPORT

Restrictions on import of Mohua flowers

Mohua flower may be imported on the strength of a permit issued under Rule 211(OER 2017), from any place outside the State by any firm, person,)co-operative society, or Government establishment which possesses a permit granted under Rule 214 to store or possess Mohua flower. Subject to the provisions of Rule 211, the Collector may allow the issue of a permit for import of Mohua flower from any place outside the State in due consideration of an application from the importer which should contain the following particulars, namely: -

- (i)Name and address of the applicant;
- (ii)Location and particulars of the place from which the import is desired;
- (iii)Name and address of the exporter;
- (iv)Route through which the import is to be made; and
- (v) Number of license or permit, if any, held by the exporter.

On receipt of the application, the Collector may cause an enquiry and after satisfying himself as to the bonafide of the application, direct the

Superintendent to issue, on payment of fees as may be specified for the purpose by the State Government a permit in the Form XLIV (M.F-3) in favour of the applicant authorizing import of Mohua flower in such quantity, to such place or premises, and for such purposes, as may have been specified by the Collector. The fees for the issuance of permit shall not be payable by any Government establishment.

The firm, person, co-operative society or Government establishment in whose favour a permit is issued shall keep the Mohua flower on receipt after import at the place or premises authorized in the said permit, within a reasonable time from the date of its receipt at the source of supply.

The permit shall remain in force for the period specified therein but the term may be extended by the Collector of the importing district for any valid reason. The Mohua flower shall be brought by the route mentioned in the export pass along with the pass and copies of import permit and shall, on arrival in Odisha, be taken direct and with all reasonable despatch to the authorized place and premises mentioned in the said permit.

The Superintendent or the officer authorized by him shall check and verify the consignment of Mohua flower at the place or premises authorized and report the same to the Collector. In case of deficiency beyond five per centum noticed in the weight between the quantity of Mohua flower dispatched and the quantity kept in the authorized premises, the shortage shall be duly enquired by the Collector and, if so decided by him, the importer shall be liable for infringement of these rules.

Rule 209, 210 & 211 of Odisha Excise Rules, 2017

7.3 B. EXPORT

Restrictions on export

Subject to the provisions of rule 213(OER 2017), Mohua flower may be exported to any place outside the State, by any firm, person, Cooperative Society or Government establishment in possession of a permit granted under rule 208 and a licence for sale granted under rule 215. An application for export of MF shall be made to the Collector of the District from which the export is desired and shall contain the following particulars, namely: -

- (i) Name and address of the applicant;
- (ii) Name and address of the importer;
- (iii) Location and particulars of the place to which the MF is to be exported;
- (iv) Quantity of MF which is to be exported;
- (v) Route through which the export is to be made; and
- (vi) Number of permit, if any, of the importer to whose address the MFs are to be exported.

Issue of permit for export

On receipt of the application, the Collector from which export is desired may cause an enquiry and in due consideration as to the bonafide of the application may issue on payment of fee, as may be specified for the purpose by the State Government , an export permit, in Form XLIV(MF-4)

in favour of the exporter and while so authorizing, the Collector shall specify the period within which the export is to be completed, the quantity of Mohua flower allowed for export, the route to be followed for the export and the name and address of the exporter to whom the consignment is to be addressed, provided that fees payable shall not be paid by any Government establishment.

Rule 212,213 of Odisha Excise Rules, 2017

7.4 C. Transport

Transport of Mohua Flower

Rules 209 to 211 relating to transport of Mohua flowers from any place outside the State shall mutatis mutandis apply to the transport of Mohua flower inside the State and for issue of transport permit.

Rule 214 of Odisha Excise Rules, 2017

Applicable Import, Export, Transport and storage fee is elaborated in Annual Excise Policy 2017-18 (clause 2.9 to 2.12), which may be referred to.

AUDIT CHECK

- (1)**The conditions of Storage Permit licence issued in form No. XLIV (MF-2) are to be checked.
- (2)**Whether fees prescribed by the state Government as per AEP are collected before issue of permit.
- (3)** In case of import, endorsement of the exporting authority of other state on the import document, regarding quantity supplied against the receipt may be checked.
- (4)** Utilisation fee is to be checked as per the MGQ.

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CHAPTER - VIII

M o l a s s e s

Collection, possession, storage and sale of molasses

8.1 Possession, storage, sale and use of molasses

Molasses shall be possessed, used, stored or sold by any person or factory under a valid licence or permit and subject to specified terms and conditions. It is used for distillation of spirit and for scientific, industrial, medicinal, agricultural and cattle feed etc.

Rule 234, 235 of Odisha Excise Rules, 2017

8.2 Issue of licence

Licence in form XLVI(ML-3) is issued for storage or possession and in Form XLVI(ML-4) for above uses on deposit of prescribed fee as per AEP. Molasses is permitted for store or possession, not exceeding one year and quantity not exceeding the limit for which security has been deposited at the rates specified by the State Government where the licensee desires to possess additional quantity over and above the quantity for which licence has been granted, then he shall apply for such additional quantity and shall make payment of such fee as may be determined by the State Government.

Rule 236, 237 of Odisha Excise Rules, 2017

8.3 Security Deposits

After considering the application submitted under rule 236 for grant of licence, the Licensing Authority shall before granting the licence, require the applicant to make a security deposit in the Government Treasury at the rate decided by the State Government, by notification, from time to time, and due observance of the conditions. In the event of violation of any of the conditions of the license, the security deposit shall be forfeited to the State Government and the licence shall be cancelled by the Licensing Authority subject to issue of show cause notice.

Rule 238 of Odisha Excise Rules, 2017

8.4 Minimum Guaranteed Quantity (MGQ) on molasses

(1) The minimum guaranteed quantity for lifting and utilization of molasses by the distilleries for production of spirit shall be fixed on the basis of highest quantity of molasses lifted and utilized in the last three years (not in new cases). The licensee shall lift and utilize the entire MGQ of molasses so fixed by the Collector in the financial year on payment of utilization fee as determined by the State Government, from time to time and on failure, shall pay the utilization fee for the balance shortfall quantity together with fine equivalent to fifteen *per centum* of the utilization fee payable for such shortfall. The licence of the distillery shall be cancelled on default to make

payment of utilization fees towards MGQ and the fine. The licence may be renewed on payment of such fees and the fine.

Rule 239 of Odisha Excise Rules, 2017

8.5 Import, Export and Transport of Molasses

A IMPORT OF MOLASSES

Molasses shall be imported on the strength of a permit issued to a licensee from any place outside the State of Odisha. On application in form XLVI(ML-5), the Licensing Authority of the district may issue the permit after realisation of due import fee. The import permit shall remain valid for the period specified therein and the same may be subject to extension by the competent authority of importing district for good and sufficient reasons. Written endorsement regarding the purchase and export of the authorities of the exporting state is to be obtained. Molasses shall be brought by the route specified in the import permit directly to the authorized place and premises mentioned in the said permit for storage. Shortage exceeding five *per centum* weight between the quantity imported and the quantity actually received at the authorized premises, but not duly accepted after the enquiry, shall be construed as infringement of the rules.

Rule 240 to 242 of Odisha Excise Rules, 2017

8.6 B-Export of molasses

Any Licensee intending to export molasses from the State of Odisha to any place outside the State shall apply in Form XLV (ML-5) to the Licensing Authority of the district for a permit. The Licensing Authority issue an export permit in Form XLVI (ML6) in favour of the applicant of the exporting District on receipt of export fee as per notification by the State Government in annual Excise Policy. The export permit shall remain valid for the period specified therein and the same may be subject to extension by the competent authority of exporting district for the good and sufficient reasons. Molasses under export shall be transported only along the route specified in the export permit. One of the copies of the permit be sent to the importer, who shall return the same to the office of issue with his endorsement indicating receipt of consignment.

Rule 243 to 244 of Odisha Excise Rules, 2017

8.7 C. Transport of Molasses

Transport permit in Form XLVI (ML-7) is issued by the Licensing Authority with every license in Form XLVI (ML-3) or in Form XLVI (ML-4) as the case may be, to cover all transport of molasses to the licensed premises during the period of validity of the license. Every consignment of molasses transported by the licensee from a producer inside the State shall be accompanied by a transport permit.

As per Annual Excise Policy 2017-18 Import fee is to be paid on the molasses procured from outside the State, whereas transport fee is to be paid only on molasses procured from within the State. Sugar industries,

having the by-product as molasses shall have to take a license for storage, possession and sale of the same.

Rule 245 of Odisha Excise Rules, 2017

Clauses 2.7 and 2.8 of AEP 2017-18 may be referred to regarding licence fee and utilisation fee of Molasses

AUDIT CHECK

(1). Licences of Categorised licensees and payment made thereunder are to be checked in audit.

(2). The payment of utilisation fee & transport fee by the traders of Molasses is to be checked against their import figure.

(3) MGQ of Molasses is fixed for the distilleries on the basis of highest quantity lifted and utilized in the last three years. It is to be seen in audit whether fixation and lifting of a licensee is as per rule or not, duty for short lifting is to be recovered.

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CHAPTER-IX

Bhang

It is the leaves of the wild hemp plant (cannbia sativa) cultivated and collected from such area as may be fixed by the Commissioner. No such cultivation is being carried out in the State of Odisha and the requirements of the State are met by importing Bhang from other States.

9.1 Procedure for import and transport of bhang

Conditions for import of Bhang: -

(1) Bhang may be imported on Government Account from such places as ordered by the Commissioner and under the following conditions, namely;

(a) If brought by rail, the consignment shall be duly insured and the consignment shall be weighed at the railway station before a clear receipt is given for the consignment;

(b) if brought by any means of transport other than by rail, the consignment shall be weighed at the point of destination;

(c) the luggage ticket or the money receipt issued by the transporting concern indicating the exact weight of the consignment and the freight paid thereof shall be obtained and in all cases such receipts or tickets shall be produced with the pass for verification in the warehouse;

(d) in cases of deficiency noticed in weight from the quantity despatched, the shortage should be noted on the railway receipt;

(e) Bhang shall be sold by the vendor on a license issued in Form XXXVII by the Collector;

(f) the cost price and sale price shall be determined by the Commissioner; and

(g) a central warehouse of Bhang shall be located at Cuttack for storage and supply of Bhang to different district warehouses.

(2) A pass in favour of any medicinal manufacturing unit may be issued by the Collector for bonafide medicinal preparation from Bhang subject to prior approval of the Commissioner;

Provided that the pass shall be issued on production of documents regarding quantity of Bhang required for the unit by the Drug Controller.

(3) Confiscated Bhang found fit for human consumption after chemical examination shall be taken to the account of central warehouse for subsequent sale.

Rule 168 of Odisha Excise Rules, 2017

9.2 Conditions for transport of Bhang

Bhang shall be transported from the Central Warehouse to a district warehouse through a pass issued in Form XXXVIII by the Commissioner in favour of an authorized excise officer.

Rule 169 of Odisha Excise Rules, 2017

9.3 Import of Bhang within the limit of possession

A traveller may bring with him Bhang personally into Odisha by surface transport from any other State up to the maximum limit of the quantity as specified in rule 4(OER) within which possession by him is allowed without a pass in Odisha.

Rule 170 of Odisha Excise Rules, 2017

AUDIT CHECKS

- (i) No exemption shall be made for any loss or deficiency of Bhang in transit, unless in any case the Commissioner is satisfied that such loss or deficiency is due to dryage;
- (ii) Such loss or deficiency shall be recovered from the Officer-in charge of such department warehouse; and
- (iii) The limit of wastage through dryage in Bhang in a warehouse shall not exceed 1.5 *per centum* of the total quantity stored in a warehouse during the year.

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CHAPTER-X

DISTRICT EXCISE OFFICE (DEO)

10.1 Collector as head of District Excise Administration

- (i)** The Collector of a district is the head of the Excise Administration within his jurisdiction, who is assisted by the Superintendent of Excise appointed for the purpose.
- (ii)** The Collector would continue to exercise the power to grant licences for exclusive privilege for retail sale of IMFL 'OFF', 'ON', country spirit and out still liquor shops where the consideration money is paid after observing all formalities.
- (iii)** The Collector will also issue licence for bhang, tari and pochwai shops where the consideration money achieved is equal to the reserve price.
- (iv)** In case of the IMFL 'Off', country spirit, out still, bhang, tari and pochwai shops, the Collector may record the reasons for non-settlement of these shops and furnish such proposals to Government through the Excise Commissioner for appropriate orders for settlement of the shops.
- (v)** The Collector of the concerned Districts will also issue Depot licences.

10.2 Settlement of Excise shops

Licence for sale of intoxicants to be subject to certain conditions;

Licences for the wholesale or retail vend of intoxicants may be granted for any number of years not exceeding three beginning from the 1st April subject to the following provisions, namely;

- (1) Licences for the retail vend of pachwai may be granted for any number of years upto three beginning on the 1st April in cases where the Commissioner considers it advisable;
- (2) if any licence is granted at any time after the 1st April, it shall be granted only up to the 31st March next following;
- (3) season licences for the sale of either fresh or fermented tari may be granted for periods fixed by the Collector;
- (4) temporary licenses may be granted to provide for the supply of intoxicants on temporary and special occasions, like fairs, private social functions, regimental camps or exercise, etc., and shall be limited to the period during which such temporary or special occasions last;
- (5) wholesale licences for the supply and sale of intoxicants may be granted for any number of years not exceeding five as the Commissioner may decide in each case;
- (6) if, for any reason, it becomes so necessary, licences for the wholesale or retail vend of intoxicants may be granted for any shorter period;

(7) under no circumstances licensee shall be allowed to operate country liquor or IMFL or Beer or Spirit or Bhang or Tari shop or of any intoxicant on Government land.

Rule 23 of Odisha Excise Rules, 2017

10.3 Regulation of number of licences for any local area

The number of licences which may be granted for any local area shall be regulated by the needs of the people of that area and no licence for the sale of any intoxicant in any local area shall be granted unless it is required either to meet an ascertained demand for such article or to counteract supply through illicit sources: Provided that increase or decrease in the number of licences for sale of foreign liquor and IMFL shall be subject to the prior approval of the Government to be obtained by the Collector through the Commissioner.

Rule 24 of Odisha Excise Rules, 2017

10.4 Fixation of number of licences

While fixing the number of licences to be granted for the retail sale of liquor for consumption on the premises of the vendors, it shall be ensured that –

- (a) liquor shops shall not be so sparsely distributed as to give to each a partial monopoly over a considerable area; and
- (b) two or more shops should not be equally convenient to a considerable number of persons.

Rule 25 of Odisha Excise Rules, 2017

10.5 Payment of fee in consideration of grant of exclusive privilege

(1) The fee in consideration of grant of exclusive privileges shall be paid for–

- (a) manufacture and retail sale of country liquor or IMFL or Beer;
- (b) retail sale of country liquor; and
- (c) retail sale of any intoxicating drug, which is determined by the State Government whether by auction, e-auction, tender, e-tender or otherwise.

(2) The payment of the fee so determined under sub-rule (1) shall be made–

- (a) in advance, for two months or for a longer period not exceeding six months as may be specified in each case by the Collector;
- (b) in addition to the advance, one month's consideration money on the date on which the currency of the licence begins and one month's consideration money on the 1st day of every succeeding month until the total consideration money due for the exclusive privilege has been realized.

(3) The Collector may, if he considers necessary, insist upon Bank Guarantee from any bidder or tenderer or applicant, as the case may be, whether from outside or inside the State, up to the extent of the consideration money and the duty for the Minimum Guaranteed Quantity for the entire year.

Explanation- for the purpose of this part the expression “Minimum Guaranteed Quantity (MGQ) means minimum guaranteed quantity in

respect of country spirit, IMFL and Beer for the year as determined by the State Government which should be guaranteed by the successful tenderer or bidder to be lifted and transported by him from the distillery, warehouse or depot as the case may be, for retail sale in the shop.

(4) Any advances remaining unadjusted at the close of the financial year, will be refunded to the exclusive privilege-holder.

(5) Before going for such grant, the Collector shall issue a Sale Notice in case of fresh or new settlement in such manner, containing such particular, inviting application from the intending applicants who fulfil the eligibility criteria and other terms and conditions as mentioned in the said Notice.

(6) The quantity fixed as MGQ shall be counted at the end of the year to ascertain the shortfall of the MGQ of that year.

(7) The licensee shall lift entire MGQ of country spirit, IMFL and Beer for the entire year or portion thereof as fixed by the State Government before the expiry of the term of license i.e. last day of March.

Provided that-

(a) the excess quantity over MGQ drawn in previous months be adjusted against short drawn MGQ in subsequent months.

(b) the excess quantity lifted in the entire year be adjusted in the MGQ keeping in view the total MGQ fixed for that Year.

(c) the Collector, may, wherever if he deems it necessary, permit the licensee to lift the short drawn MGQ of any month other than the month of March in any subsequent month or months.

(8) In case of default, the excise duty on the deficit quantity of annual MGQ without prejudice to any other mode of recovery, shall be collected at the end of the year with a fine at the rate of ten *per centum* on the deficit amount and on failure to such fine the same shall be recovered as arrear of land revenue under the provision of the Odisha Public Demand Recovery Act, 1962, (Odisha Act 1 of 1963).

(9) In case of expiry or surrender or cancellation of license, the balance stock of the country spirit, IMFL and the beer, if any, shall be disposed of in accordance with the provisions contained hereinafter.

(a) The left over stocks shall be transferred by the Collector of the concerned District to the succeeding licensee, who may take it towards his MGQ on payment of invoice price (cost price and excise duty) to the previous licensee, so that the succeeding licensee would be in a position to lift the stock as per MGQ for the license period: Provided that the left over stock of country spirit should have the period of validity of its use after being tested suitable for human consumption.

(b) In case of absence of succeeding licensee, the balance stock shall be confiscated after being tested regarding suitability for human consumption.

(c) The balance stock so found suitable for human consumption shall be put to auction for sale as duty free stock and only the bonafide licensee shall participate in this auction and quantity of stock so received shall not be counted towards the MGQ fixed for the shop for that year.

(d) In case of renewal of the license the balance stock, if any, shall be at the loss and risk of the licensee and shall not be accounted for at the time of fixation of MGQ for the succeeding year.

(10) The licensee shall have no claim for damage or for remission of consideration money in the case of delayed supply or non-supply of country spirit or IMFL or Beer in a particular month which has been subsequently drawn by the licensee in the succeeding months.

(11) The licensee shall be allowed to lift additional quantity required by the licensee over and above the MGQ on payment of excise duty by the same way, as he lifts the MGQ.

Rule 34 of Odisha Excise Rules, 2017

10.6 Payment of cost of Establishment of Excise Staff

Appointment of staff for supervision and payment of fees:-

(1) The Commissioner shall determine and appoint the Excise Officer and staff necessary for the proper supervision of the operations carried on in each warehouse or store-room mentioned in sub-rule (3) of rule 92:

Provided that, if any Unit will function with the prior approval of the Commissioner for more than one shift i.e. 8 (eight hours), additional staff shall be posted as would be determined by the Commissioner and the cost of establishment of the officer and staff including the additional staff, as prescribed in sub-rule (2), shall be borne by the Unit.

(2) The licensee shall pay to the Government the fees for maintaining a warehouse and for conducting the operations referred to in sub-rule (1) at the rates as may be determined by the State Government, from time to time, which shall be payable at the end of each calendar month and shall not exceed in amount the whole of the cost of the excise staff employed for the purpose of this rule.

Rule 93 of Odisha Excise Rules, 2017

Audit checks of District Excise Office

10.7 Bid Register:

This is the primary records showing the names of the participants, locality of shops, name of licensee etc. It should be seen that:

- (a) the locality of shop is correctly noted.
- (b) the highest bid amounts noted in words and figures by the presiding officer.
- (c) the list of shops approved by the Commissioner of Excise agrees with the entries recorded in the Bid Register.

10.8 Register of Settlement

The register in Form No. VI is a collective record of all shops settled by lottery. It should be seen in audit that:

- (a) the fixation of reserve fee is correctly calculated.
- (b) the amounts are correctly recorded as per bid register.

- (c) the signature of tender purchaser is obtained.

10.9 Register of Challans

The register maintained in Form G.L.-16 contains the following particulars.

- (i) Challan number and date, amount paid,
- (ii) Locality and name of shop for which the payment is tendered.

It should be seen that:

- (a) the amounts collected from the licensees are shown against each intoxicant.
- (b) the totals of revenue tendered are correct.
- (c) the entries made in the register are checked with the duplicate copies of challan.
- (d) The monthly figures of revenue agree with the treasury figures.

10.10 Register of Licences

In Audit of the Register in Form G.L.-18, it is to be seen that:

- (a) the details of licences issued for Indian Made Foreign Liquor shops and others are noted in the register.
- (b) The prescribed licence fee is realised as per challan register.
- (c) The fixed fee licence is recovered every year.
- (d) The licence fee noted against each licence tally with the amount recorded in the Settlement Register.

10.11 Demand, Collection and Balance (DCB) Register

The Register is maintained in Form G.L.-17.

Audit should see that:

- (a) the rental for the contract period as per register of settlement/licence register has been correctly demanded in time.
- (b) the remittances noted in the D.C.B. Register are supported by original treasury receipts.
- (c) the balance due from each licensee at the end of the contract period has been correctly worked out.
- (c) in the case of resale, the dues from the original licensee, if any and the resale purchaser are correctly worked out.
- (d) the revenue credited is correctly classified.
- (e) the outstanding balance in the previous year's register is correctly brought forward in the current register.
- (f) all the entries in the Register are attested.

10.12 Register of Confiscated articles

The register maintained in Form G.L.-7 may be examined to see that:

- (a) The case number noted in the register should be verified with particulars in case register.
- (b) the quantity of intoxicants seized are correctly taken into the register.
- (c) the disposal of confiscated articles should be in accordance with the procedure laid down in section-71OE ACT 2008 and Rule 253 OER 2017.

10.13 Register of Receipt and issue of Ganja and Bhang

The Register maintained in Form G.L.-29 should be examined in audit to see that:

- (a) the quantity as permitted is brought into account.
- (b) the shortages/excess in quantity are duly recorded.
- (c) all receipts are traceable in the sale register showing accounts of Ganja and Bhang obtained from Central Gola and no stock of old balance is left over owing to its bad quality.
- (d) the stocks are physically verified and a record of verification noted in the register.

10.14 Statement showing the results of settlement

A consolidated statement showing the results of settlement of excise licences is prepared in Form G.L.-13 for submission to the Excise Commissioners.

It should be seen in Audit that:

- (i) the list of licences recorded is duly approved by the Excise Commissioner/Government and there is no omission or alternation.
- (ii) there is no appreciable shortfall in the revenue i.e. the settlement of shops is not made at a low price without valid reasons.

10.15 District Opium Account

A stock register in Form D.D.-8 is maintained to show the daily account of medicinal opium received, issued and balance.

It should be seen in Audit that:

- (i) the opening balance shown in the register is correct.
- (ii) the receipts are covered by transport passes and the quantity received is correctly recorded.
- (iii) the issues are covered by permits and the sale proceeds are realised and accounted for,
- (iv) the stock account should be checked with reference to the sale account.
- (v) annual stores and stock account of Medicinal opium should be checked with reference to stock register.

10.16 Register of claims for refund

A register is maintained in Form G.L.-24 for recording the claims for refund.

It should be seen in Audit that:

- (i) the refunds made is not in excess of the amount sanctioned.
- (ii) the refunds made are covered by proper sanctioned and is really admissible.
- (iii) adequate safeguards are taken against double refund and spurious refund.

10.17 Foreign liquor shops-clubs, canteen/bar/Restaurant (ON)/Beer Parlour

A consolidated register in Form No. FL-17 is maintained by each licensee. The register contains the particulars of opening balance, receipt, sales and closing balance. The F.L. licensee is required to submit a monthly statement showing the sale of foreign liquor in a month.

It should be seen in Audit that:

- (i) the opening balance (quantity/bottles) is correctly exhibited.
- (ii) the receipts are supported by a pass issued by the Superintendent of Excise and relevant transport pass of the supplier.
- (iii) the sales are supported by the entries in the sale register.
- (iv) the amount realised as Excise Revenue is credited into the treasury.
- (v) the stock register is duly checked each month by the Section Officer concerned.

10.18 Foreign liquor accounts (Form No. XI)

The accounts should be examined;

- (a) Whether the whole quantity realised agree with the issue register and the bond passes received.
- (b) Whether the accounts are maintained properly and whether the correctness of book balance is certified by the excise office at the end of each month.

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CHAPTER - XI

PHARMACIES

11.1 **Basis of levy and collection**

The levy of duty on medicinal and toilet preparation containing alcohol, opium, Indian hemsps or other narcotic drug or narcotic falls within the purview of Parliament vide entry No. 85 of Union List included in the Seventh Schedule of the Constitution of India. The Parliament enacted the Medicinal & Toilet Preparations (Excise Duty) Act, 1955 and the Central Government has framed the Medicinal and Toilet Preparations (Excise Duty) Rules, 1956. The State Government (Excise Department), however, adopted the above Act and Rules for the purpose levy and collection of duties on medicinal and toilet preparations and retaining the proceeds thereof.

Medicinal Preparation

It includes all drugs which are a remedy or “prescription” prepared for internal or external use of human beings or animals and all substances intended to be used for or in the treatment, mitigation or prevention of disease in human beings or animals.

Toilet Preparation

It means any preparation which is intended for use in the toilet of the human body or in perfuming appeal or any description, or any substance intended to cleanse, improve or alter the complexion, skin, hair or teeth, and includes deodorants and perfumes.

11.2 **Salient features of Medicinal and Toilet Preparation (Excise Duty) Act, 1955**

Some important features of the Act and Rules made there under are given below:-

11.3 **Manufacturing Licence**

Section 6 of Medicinal and Toilet Preparations (M&TP) Act provides that no person shall be engaged in the production or manufacture of any medicinal preparations without a valid licence granted in accordance with the rules framed there under. Detailed procedure and fees payable to obtaining licence has been laid down vide Rule 82 to 90 of M&TP (Excise Duty) Rules, 1956.

11.4 **Classification of Restricted and Un-restricted preparations by Central Government**

For the purpose of levy of duty, the medicinal preparations have been classified into two broad categories viz: restricted (i.e. capable of being consumed as ordinary alcoholic beverages) and un-restricted preparation (i.e. not capable of being consumed as ordinary alcoholic beverages). Such classification is done by Central Government on the advice of a Standing Committee (Rule 60 and 68 *ibid*).

- (a) A list of restricted preparations has been given in the schedule appended to M&T.P.(ED) Rules, 1956. All other medicinal preparations being

manufactured from a date prior to 1st April 1957 shall be considered as un-restricted preparation.

- (b) If, however, a preparation falling in the un-restricted category is found to be widely used as ordinary alcoholic beverage, the Central Government may, on the request of a State Government or suo motu, refer the matter to the Standing Committee. The Central Government shall, if so advised by the said Committee, declare the preparation as a restricted preparation and the item or sub-item or both in the schedule to the Act under which the preparation falls, and thereupon include the said preparation in the schedule.
- (C) Medical preparation other than official allopathic operation which are manufactured in India for the first time on and subsequent to 1st April, 1957 shall be presumed to be restricted preparation unless declared to the Contrary by the Central Government on the advice of the Standing Committee. Any manufacturer intending to produce a new alcoholic preparations other than an official allopathic preparation, shall submit two samples of such preparation with the receipt to the State Government. The State Government shall forward such request with receipts to the Central Government for a decision. The Central Government shall refer the matter to the Standing Committee and in accordance with the advice tendered by it declare the category in which the preparation should be placed and the item or sub-item or both in the schedule to the Act under which the preparation falls. The decision of the Central Government shall be communicated to all State Government. In case the preparation is declared to be a restricted preparation, it shall be included in the schedule of restricted preparations and if the preparation is declared to be an unrestricted preparation it shall be included in the scheduled of un-restricted preparation.

The advice of the Standing Committee shall be communicated within a reasonable time and in no case later than six months from the date of submission of sample to the Committee.

Rule 60 of M & T.P. (ED) Rules, 1956

Official allopathic preparations which are made strictly in accordance with the formulae given in the official current editions of the under mentioned pharmacopoeias.

- | | | |
|--------|--|----------------------------|
| (i) | The British | Pharmacopoeias |
| (ii) | The Indian | -do- |
| (iii) | The U.S. | -do- |
| (iv) | The International | -do- |
| (v) | The State | Pharmacopoeias of U.S.S.R. |
| (vi) | The British Pharmaceutical Codex. | |
| (vii) | The National Formulary of the United States. | |
| (viii) | Veterinary codex recognised by the Government of India. | |
| (ix) | Any other pharmacopoeia, that may be recognised under the Drugs Act, 1940 by the Government of India and | |

- (x) Non-official allopathic preparations which are prepared according to allopathic system of medicine and confirm strictly to the formula are displayed on the label.

Rule 59 of M & T.P.(ED) Rules, 1956

11.5 Levy and collection of duty

In the Finance Act, 2000, amendments were made in the M & T.P. Act, 1955, to replace the existing schedule so as to change all the rates of duty to ad valorem. A provision was also made enabling the Central Government to notify retail sale price (RSP) based assessment in respect of specified goods where RSP is required to be declared. The said amendments were come into force from an appointed date to be notified 1st March, 2003 has been appointed as the date on which the said amendments shall come into effect. (Notification No. I/2003-M & T.P. dated 1.3.2003.

(i) The effective rates of duty on different categories of medicinal preparations and toilet preparation will now be as follows:-

Sl. No.	Description	Rate of duty
1.	(a) Allopathic medicinal preparation containing alcohol, narcotic drug or narcotic. (b) Ayurvedic/Unani/Indigenous system medicinal preparations not containing alcohol but containing alcohol but containing narcotic drug or narcotic. (c) Toilet preparation containing alcohol, narcotic drug or narcotic.	16%
2.	Ayurvedic/Unani/Indigenous system medicinal preparations containing alcohol which are prepared by distillation or to which alcohol has been added.	6%
3.	(a) Ayurvedic/Unani/Indigenous system medicinal preparations containing self-generated alcohol capable of being consumed as ordinary alcoholic beverage. (b) Homoeopathic preparations containing alcohol.	4%
4.	Ayurvedic/ Unani/ Indigenous system medicinal preparations containing self-generated alcohol not capable of being consumed as ordinary alcoholic beverages.	Nil

(Notification No. 2/2003-M & T.P. dated 1.3.2003)

- (ii) Toilet preparations containing alcohol narcotic drug or narcotic have been modified for retail sale price based assessment and the abatement being allowed will be 40% of the retail sale price.

(Notification No. 3/2003-M & T.P. dated 1.3.2003)

11.6 Issue of spirit Bonded Manufactory without payment of duty

- (i) Rectified spirit is issued to the Bonded Manufactories from the distillery without previous payment of duty for manufacture of Medicinal and Toilet preparations containing alcohol subject to the conditions that the manufacturer enters into a Bond in Form B-1 with sufficient security as laid down in Rule 96, towards due payment of duty and observance of Rules.

Duty is paid as on when issuing of medicines are taken from the Manufactory.

(ii) Issue of spirit to non-bonded manufactory on payment of duty

Rectified spirit required for manufacturing medicinal and toilet preparations shall be obtained on an indent in Form ID-I for any distillery or spirit warehouse approved by the Excise Commissioner. The cost of such rectified spirit shall be paid by the licensee of the manufactory to the distiller or spirit warehouse keeper. The licensee shall credit the duty payable on the spirit intended for into a Government Treasury of the collecting Government and enclose the challan in token of such payment, to the duplicate copy of the indent. The officer-in-charge of the distillery or spirit warehouse, after satisfying himself that the correct amount of duty has been paid, as evidenced by the challan enclosed by the licensee and the advice of such payment received, for the treasury officer, shall order the issue of rectified spirit required. The rectified spirit shall be brought for the distillery or spirit warehouse to the manufactory covered by a permit issued by the officer-in-charge of the distillery or spirit warehouse. The rectified spirit so brought into the non-bonded manufactory shall be immediately transferred to the spirit store and necessary accounts written up then and there in the register in Form RG-2. Accounts of all transactions in respect of rectified spirit purchased paying the prescribed duty shall be maintained separately.

Rule 49 of M & T.P.(ED) Rules, 1956

(iii) Restrictions on Manufacture

- (a) The manufacturer shall not sell or transfer the rectified spirit obtained by him to any other person.
- (b) Medicinal preparations containing alcohol, which are capable of being consumed as ordinary alcoholic beverages falling under item No. 1(ii)(c) of the schedule to the Act shall not be manufactured from rectified spirit on which the prescribed duty has been paid and such preparation shall be manufactured only from rectified spirit on which a duty of ₹ 20 per litre of pure alcohol content has been paid and the rectified spirit obtained after payment of the aforesaid duty of ₹ 20 shall be accounted for separately.
- (c) Medicinal preparations containing alcohol which are capable of being consumed as ordinary alcoholic beverages falling under either item No. 1(ii)(b) or item No. 2(iii) of the schedule to the Act shall not be manufactured from rectified spirit on which only the duty of ₹ 10 or ₹ 20 per litre of pure alcohol content has been paid and such preparations shall be manufactured only from rectified spirit on which a duty of ₹ 80 per litre of pure alcohol content has been paid and the rectified spirit obtained after payment of the aforesaid duty of ₹ 80 shall be accounted for separately.
- (d) In no case shall the quantity of rectified spirit in the possession of the manufacturer exceed the limit fixed by the licensing authority.

Rule 51 of M & T.P. (E.D.) Rules, 1956

11.7 Allowance of Wastage in Manufacture

Under rule 38 of the Medicinal and Toilet Preparation (E.D.) rules, 1956 the State Government may from time to time fix percentage of wastage of spirit in the production of particular medicinal and toilet preparation. Any wastage in excess of the allowable limit and not properly accounted for is chargeable to duty.

11.8 Verification of rectified spirit received and issued in the manufactory

Consignment of rectified spirit received from the distillery under bond is to be verified by the officer-in-charge (not below the rank of Inspector or otherwise) in volume and strength along with the Import and Transport passes and quantity received entered in Register in Form RG-2.

Rectified spirit issued from the spirit store by the officer-in-charge to the laboratory of the manufactory on a requisition of the licensee in RQ-I. Each preparation manufactured shall be registered and shall lead a distinct serial number, which shall be known as its batch number in the Register in Form RG-3. This register shall also show the receipt and disposal of all alcohol issued to the laboratory from the spirit store and the quantity of finished medicinal preparation manufactured there from indicating wastage of rectified spirit in each case. As soon as the preparation is finally manufactured it shall be removed to the finished stores, where it will be stored in the vessels provided for the purpose and accounted for in the Register in Form RG-4 and issues made there from (by an application submitted by the licensee in form AR-2 to the officer-in-charge) indicating the amount of duty paid thereon or otherwise and the balance left in the store.

Rule 40 ibid

11.9 Chemical Examination

On completion of production of medicinal and toilet preparation, samples may be taken at any time by the officer-in-charge or other superior officer and sent to chemical examiner of State Government for analysis and check.

If on chemical examination it is found that the strength declared by the licensee is in excess of more than 20 degree over the strength, the true strength, as ascertained by the chemical examiner shall be entered in the batch account in Form RG-3 and the Excise Duty due from the licensee including any quantity issued prior to the receipt of Chemical Examiner Report, shall be realised by the officer-in-charge with the previous sanction of Excise Commissioner.

Rule 38 of M & TP (ED) Rules, 1956

11.10 Exemption from duty on Medicinal Preparation

Under Rule 7 of Medicinal and Toilet Preparation (E.D.) Rules, 1956, the Issue of medicinal preparations from the bonded manufactory or warehouse will be made free of duty in cases of following institutions:-

(i) Hospitals and dispensaries working under the supervision of the Central or State Government.

(ii) Hospitals and dispensaries subsidised by the Central or State Government.

(iii) Charitable hospitals and dispensaries under the administrative control and management of local bodies.

(iv) Medical stores depot of the Central or any State Government, and

(v) Every other institution certified by the Principal Medical Officer of the district in which such institution is situated as supplying medicines free to the poor.

If the alcoholic strength of a preparation is found by the chemical examiner to exceed the highest limit by more than 3 proof degrees or to be below the lowest allowable limit, its issue from the bonded manufactory shall be withhold.

No refund or abatement of excess duty shall be allowed on any quantity of a batch of preparation issued on payment of such duty and prior to the receipt of Chemical Examiner's Report, if the strength is found to be lower than the strength that declared by the licensee.

11.11 Limit of preservation of finished goods in store

Any finished goods may be stored in the store room for a period of three years or for such extended period as the Excise Commissioner, may in each case, allow. The owner of the bonded laboratory shall before the expiry of the period of three years or the owner of the bonded laboratory shall before the expiry of the period of three years or the extended period, if any, clear the same for the consumption in the State on payment of Excise duty or for removal of bond to another bonded warehouse or for exportation.

Rule 75 of M & T.P.(ED) Rules, 1956

11.12 Personal Ledger Account

The manufacturer shall deposit the amount of duty in advance in lump sum sufficient in the opinion of Excise Commissioner to cover the duty on goods removed from the place of manufacture or storage and balance worked out on each occasion of transaction vide Rule-9.

11.13 Refund of claims

No refund of claims or charges erroneously paid can be made unless a written claim is lodged with the proper officer within six months from the date of such payment.

11.14 Exports

Dutiable goods may be exported out of India either under bond i.e. without payment of duty or on payment of duty, in which case the exporter is entitled to a rebate on production of proof of export. Provided the export confirm to the procedure laid down under Rules 97 to 103 of Medicinal and Toilet Preparation (Excise Duty) Rules, 1956 and the owner executes a bond on Form B-3 with such surety and under such conditions as the Excise Commissioner may approve.

11.15 Claims after rebate

Any claim for rebate of duty for goods exported out of India would be collected provided the claim is preferred within one month for the date of issue of certificate by proper officer or within such extended period at the discretion of the Excise Commissioner.

11.16 Inter-State movement of Medicinal and Toilet Preparations containing alcohol etc.

Dutiable goods manufactured in a bonded warehouse in any State, unless exempted from payment of duty, may be moved from such State to any other States:-

- (i) after payment of duty.
- (ii) in bond, in the manner hereinafter prescribed for movement from one bonded warehouse to another.

Rule 104 ibid

11.17 Movement from bonded warehouse to another bonded warehouse

When dutiable goods are to be removed from one warehouse to another, the consigner or the consignee shall enter into a bond in Form B-4 before the goods are so removed. The details procedure for such removal have been laid down vide Rule 105 to 107 of Medicinal and Toilet Preparations (Excise Duty) Rules, 1956.

AUDIT CHECK

It is to be seen in audit that whether the Accounts return submitted by the M&TP units regarding requisition, indent, issue of spirit, production of M&TP articles and stock account of the unit are furnished in a proper manner/form.

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CHAPTER - XII

EXCISE COMMISSIONER'S OFFICE

- 12.1** While conducting audit of Excise Commissioner's Office, the following points should be seen:-
- (a) Whether any irregularity is noticed in the tender/auction/e-auction sale of Excise shops i.e. whether the department has put earnest efforts to dispose of all excise shops at reasonable accounts of rentals.
 - (b) Whether approval of Government has been obtained before the issue of licences to distilleries, breweries etc.
 - (c) Whether all the conditions specified in the Excise Act and Rules made there under have been satisfied before a licence is issued to a distillery, brewery, foreign liquor bonded warehouse etc.
 - (d) Whether the prescribed licence fee has been realised before a licence is renewed.
 - (e) Whether prompt action is taken to clear off old arrears.
 - (f) Whether competitive tenders have been invited or the contract has been settled on negotiation basis?
 - (g) The fixation of cost price of Ganja and Bhang has been made on reasonable basis.
 - (h) Arithmetical accuracy of stock account (Receipts/issue) of Central opium accounts should be checked. In case of any deficiency in stock while in transit or in the opium store, it should be seen whether the matter has been enquired into and responsibility fixed and loss recovered/written off.
 - (i) Loss of Ganja or otherwise, and non-disposal of Ganja due to old stock of bad quality may be inquired into.
 - (j) In write off cases, it should be seen that all possible steps were taken to effect recovery of Government dues and whether Government dues were rendered irrecoverable due to non-observance of rules by Departmental Officers or there has been any lacuna in rules.
 - (k) In excess wastage statements in respect of storage/transit and other wastage of spirit occurring in distilleries, warehouses and pharmacies, it should be seen that orders of Excise Commissioner on these statements are passed expeditiously to facilitate early realisation of duty involved therein.
 - (l) Central warehouse (Ganja Gola Account) the stock and issue of Ganja stored in the Central Ganja Gola may be looked into by audit with a view to see that the accounts are correctly maintained.
 - (m) Excise Adhesive Label files and label registration files are to be properly checked to see whether label registration fee for a single

brand of IMFL/Beer/CS is calculated basing on its supply made to OSBC during previous year January to December.

- (n)** Whether receipt towards label registration and application fee is credited to Government Account.
- (o)** All contracts, tenders and refund files need to be examined thoroughly.
- (p)** Whether e-governance as per section 5 (2)(j) is introduced in manufacture, possession, import, export, transport, sale, etc. of liquor.
- (q)** Whether annual report on administration of Excise Act is submitted in prescribed format to Government.
- (r)** Whether efforts were made to curb illicit trade in liquor and illicit distillation.

Section-5(2) of Odisha Excise Act, 2008

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CHAPTER - XIII

OFFENCES AND PENALTIES

13.1 The following provisions have been prescribed for penalties or offences committed under the Odisha Excise Act, 2008, Medicinal and Toilet Preparation Act, 1955.

13.2 Penalty for default in payment of Government dues

Under Section 31 of the Odisha Excise Act, 2008,

(1). All duties, fees ,taxes, fines payable to the Government under this Act may be recovered from the persons liable to pay the same or from his surety or his agent, as if they were arrears of land revenue.

(2). In the event of default by any person licensed under this Act, his manufactory, warehouse, shop or premises and all fittings, apparatus, stocks of liquor or materials for the manufacture of the same, held therein shall be liable to be attached towards any claim for excise revenue or in respect of any loss incurred by the Government through such default and be sold to satisfy such claim which shall be first charge upon the proceeds of such sale.

13.3 Penalty to maintain minimum stock of country spirit in a warehouse

Minimum stock to be maintained in warehouse.-

(1) It shall be the duty of the licensee to always keep such minimum stock of country spirit in the warehouse as the Collector may fix at the beginning of the year or at the time of granting the licence.

(2) If and whenever the stock of spirit falls below the minimum stock fixed by the Collector under sub-rule (1), the licensee shall forthwith replenish the stock up to the prescribed minimum at the least and in default of his so doing within the period to be fixed by the Collector either by a general or special order duly intimated to the said licensee, the Collector may procure the quantity of country spirit required from any source he may think fit to restore the said minimum stock.

(3) The licensee shall be liable to pay to the Collector on demand any excess in the cost of the country spirit procured by the Collector under sub-rule (2) over the price released by the sale thereof, together with the cost of transit and a penalty that may extend to the amount of duty on the spirit actually required to restore the minimum stock including the compensation for any loss that may fall on the State Government in consequence for such procurement.

Rule 129 of Odisha Excise Rules, 2017

13.4 Penalty for unlawful import, export, transport, manufacture, possession, sale etc.

Whoever in contravention of any provision of this Act or any Rule, notification or order made or passed or condition of any licence or permit or pass granted thereunder:-

- (a) Manufactures, imports, exports, transports, collects, possesses or sales any intoxicants or bottles liquors for sale or constructs or works any distillery or brewery or other manufactory in which liquor is manufactured or
- (b) Removes any intoxicants from any distillery or brewery, warehouse or other place of storage established, licensed or continued under this Act, or
- (c) Uses, keeps or possesses any material, still, utensil, Implement, instrument, apparatus or label whatsoever for the purpose of manufacturing any intoxicant other than tari or
- (d) taps or causes to be tapped or draws, or causes to be drawn tari from any tari producing tree,

Shall on conviction:-

(i) for an offence other than an offence under clause (d) be punishable with imprisonment for a term which shall not be less than three years and may extend to seven years and also with fine which shall not be less than ten thousand rupees and may extend up to fifty thousand rupees; and

(ii) for an offence under clause (d) be punishable with imprisonment which may extend to one year and also fine which may extend to ten thousand rupees or both:

Provided that where any such person collects, possesses or sells Mohua flower, or possesses or sells tari or pachwai, he shall be liable to punishment provided in clause (ii):

Provided further that where any person possesses or sells any out still liquor manufactured out of Mohua flower not exceeding ten liters in contravention of this Act or any rule or order made thereunder, he shall, on conviction, be punishable with imprisonment for a term which shall not be less than one year, but may extend to two years and with fine which shall not be less than rupees five thousand but may extend to rupees ten thousand.

Section 52 of Odisha Excise Act, 2008

13.5 Penalty for altering or attempting to alter any denatured spirit etc.

Whoever:-

(a) alters or attempt to alter any denatured spirit or methyl alcohol, whether manufactured in India or not, or any preparation containing denatured spirit, with the intention that such spirit, alcohol or preparation may be used for human consumption, whether as a beverage or internally as a medicine or in any other way whatsoever, by any method whatsoever, or

(b) has in his possession any spirit, alcohol or preparation having the knowledge or reasons to believe that any such alternation or attempt to alter has been made,

shall be punished with imprisonment for a term, which shall not be less than seven years but may extend to ten years and also to fine, which shall not be less than twenty five thousand rupees but may extend to two lakhs rupees.

Section 55 of Odisha Excise Act, 2008

13.6 Penalty for certain unlawful acts of licensee vendor or any person in his employment:-

If any holder of a licence, permit or pass granted under this Act, or any person in his employment and acting on his behalf

(a) fails to produce such licence, permit or pass on the demand of any officer empowered by the State Government, by notification, to make such demand; or

(b) in any case not provided for in section 52, wilfully contravenes any rule made under section 90 ; or

(c) wilfully does any act in breach of any of the conditions of the licence, permit or pass, for which a penalty is not prescribed elsewhere in this Act;

he shall be liable, in case of clause (a), to fine which may extend to twenty thousand rupees and in case of clause (b) or (c) to fine which may extend to fifty thousand rupees.

Section 64 of Odisha Excise Act, 2008

13.7 Penalty for possession of intoxicants in respect of which an offence has been committed:-

(1) If any person, without any lawful authority, has in his possession any quantity of any intoxicant knowing or having reason to believe, the same to have been unlawfully imported, transported or manufactured, or knowing or having reason to believe that the prescribed duty has not been paid thereon, he shall be liable to imprisonment for term which may extend to three years or to a fine which may extend to ten thousand rupees, or both.

(2) Any owner or occupant of a place, if found to have stored or caused to be stored any intoxicant for which an offence has been committed under this Act, shall be liable to pay fine which shall not be less than rupees ten thousand but may extend to rupees five lakhs.

Section 62 of Odisha Excise Act, 2008

13.8 Penalty for offences not otherwise punishable

(i) Any person who commits any act in contravention of any of the provisions of this Act, or of any rule, notification, or order made, issued or given under this Act, for which a penalty is not prescribed elsewhere in this Act, he shall be liable to fine which may extend to fifty thousand rupees

Section 68 of Odisha Excise Act, 2008

(ii) Offences and penalties:-if any person;

(a) contravenes any of the provisions of a notification issued under section 6; or

(b) evades the payment of any duty of excise payable under this Act; or

(c) fails to supply any information which he is required by rules made under this Act to supply or (unless with a reasonable belief, the burden of proving which shall be upon him, that the information supplied by him is true), supplies false information; or

(d) attempts to commit or abets the commission of any offence mentioned in clause (a) or clause (b),

he shall for every such offence be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to two thousand rupees. or with both.

Section-7 of M & T.P. Act, 1955

13.9 Penalty for failure to furnish proof of export:-

Penalty for failure to furnish proof of export within the prescribed period.- When any person authorized to export dutiable goods in bond in accordance with the provisions of Chapter-VII of these rules fails to furnish proof of such export to the satisfaction of the Excise Commissioner, he shall upon a written demand being made by the officer-in-charge forthwith pay duty leviable on such goods, and shall also be liable to penalty which may, subject to a maximum of two thousand rupees, extend to twice the amount of duty and until such duty and penalty are paid, the Excise Commissioner may in his discretion refuse to permit such person to make further exports of dutiable goods in bond.

Rule 17 of M & T.P. Rules, 1956

General Penalty:- A breach of these rules shall, where no other penalty is provided herein, be punishable with a penalty which may extend to one thousand rupees and with confiscation of the goods in respect of which such breach is committed.

Rule 124 of M & T.P. Rules, 1956

13.10 Compounding of offences and releasing of property liable to confiscation

(1) The Collector or any Excise Officer specially empowered by the State Government in this behalf, not below the rank of Superintendent of Excise may, subject to any restrictions as may be prescribed, accept from any person whose exclusive privilege, licence, permit or pass is liable to be cancelled or suspended under clauses (a), (b) or (c) of sub-section (1) of section 47 or who is reasonably suspected of having committed an offense punishable under any section of this Act other than sections 55, 58, 59 and 67, payment of a sum of money as may be prescribed in lieu of such cancellation or suspension or by way of composition for such offence, as the case may be, and in any case in which any property has been seized being liable to confiscation under section 71, may release the property on payment of equal sum of the prevailing market value thereof as estimated by the Collector or such Excise Officer:

Provided that where such person intended to evade excise revenue, the sum to be paid by such person in lieu of cancellation or suspension or by way of composition for such offence as aforesaid shall in no case be less than five times of such revenue intended to be evaded:

Provided further that where the property so seized is a liquor manufactured in contravention of this Act, such liquor shall not be released but shall be disposed of in such manner as may be prescribed.

(2) When the payments referred to in sub-section (1) have been duly made, the person, if in custody, shall be discharged, and the property seized if any, shall be released and no further proceedings shall be taken against such Person or Property.

Section-75 of Odisha Excise Act, 2008

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CHAPTER - XIV

SEARCHES, SEIZURES, DETECTION AND CONFISCATION

14.1 Power to arrest without warrant to seize articles liable to confiscation, and to make searches

Any Excise Officer may, subject to any restrictions as may be prescribed.

(a) arrest without warrant any person found committing an offence punishable under sections 52, 54, 55, 58, 59, 62 or 63;

(b) seize and detain any article which he has reason to believe to be liable to confiscation under this Act or any other law for the time being in force relating to the excise revenue; and

(c) detain and search any person upon whom, and any vessel, raft, vehicle, animal, package, receptacle or covering in or upon which, he may have reasonable cause to suspect any such article to be.

Section-77 of Odisha Excise Act, 2008

14.2 Power of court to Issue of warrant of arrest

Any Judicial Magistrate of the first class, or any Special Court constituted under this Act having jurisdiction to try offences punishable 'under this Act, may issue a warrant for the arrest of any person whom such magistrate of the Special Court has reason to believe to have committed or abetted or attempted to commit any offence punishable under sections 52, 54, 55, 58, 59, 62 or 63.

Section-78 of Odisha Excise Act, 2008

14.3 Power to Search

The Collector or Sub-Divisional Magistrate, or Judicial Magistrate of the first class, or any Special Court constituted under this Act having jurisdiction to try offences punishable under this Act, upon information, received and after such inquiry, if any, as he or it thinks necessary, if he or it has reason to believe that any offence punishable under sections 52,54,55, 58,59,62 or 63 has been or is likely to be committed or abetted, may by warrant authorize,. any police or Excise Officer above the rank of a police or excise constable, as the case may be, to enter, with such assistance as may be required, any place and search for any intoxicant, material, stills, utensil, implement or apparatus in respect of which the alleged offence has been, or is likely to be, committed or abetted, or any document which throws or is likely to throw any light on the alleged offence.

14.4 Search and arrest without warrant

Whenever an Excise Officer not below such rank as the State Government may, by notification, specify, has reason to believe that an offence punishable under sections 52, 54, 55, 58, 59, 62 or 63 has been or is being, or is likely to be, committed or abetted, and that a search warrant cannot be obtained without affording the offender an opportunity of escaping or of

concealing evidence of the offence, he may, after recording the grounds of his belief, at any time by day or night, enter and search any place and may seize anything found there in which he has reason to believe to be liable to seizure under this Act, and may detain and search and if he thinks proper, arrest any person found in such place whom he has reason to believe to have committed or abetted any such offence as aforesaid.

Section-79 of Odisha Excise Act, 2008

14.5 Confiscation

1.(a) When there is reason to believe that any offence under this Act has been committed, the intoxicant, materials, stills, utensils, implements, apparatus, receptacles, package, coverings, animals, carts, vessels, rafts, vehicles, or any other conveyances ' or articles or materials used in committing any such offence may be seized by the Collector or any officer of the Excise, police, Customs or Revenue Departments.

(b) any intoxicant lawfully imported, transported, manufactured in possession or sold along with, or in addition to, any intoxicant which is liable to seizure under clause (a) and the receptacles, packages and coverings in which any such intoxicants as aforesaid, or any such materials, stills, utensil, implement or apparatus as aforesaid, is found and the other contents, if any , of such receptacles or packages, and the animals, carts, vessels, rafts, vehicles or other conveyances used in carrying the same, shall likewise be liable to seizure.

(2) Every officer seizing any property under this section shall, except where the offender agrees in writing to get the offence compounded under section 75, produce the property seized before the Collector, or an officer, not below the rank of a Superintendent of Excise, authorized by the State Government in this behalf by notification (hereinafter referred to as the authorized officer).

(3) Where the Collector or the authorized office seized any property under sub-section (1) or where the property seized is produced before him under sub-section (2) and he is satisfied that an offence under this Act has been committed in respect thereof, he shall, without prejudice to any other punishment to which the offender is liable under this Act or order confiscation of the property so seized or produced together with all other materials, articles, vehicles or conveyances used in committing such offence, whether or not a prosecution is instituted for the commission of such an offence.

(4) No order confiscating any property shall be made under sub-section (3) unless the person from whom the property is seized is given-

- (a) a notice in writing informing him of the grounds on which it is proposed to confiscate such property;
- (b) an opportunity of making a representation in writing within such reasonable time as may be specified in the notice; and
- (c) a reasonable opportunity of being heard in the matter.

(5) Without prejudice to the provisions of sub-section (4), no order of confiscation under sub-section (3) of any articles, materials, vehicles or conveyances shall be made if the owner thereof proves to the satisfaction of the Collector or the authorized officer, as the case may be, that it was used without his knowledge or connivance or the knowledge or connivance, of his agent, if any, or the person in charge of such property, in committing the offence and that each of them had taken all reasonable and necessary precautions against such use.

(6) Any person aggrieved by an order passed under sub-section (3) may, within thirty days from the date of such order, appeal to the Excise Commissioner, who shall after giving an opportunity to the parties to be heard, pass such order as he may think fit.

(7) The property seized under this section shall be kept in the custody of the Collector, the authorized officer or the other officer seizing such property or with any third party, until the amount for compounding the offence or the sum equal to the prevailing market value of the seized property or both are paid or until it is confiscated as the case may be:

Provided that the seized property shall not be released during pendency of the confiscation proceedings even on the application of the owner of the property for such release.

(8) Whenever property seized is liable to confiscation under this section, and the offender or the person entitled to possession is not known or cannot be found, the case shall be inquired into and determined by the Collector or the authorized officer, who may order confiscation:

Provided that no such order shall be made until the expiration of one month from the date of seizing of the property to be confiscated, or without hearing any person who may claim any right within the said period and the evidence if any, which he produces in support of his claim.

(9) If the property seized is liable to speedy and natural decay, or if the Collector or the authorized officer, as the case may be, is of the opinion that its sale would be for the benefit of its owner, such officer may, at any time, direct it to be sold and the provisions of this section shall, as nearly as may be practicable, apply to the net proceeds of the sale.

(10) Subject to the rules as may be made by the State Government under section 90, the Collector or the authorized officer, while making an order of confiscation, may also order that such of the properties to which the order of confiscation relates, which in his opinion to be recorded in writing cannot be preserved or not fit for human consumption, may be destroyed.

(11) Where the Collector or the authorized officer after passing an order of confiscation under sub-section (3) is of the opinion that it is expedient in the public interest so to do, he may order the confiscated property or any part thereof to be sold by public auction or dispose of departmentally.

(12) The Collector or the authorized officer shall submit a full report of all particulars of confiscation to the Excise Commissioner within twenty four hours of such confiscation.

(13) The Collector or the authorized officer shall, for the purposes of this Act, have the same powers as are vested in the Civil Court under the Code of Civil Procedure, 1908, while making inquiries under this section in respect of the following matters namely:-

- (a) receiving evidence on affidavit;
- (b) summoning and enforcing the attendance of any person and examining him on oath; and
- (c) compelling the production of documents.

Section-71 of Odisha Excise Act, 2008

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C H A P T E R - X V

ODISHA STATE BEVERAGES CORPORATION LIMITED (OSBCL)

15.1 The State Government by notification dated 30 January 2001 and 28 April 2001 appointed Odisha State Beverages Corporation Ltd. (OSBCL), a fully owned Government Company on 1st day of February 2001 and 1st day of May 2001 as the date on and from which the Company got the right to carry on wholesale trade and distribution of Foreign Liquor (FL) and Country Spirit (CS) respectively.

15.2 WORKING OF OSBC

(1) Notwithstanding anything contained in this Act, the OSBCL which is a Corporation wholly owned and controlled by the State Government, or any other Agency as may be notified by the State Government, shall have the exclusive privilege of supplying, by wholesale, foreign liquor, India made foreign liquor and country liquor manufactured from molasses for the whole of the State of Odisha.

(2) The OSBCL, shall be granted the licence by the Excise Commissioner for the exercise of the exclusive privilege referred to in sub-section (1) and such licence shall be subject to such terms and conditions as may be prescribed.

(3) OSBCL, may open its branches or depots in the State at such places and subject to such conditions as the Excise Commissioner may specify and for each place of business, separate licence shall be issued by the Excise Commissioner on payment of such fees as may be decided by the State Government from time to time.

(4) It shall be lawful for the State Government to grant licence to the Odisha State Beverages Corporation Ltd., on such conditions and restrictions and for such period, to exercise the exclusive or other privileges of importing, storing and selling foreign liquor, India made foreign liquor, as it may deem fit.

Section-19 of Odisha Excise Act, 2008

The main purpose with which the corporation has come into being was:

- (i)** To provide transparency in distribution and supply system of
 - (a) Indian Made Foreign Liquor (IMFL)
 - (b) Foreign Made Foreign Liquor (FMFL)
 - (c) Country Spirit (CS)
 - (d) Beer
- (ii)** To exercise control over quality of the same.
- (iii)** To sell the same to the licensed retail vendors who then sell it to the consumers at their designated retail outlets in the State and, further, to garner revenue to the State exchequer. The Corporation purchases IMFL/FMFL/ Beer from suppliers/ manufacturers who are registered with OSBC. It purchases CS from Aska Cooperative Sugar Industry Limited (ACSIL).

15.3. Formation of Price Fixation Committee (PFC)

Government or Odisha Excise Department, Resolution No. 2212/Ex dated 24.04.2003 constituted a Price Fixation Committee (PFC) consisting of the following members for fixation of price of IMFL and Beer supplied through OSBC Ltd.

1)	Principal Secretary to Government, Excise Department	Chairman
2)	Commissioner, Commercial Taxes, Odisha	Member
3)	Excise Commissioner, Odisha	Member
4)	Special Secretary to Government, Finance Department.	Member
5)	Managing Director, OSBC Ltd.	Member Convenor

The Committee will inter alia look into the following aspects:-

- (a) To determine the purchase price and sales price of different brands of IMFL/FMFL/Beer/CS supplied to the Corporation by the suppliers with reference to the landing cost in the neighbouring States;
- (b) The MRP of the brands is also taken into consideration while deciding the purchase price.

The procedure adopted for calculation of sales price or the offer price is as under:

Procedure adopted for calculation of OSBC's Sale Price to Retailer and MRP

Offer Price	A	Offer price submitted by the supplier when accepted by the Corporation becomes the approved Offer price for the Corporation.
Import Fee	B	Import Fee on the stock imported from outside the State as per the Excise Policy for the year.
Entry Tax	C	1% of (A+B+E)
Landing Cost	D	A+B+C
State Excise Duty	E	As Notified by the Government under the Excise Policy of the State for the year.
Purchase Price	F	D + E
Profit	G	OSBC profit as fixed from time to time by the Board of Directors of OSBC. {See Para 30.2}
Additional Rounding Off License Fee	H	Additional rounding off license fee for rounding off the MRP to nearest rupee 5. This amount is to be paid to the State Government
Sale Price	I	F + G + H
VAT	J	As per Government Notification. Now it is @ 35% of (I). (20% for C.S)
Total	K	I+J
TCS	L	@ 1 % of K as per provisions u/s 27 C of the I.T. Act.
Amount payable by Retailer	M	K+L (i.e. the total invoice amount raised on the retailer)
MRP per Case	N	K + retailer's margin as per the rate fixed by the Government from time to time.
MRP per Bottle	O	N divided by the number of bottles in the Case

15.4 Collection of Excise Duty

The methodology for collection of Excise Duty after formation of OSBC is that the OSBC after depositing the excise duty through challans at Treasury or through cheque/draft will apply to District Excise Office, Khurda (The registered office of OSBC is at Bhubaneswar. It comes under district Khurda) for a pass for lifting of the intoxicants from the distillery or the manufacturer of the intoxicants. The Superintendent of Excise, Khurda will thereafter see that the duty has actually been paid by the OSBC for which the transport pass would be issued.

The process of reconciliation of differential excise duty can only be realised from OSBC by the District Excise Office, Khurda in case of enhancement of duty after lifting of the stock. It is the duty of the Superintendent of Excise, Khurda to look into the duty structure as made by the Annual Excise Policy.

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CHAPTER –XVI

C&AG’s Professional practices Group Guidelines Note

No.226-09-PPG/2017

Date: 23 August 2017

Subject: Improving the quality of Inspection Reports

16.1 Introduction

The broad objective of compliance auditing is to enable assessment of whether the activities of auditable entities are in accordance with the authorities¹governing those entities towards expressing a conclusion designed to enhance the degree of confidence of the intended users.

The Compliance Auditing Guidelines adopted by the Department institutionalizes the processes for planning, conducting, reporting and follow up of compliance audits. The guidelines envisages a top down, risk based and department centric approach and aims to instill the process rigour in audit implementation towards achieving the objectives of compliance auditing. The process rigour needs to ultimately enhance the quality of Inspection Reports. This guidance Note, therefore, is intended towards establishing the specific procedures that should be followed while planning, conducting and reporting the results of compliance auditing through Inspection Reports.

The guidance notes emphasizes the need for effective planning, including use of data analytics, prior to commencement of audit. Further, this guidance prescribes a process based Title Sheet to accompany all Draft Inspection Reports at the time of submission to field Headquarters, which includes certification of the audit process. The guidance note also envisages benchmarking and grading the Inspection Reports to evaluate their quality. The parameters and the scoring methodology address the existing and contemporary risks across the compliance auditing process.

Sustained implementation would result in achieving better audit process outcomes as well as contribute to enhance the quality of assurance.

The procedures envisaged in this guidance note are generally applicable to all audit. However, in order to address specific circumstances that may exist in some field offices/ audit streams, the functional wings may, if necessary, suitably modify the application of these procedures, the grading matrix or the Title Sheet. Since this is an evolving process, the mechanism envisaged in this guidance note would be reviewed suitably in future after obtaining feedback from all stakeholders-field offices, functional wings, peer review and Inspection wing.

¹Authorities include the Constitution, Acts, laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, PPP contracts, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.

II Essential procedures

The specific procedures that determine the efficiency and effectiveness of compliance audits, which should be followed in all compliance audit assignments are described in the following four sections;

- (A) Planning Compliance audits
- (B) Conducting audits
- (C) Reporting audits
- (D) Grading of Inspection Reports

A) Planning compliance audits

Evidence based approach and the opportunities presented by data analytics need to be harnessed to integrate data from various sources and formats to gain deeper insights, identify and analyse risk exposures of entities as envisaged in the Compliance Auditing Guidelines. Use of IT resources for data analytics is encouraged since this could obviate the need to visit auditable entities. The macro and micro level risk assessments would lead to a better prioritization of the Auditable Entities and quality Annual Audit Plans and enable identification of focus audit efforts on the perceived high risk areas/activities. The procedures that should be followed while planning compliance audits are:

- 1) **Data Analytics** : Data Analytics should be carried out by the Data Analytics Group or Repots Section, which involve the following steps:
 - (i) Map (Identify) the relevant audited entity databases and third party databases (Refer the Big Data Management Policy)
 - (ii) Collect the Databases.
 - (iii) Analyse it as per data analytic guidelines (which is under preparation by the Headquarters).
 - (iv) The analytic results will be used as inputs for audit plan. Activities at sl. nos (i) and (ii) are primarily one-time exercises which will require periodic updating.

16.2. Maintenance of Guard file

A guard file should be maintained for each auditable entity containing the legislations/rules/policies/orders that apply to the entity, Financial and Outcome budgets, important long term contracts/MoUs and internal control process/procedures instituted by the entity(internal documents). It should also contain relevant sections of external overarching documents such as the Economic Survey, Finance Commission Reports, Indian Public Finance Statistics published by Government of India etc. that define the external environment and policy thrust in the relevant section. This guard file should be updated in every audit.

16.3 Desk Review

The audit party (or alternatively the SAO/AO in charge of the audit party) identified for audit party identified for coordinating the audit of a group of entities) should carry out a desk review at Headquarters before embarking on

an audit. The review should comprise a study of the guard file, data analysis to determine the direction/focus of audit and to identify records/transactions that are potentially error prone for verification in the field. Ideally this can be synchronised with the quarterly scheduling of audit, when audit of similarly placed entities could be grouped/scheduled simultaneously (i.e. billing units/schools/PWD units etc.) so that focus areas/common focus areas could be defined and pursued in audit. Use of data analytics at this stage is recommended. While ordinarily a desk review needs to be carried out for gaining an understanding of the entity to be audited and its focus areas, in certain cases, based on the context-size, complexity, scale of audit, desk review as a distinct procedure may not be warranted. In such cases, specific relaxation should be obtained from the concerned Group Officer, duly explaining the circumstances and recording/documenting the reasons for the relaxation, before commencing the audit.

16.4 Planning audit procedures

Based on an understanding of the individual entity (after the desk review), the SAO/AO in charge of the audit party should prepare a plan of audit procedures for the specific entity detailing the audit objectives, scope of audit, main focus areas for audit and assignment plan for the team members, which should be approved by the respective Group Officers before the audit is undertaken. A recommended format for planning audit procedures is provided as **Annexure-IV** where a specific subject matter has been selected, and audit design matrix as envisaged in the Compliance Auditing Guidelines, should also be prepared. Man-days required for the purpose of carrying out desk review and planning audit procedures may be appropriately factored into the annual audit plan to the extent required. It is expected, however, that this would not adversely impact the overall audit coverage.

B) Conducting audits

During this process, monitoring the field audit parties and supervising the quality of audit and documentation of the field audit work are the most critical processes. The audit procedures that should be followed to achieve better process outcomes are:

16.5 Interface with Headquarters:

An effective two way interface between field audit parties and Headquarters need to be established during the field audit process whereby Headquarters can effectively monitor the field audit process and the audit parties can report on audit challenge being encountered and also follow up on Headquarters directions. This would involve the following:

- (i) Technological solution such as the OPTIMA being implemented in State AG (Audit) offices need to be leveraged to enhance the quality and effectiveness of monitoring.
- (ii) Issues emerging from Group Officer Supervision should be effectively followed up and reported. A format has been devised to be provided by the field audit party as part of the Title Sheet to the Draft Inspection Report.

- (iii) Any systemic issue observed during audit should be communicated to other parties carrying out similar audits to enable a holistic assessment across all audited entities.

16.6 Certification of field audit process

The SAO/AO of the field audit party should certify that the audit process was conducted as planned in accordance with the Auditing Standards and Code of Ethics and that documentation requirements have been adhered to. The certification may be part of the Title Sheet that the filed audit party submits along with the Draft Inspection Report. The revised format of the Title Sheet is provided as **Annexure-‘V’**.

C) Reporting results

Preparation of Draft Inspection Reports and vetting of Inspection Reports are very crucial processes. As envisaged in the Compliance Auditing Guidelines, the findings in the Inspection Reports should be presented in two parts – part-IIA comprising significant audit findings and part-IIB comprising other incidental findings with best practices being separately highlighted. The vetting process should have the same rigour as that adopted for Draft paras. The following procedures should be adopted in this regard.

16.7 Presentation of Draft Inspection Report

- (i) Each para should clearly bring out whether the deficiency/best practice is an isolated case or it has a systemic connotation.
- (ii) The paras should be drafted in an orderly manner by identifying the criteria (both for regularity and propriety subject matters) against which the subject matter is being evaluated, describing the condition (deviation from criteria as observed in audit), correlating the cause of deviation and determining the effect of deviation. The reply of the audited entity should be incorporated and audit rebuttal/contention thereon should be clearly presented.
- (iii) While reviewing paras outstanding from previous Inspection Reports, in case of a continuing deficiency or a persistent irregularity the audit team should identify systemic issues/control deficiencies rather than routinely updating the paras with latest information/revised monetary value.

16.8 Vetting of Inspection Reports

- (i) The vetting process should ensure that every finding is supported by sufficient and appropriate evidence (Key documents) and conclusion reached should be appropriate in the circumstances.
- (ii) It has to be ensured whether the IR paras have been categorised appropriately as Part-IIA and Part-IIB paras respectively. An illustrative list of paras that should be categorised in Part-IIA and Part-IIB are provided as **Annexure ‘G’**.
- (iii) While seeking approval of the Group Officer for issuing the Inspection Report, a judgement of the persistent irregularities that need to be brought to the notice of the Executive through a ‘Department

Appreciation Note' needs to be taken. Accordingly a 'Department Appreciation Note' may be issued to the respective Principal Secretary by the PAG/AG as envisaged in the Compliance Auditing Guidelines.

- (iv) Nil IRs: In order to maintain the deterrent value of audit, some low risk entities ay have to be audited and in such cases 'nil' reports may have to be issued. However, it has to be ensured that the requisite process rigour has been adhered to. All cases of 'nil' reports should be well documented. Logically borne out and should be issued only after prior approval of the PAG/AG of the field office.

D) Grading of Inspection Reports

The Inspection Reports should be graded so that their quality can be benchmarked. A scoring methodology has been defined to measure the efficiency and effectiveness of critical audit processes against a maximum score of 100, which would consequently be translated into a grade to evaluate the quality of Inspection Report on a scale of 10. The process scoring methodology an grading matrix of Inspection Reports is provided as **Annexure 'H'**.

The vetting section in State AG Audit Offices and Reports/Headquarters sections(as appropriate) in other Field Offices should be vested with the responsibility of scoring and grading each Inspection Report, which should be approved by the Group Officer after the despatch of each Inspection Report. Extant instructions require that Inspection Reports should be issued with the approval of the Group Officer, which has to be diligently observed in all cases.

At the Group Officer level, the mechanism of grading of Inspection Reports would represent a self-certification process. It provides a framework for objective evaluation, as process parameters and their scoring methodology have been prescribed. As a control measures, the procedure of scoring and grading Inspection Reports should be periodically reviewed by the PAG/DG/AG/PD of the respective field office by random selection of Inspection Reports, which should include Inspection Reports of Audited entities that were considered high risk.

The grading of Inspection Reports should not remain restricted as an isolated exercised should distinctly reflect in the overall performance assessments of the field office. The peer review and Inspection team from headquarters need to include this is an item in their respective checklist to assess the scoring and grading procedure for their compliance and efficacy.

(Sudha Krishnan)



Director General (PPG)

Duties of Headquarters Section

The Draft Inspection Report would be edited at the Headquarters Section duly checking the arithmetical computation and legal validity of the objections and the final Inspection Report after approval by the Senior Deputy Accountant General/Deputy Accountant General (Revenue Sector Audit) should be issued within a month of completion of audit. The report should be sent to the concerned Superintendent of Excise with a copy to the Excise Commissioner, Odisha, asking for compliance within a month.

The Headquarters Section entrusted with the work relating to Excise Department will be responsible for the following items of work:-

- (1) Watching the timely receipt of the Draft Inspection Report, examination and issue of Inspection Reports.
- (2) Pursuance of the objections contained in the Inspection Reports and keeping necessary record of pending Inspection Reports and paras
- (3) Maintenance of objection books, six-monthly registers and watching their clearance.
- (4) Receipt and scrutiny or study of all amendments to Acts, Rules, Notifications, Circulars, Judgements of Courts and instruction of C&AG of India and communication thereof to the Field Parties.
- (5) Receipts and examination of doubtful points referred to by the field parties or others concerning the audit of Excise Receipts and issue of suitable clarifications.
- (6) Specific issues arising out of Inspection Reports or otherwise relating to Excise Receipts may be noted and circulated to the concerned field party to examine the issue.
- (7) Preparation and submission of Reports due to the C&AG of India, State Government or others in time.
- (8) Preparation and issue of Draft Paras and brief for the Audit Reports and related work
- (9) All functions prescribed in any other manual of this Department or circular or order issued by the Government of India, C&AG of India, Pr. Accountant General(E&RSA),Odisha or SR.DAG/DAG (RSA).
- (10) Any other work may be entrusted by the Pr. Accountant General (E&RSA) or Sr. Deputy Accountant General/Deputy Accountant General (RSA).
- (11) The paras included in the final Inspection Report will be pursued from time to time by Headquarters Section till they are finally settled.

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CHAPTER-XVII

Internal Control Mechanism

17.1 Points to be checked on internal control mechanism

1. Whether there is a system for preparation of budget for the receipt as well as expenditure and whether it is followed and implemented properly.
2. Whether there are instructions or orders available for proper accounting of revenue.
3. Whether the provisions of finance manual/accounts manual, Odisha Treasury Code, Account code are being followed properly.
4. Whether there is proper distribution of work as far as recording of revenue collections and making expenditure is concerned.
5. Whether there is any independent check on the work done by subordinate officers.
6. Whether the Government circulars, orders, Gazette Notifications are circulated to all concerned immediately or there is any failure in their circulation resulting in delayed implementation which results in non-collection of revenue.
7. Whether the demand is raised in time.
8. Whether the demand is calculated properly and the calculation made by one officer is vetted and checked by his senior officer.
9. Whether there is any system of reporting/monthly return/MIS for information to the higher officer and whether the system is working properly.
10. Whether the supervisory officers are monitoring and supervising the work relating to revenue collection and taking timely action wherever there is any lapse on the part of any office/officer.
11. Whether the revenue collected is properly deposited in the treasury and not appropriated for any day to day expenditure.
12. Whether proper coordination exists between various units of the same department/office as well as between different departments.
13. Whether there exists an identified mechanism to safeguard assets and that belong to the Government.
14. Whether monthly revenue collection figures are verified with that of the Treasury records.
15. Whether records relating to opium account and Bhang gola account are maintained properly and amounts realised towards sale of opium and bhang, credited into treasury within three working days.
16. Whether pass fee on transportation of Mohua flower for distillation of out still liquor is correctly levied in advance and amount credited into the in time.
17. In addition to the above, similar issues which results in either poor or no internal control system should be examined and reported along with some test checks. While commenting on effectiveness of internal control, various documents/reports like internal audit report, reports of the visit of higher officers like Secretaries of the Department may also be gone through.

ANNEXURES

Annexure-I

Excise Duty and Fee structure as per Annual Excise Policy 2017-18

PART-A

2.1 All Types of application fees, Label Registration fees & penalties

Sl. No	FEE TYPE (Non- refundable)	Amount (in ₹) 2017-18
1	Application fee for grant of License (Brewery/ Winery/ Distillery/ Bottling Unit)	100000
2	Application fee for renewal of license (Brewery/ Winery/ Distillery/ Bottling)	50600
3	Application fee for grant of License of a Micro-Brewery	25000
4	Application fee in respect of licenses for trading of molasses	34500
5	Application fee in respect of licenses for units using molasses for purposes other	17850
6	Application fee for label registration (BEER per brand for Civil)	28750
7	Application fee for label registration (BEER per brand for Defence)	10000
8	Application fee for label registration (IMFL(except wine)/FMFL(except wine) per	25300
9	Application fee for label registration (Wine per brand for Civil/Defence)	5000
10	Application fee in respect of ne ON Shops	75900
11	Application fee in respect of renewal of licenses of ON Shops	759000
12	Application fee in respect of new/renewal of Beer Parlors	69000
13	Application fee with respect to new/ renewal of Military Canteen Licenses	8500
14	Application fee with respect to new/renewal Bhang. Tori, Pochwai shops	1500
15	Application fee for new Out still shops	44300
16	Application fee for renewal of Out Still shop	38000
17	Application fee for new IMFL OFF shop licenses	75900
18	Application fee for renewal of IMFL OFF shops	75900
19	Application fee for new license of Country Spirit shops	38000
20	Application fee for renewal of Country Spirit shops	38000
21	Composite Label registration fee per annum for Military Canteens	13200
22	User registration fee for Military Canteens	6600
23	Label registration fee of C.S in Glass Bottles (per annum)	25300
24	User charge per shop (IMFL/FMFL/CS/OS) (per annum)	98000
25	Composite label registration fee for retail licensees (per shop per annum) IMFL/ FMFL/BEER	19000
26	Separate label registration fee for export of IMFL/Beer/(per Item/ Brand)	16500

Sl. No	FEE TYPE (Non- refundable)	Amount (in ₹) 2017-18
27	Application fee obtaining NOC/Extension of NOC/permission for establishment of Brewery/ Winery/Distillery/ Bottling etc. Units	49500
28	Penalty on a country spirit supplier if it fails to make timely delivery of CS supply	15000000
29	Penalty with fine for non- supply of cash memo/charging above MRP to the consumers on demand	20000
30	Penalty on Supplier/ Retailer for supplying/ selling liquor without affixture of EAL	200000

2.2 License Fee:- IMFL, Wine &Country Spirit for Production and compounding and Blending.

The license fee for those distilleries that have supplied over 100,00,000 (1Crore) LPL to the wholesale depots between January to December of the preceding year is fixed at (₹ 0.50/ LPL). For those distilleries that have supplied less than 100,00,000 (1Crore) LPL, but more than 50,00,000 (Fifty Lakh) LPL to the wholesale depots between January to December of the preceding year, the license fee is fixed at ₹ 1/ LPL. For those distilleries that have supplied less than 50,00,000 (Fifty Lakh) LPL to the wholesale depots between January to December of the preceding year, the license fee shall be fixed @ ₹ 1.50 per LPL. However, the annual license fee for those distilleries and bottling units that have failed to utilize less than 10% of their installed capacity in the period between January to December of the previous year, shall remain the same as what was fixed in the preceding year 2016-17.

Sl No.	Production Capacity (in LPL) Non-refundable)	Category- wise amount (₹ in lakh)
1.	Annual license fee for a new Distillery	20
2.	Annual license fee for a new Bottling unit	20
3.	Annual license fee for E.N.A. columns	9
4.	Annual license fee for wine producing units	2.5
5.	License fee for supply and manufacture of CS (M/s ACSIL)	36

2.3 Breweries- License fee for Beer Production

The license fee for those breweries that have supplied over 10000000(1Crore) BL to the wholesale depots between January to December of preceding year is fixed at ₹ 1.00/ BL. For those breweries that have supplied less than 10000000(Crore) BL, but more than 5000000 BL to the wholesale depots between January to December of the preceding year, the license fee is fixed at ₹ 1.50 per BL. Those licensees who have supplied up to 5000000 BL shall pay license fee @ ₹ 2.50 per BL. The annual license fee for those breweries that have failed to utilize less than 10% of their installed capacity in the period between

January to December of the previous year, shall remain the same as what was fixed in the preceding year 2016-17.

Sl No.	Production Capacity (in BL) Non-refundable)	Category- wise amount (₹ In lakh)
1.	Annual license fee for a new Brewery	25
2.	Annual license fee for Microbrewery (Maximum 1000 BL per day)	7.5

2.4 Other License Fees- Retail ON & OFF Shops, Country spirit, Bhang, Tari and Pachwai shops, warehouses, Denatured Spirit etc.

Sl No.	Production Capacity (in BL) Non-refundable)	Amount (₹ in Lakh)
1.	Annual license fee for Three star and above rated hotels.	8.0
2.	Annual license fee for hotels in six major cities- Cuttack, Bhubaneswar, Puri, Sambalpur, Rourkela & Berhampur with lodging	8.6
3.	Annual license fee for other urban areas with lodging	7.5
4	Annual license fee for hotels and restaurant without lodging	10.3
5	“ON” license may be granted to O.T.D.C/ I.T.D.C. hotels at half the rates applicable as above for License fee, based on where the said hotels are located. No such concession is allowed for hotels leased to private individuals.	50% of above rates
6	Annual license fee For ON Club	
6.1	Annual license fee for ON clubs- consumption upto 100 LPL per month	1.00
6.2	Annual license fee for ON clubs- consumption from 101 LPL up to 500 LPL per month	4.6
6.3	Annual license fee for ON clubs consumption from 501 LPL to 800 LPL per month	5.75
6.4	Annual license fee for ON clubs consumption above 801 LPL per month	6.9
7	Annual License Fees for BEER Parlors	
7.1	License fee for ON Beer Parlor in six major cities namely Bhubaneswar, Cuttack, Puri, Sambalpur and Rourkela	4.6
7.2	License fee for ON Beer Parlor in all other urban areas	3.8
7.3	License fee for ON Beer Parlor for all rural area	3.2
8.	Annual License fee for bonded warehouse	12.0
9.	In case of distilleries, annual license fees to be paid for storage of spirit per annum	8.9
10	Annual license fee for Model Premium Liquor Shops attached to Star Hotel/ Luxury Hotels/ Complex permitting sale of premium brands of IMFL/FMFL	1.2

11	Annual License Fees on Denatured Sprit/ Methanol	Amount (₹ in Lakh)
11.1	Annual license fee on D.S-I	0.35
11.2	Annual license fee on D.S-II	0.28
11.3	Annual license fee on D.S -III(Carpentry)	0.21
11.4	Annual license fee on D.S III (Industrial use)	0.36
12.	Annual license fee for Military Canteen (Superintendent of Excise will issue the permits only after obtaining the strength of the unit and norms of supply)	0.13
13.	Additional annual License fee for export of brands (IMFL/BEER)	1.65
14.	Annual license fee for separate warehouse made for storing of export IMFL/BEER brands	0.79
15.	Monthly License fee for branch Out still shop	0.20
16.	Annual license Fee for M& TP Units	As decided by Central Government
17.	Annual License fee for additional Bars in Hotels/Clubs	1.00
18.	Licenses of Bhang, Tari and Pachwai shops shall be Renewed in 2017-18 without increase in existing consideration money with necessary formalities.	
19.	Licenses of Out- Still shops operating in 21 districts shall be renewed in 2017-18 with 15% increase in existing consideration money with necessary formalities.	
20.	License fee for Country Spirit Shops shall be renewed in 2017-18 with 15%increase over the existing consideration money with necessary formalities.	
21.	License fee for IMFL OFF Shops shall be renewed in 2017-18 with 20%increase over the existing consideration money with necessary formalities.	

2.5 Bottling Fee, Label Registration Fee and EAL fee levied on a per unit basis

Sl No.	Category (Non-refundable)	Category wise Amount (in ₹)
1	IMFL(₹ per LPL)	
1.1	Bottling Fee- Own Brand	13
1.2	Bottling Fee- Other than own brand	16
1.3	Bottling fee for export of IMFL	3
1.4	Label registration fee on all IMFL/FMFL brands (Except Wine) received at wholesale depots (January to December of preceding Year) per label per annum for Civil & Defense.	
	Up to 2000 Cases Per annum	24200
	From 2001 Cases to 5000 Cases per annum	48400
	From 5001 Cases to 10000 Cases Per annum	72600
	From 10001 Cases to 20000 Cases Per annum	87200
	From 20001 Cases to 40000 Cases per annum	115000
	From 40001 Cases to 70000 Cases Per annum	174300

Sl No.	Category (Non-refundable)	Category wise Amount (in ₹)
	From 70001 Cases to 100000 Cases per annum	232300
	From 100001 Cases to 500000 Cases per annum	319400
	From 500001 Cases to 1000000 per annum	500000
	From 1000001 Cases & above per annum	700000
1.5	Label registration fee on all Wine brands received at wholesale depots (January to December of preceding Year) per label per annum for Civil & Defense	
	Up to 500 Cases Per annum	5000
	From 501 Cases to 1000 Cases Per annum	7500
	From 1001 Cases to 1500 Cases Per annum	10000
	From 1501 Cases to 2000 Cases per annum	15000
	From 2001 Cases to 2500 Cases Per annum	18000
	From 2501 Cases & above per annum	20000
2.	Beer (₹ per BL)	
2.1	Bottling Fee-Own Brand	10
2.2	Bottling Fee- Other than own brand	11
2.3	Bottling fee for exports of BEER	3
2.4	Label registration fee on all BEER brands received at wholesale depots (January to December of Preceding year) per label per annum for Civil	
	Up to 2000 cases per annum	22000
	From 2001 Cases to 5000 Cases Per annum	44000
	From 5001 Cases to 10000 cases Per annum	66000
	From 10001 Cases to 20000 Cases Per annum	79200
	From 20001 Cases to 40000 cases per annum	104500
	From 4000 Cases to 70000 cases per annum	158400
	From 70001 Cases to 100000 cases per annum	211200
	From 100001 Cases & above per annum	290400
2.5	Label registration fee on all BEER brands received at wholesale depots (January to December of preceding year) per label annum for Defense.	
	Up to 500 Cases Per annum	5000
	From 501 Cases to 1000 Case Per annum	7500
	From 1001 Cases to 1500 Cases Per annum	10000
	From 1501 Cases to 2000 Cases Per annum	15000
	From 2001 Cases to 2500 cases Per annum	18000
	From 2501 Cases & above per annum	20000
3.	Bottling fee on C.S. in Glass bottle (₹ per bottle)	0.40
4.	EAL fee for each bottle/ Can of IMFL/ Beer/ CS (₹)	1.00

2.6 Import, Export, Transport and Vend Fee

Sl. No.	Category(Non-refundable)	Category wise Amount (in ₹)
1	Import fee on RS/ENA procured from outside the State(per BL)	8.50
2	Import fee on Ethanol/power spirit for blending in petrol(per BL)	0.39
3	Export fee on Rectified spirit /ENA(per BL)	5.30
4	Transport fee on Rectified spirit/ENA for preparation of IMFL/CS(per BL)(procured within the state)	7.30
5	Transport fee on Rectified spirit/ENA for purposes other than preparation of IMFL/CS(per BL).	9.70
6	Import/Export and Transport PASS fee on IMFL, Beer and CS per transport pass	120.00
7	Import/Export and Transport fee Denatured Spirit(per BL)	8.50
8	Import/Export and Transport fee for Methanol for industrial use(per BL)	5.85
9	Export fee on Beer(per BL)	3.00
10	Import fee on Beer(per BL)	15.00
11	Vend Fee on Beer imported into India from outside the country (per BL)	27.50
12	Export fee on IMFL (per BL)	3.00
13	Import fee on IMFL (per BL)	30.00
14	Vend Fee on Foreign Wine imported into India from outside the country (not bottled in India) per LPL	100 per LPL
15	Vend fee on FMFL except wine imported into India from outside the country(not bottled in India)Per LPL	250 per LPL + 40% of landed cost

- Import fee to be paid on the RS/ENA procured from outside the state for liquor production, whereas transport fee is to be paid only on RS/ENA procured from within the State.

2.7 License Fee for Lifting and Use of Molasses

Sl. No	Category : Units using Molasses for purposes indicated below (Non-refundable)	Category wise Amount (in ₹)
1	For other than distilleries i.e industrial uses	185000
2	Cattle feed	34500
3	Gudakhu and similar small scale purposes	53000
4	Trading for industrial purposes	926000
5	Storage, possession and sale by sugar industry	132000

2.8 Utilization Fee for Molasses

Sl. No.	Category (Non-refundable)	Category wise Amount (₹ per Tonne)
1	For Distillery	232
2	For Industrial and other purposes	265
3	Import fee(procured from outside the State)**	133
4	Export fee	90
5	Transport fee(procured from inside the state)**	36
6	Grains of any kind used for production of spirit & ENA	310

** Import Fee to be paid on the Molasses procured from outside the state, whereas transport fee is to be paid only on Molasses procured from within state.

2.9 Mohua Flower Storage

Sl. No	Storage in quintals (non-refundable)	Category wise Amount (₹ per quintal)
1	Up to 500 quintals	8730
2	501 to 1000	17460
3	1001 to 2001	35000
4	2001 to 5000	69300
5	More than 5000	87290

2.10 Mohua Flower Storage fee for M.F traders

Sl. No.	Storage in quintals (non-refundable)	Category wise Amount (₹ per quintal)
1	Up to 500 quintals	15000
2	501 to 1000	25000
3	1001 to 2001	50000
4	2001 to 5000	85000
5	More than 5000	120000

2.11 Mohua Flower: Utilization, Export, Import and Transportation

Sl. No	Category (Non-refundable)	Category wise Amount (₹ per quintal)
1	Utilization fee per quintal of Mohua Flower	570
2	Mohua export fee	178
3	Mohua transportation fee(procured from inside the state)*	27
4	Mohua transportation fee outside state	18
5	Mohua import fee (procured from outside the state)*	27

* Import fee to be paid on the Mohua flower procured from outside the state, whereas transport fee is to be paid only on Mohua flower procured from within the state.

2.12 Mohua Flower: Utilization, Export, Import and Transportation for M.F traders

Sl. No	Storage in quintals (Non-refundable)	Category wise Amount (₹ per quintal)
1	Mohua export fee	300
2	Mohua transportation fee (procured from inside the state)*	50
3	Mohua transportation fee outside state	35
4	Mohua import fee (procured from outside the state)*	45

2.13 Wholesale License fee

Wholesaler has to pay an annual non-refundable fee of ₹1 crore towards wholesale license fee.

2.14 Depot License fee for wholesale trade

Sl. No	Storage in quintals (Non-refundable)	Category wise Amount (₹ in lakh per Annum)
1	Wholesale Depots with IMFL & BEER storage facility only (without country spirit)	15
2	Wholesale Depots with IMFL & BEER & Country Spirit storage facility	25

3.1 EXCISE DUTY

Excise duties on various products will be as mentioned below for the year 2017-18.

3.1.1 BEER CIVIL

Sl No.	Category of BEER	Strength	Excise Duty = Specific Component × BL + Ad Valorem	
1	Beer (Bottled & Canned)	Up to 5% v/v	20	52.5%
		Above 5% v/v	20	52.5%
2	Beer (Draught/ Bulk	Up to 5% v/v	20	52.5%
		Above 5% v/v but below 8% v/v	20	52.5%
3.	Draught Beer for sale in a Micro Brewery	Up to 5% v/v	20	52.5%
4.	Draught Beer supplied through OSBC in Cask/ Keg for sale in Beer Parlor & IMFL ON shops	Up to 5% v/v	20	52.5%
		Above 5% v/v But below 8% v/v	20	52.5%

3.1.1 Low Alcoholic Beverages (LAB)

Sl No.	Category	Strength	Excise Duty= Specific Component × LPL + Ad Valorem	
			Specific Component (₹ per BL)	Ad valorem Component (₹ as% on landing Cost)
1	Low Alcoholic Beverages like Breezer etc.	Up to 5% v/v	20	52.5%
2	Low Alcoholic Beverages like Electra etc.	Above 5% v/v but below 8% v/v	20	52.5%

3.1.2 IMFL (Including FMFL & WINE- CIVIL

Sl. No.	Category	Strength	Excise Duty= Specific Component × LPL+ Ad Valorem	
			Specific Component (₹ per LPL)	Ad valorem Component (₹ as% on landing Cost)
1	Indian made Whisky, Gin, Rum, Brandy & Vodka	75	280	54.5%
2	Whisky Gin, Rum, Brandy and Vodka imported in bulk & bottled in India	75 to 80	280	54.5%
3	Wine Imported in bulk and bottled in India	12 to 36	150	42%
4.	India Made Wine	12 to 36	50	42%

3.1.3 IMMFL/ FMFL/ Wine/ Beer Supplies to Troops and Military Bodies

Sl No.	Category	Strength	Excise Duty= Specific Component × LPL+ Ad Valorem	
			Specific Component (₹ Per LPL/BL)	Ad valorem Component (₹ as % on landing Cost)
1	India made Whisky Gin, Brandy & Vodka	75	150	54%
2	FMFL	75	200	42.5%
3	India made Rum	75	120	54%
4.	India made Rum Wine	12 to 36	30	21%

5	India made Beer	Up to 5% v/v	10	40%
		Above 5% v/v but below 8% v/v	20	50%

(a) Vend fee on Foreign wine imported into India from outside the country (not bottled in India) ₹75/- per LPL.

(b) Vend Fee on Foreign Beer imported into India from outside the country ₹ 25/-per BL.

IMFL/ FMFL/ Wine/ Beer brand labels registered from supply to Troops and Military bodies (i.e Defense sale) shall be exempted from VAT and TCS.

3.1.4 Excise Duty on Country Spirit

Sl No.	Category of IMFL	Strength	Excise Duty= Specific Component × LPL+Ad	
			Specific Component (₹ per BL)	Ad valorem Component (₹ as% on landing Cost)
1	Country Spirit	40 Up	10	50%

3.1.5 Excise Duty on Country Others

Sl No.	Category of IMFL	Strength	Excise Duty= Specific Component × LPL + Ad	
			Specific Component (₹ per BL)	Ad valorem Component (₹ as% on landing Cost)
1	Bhang		440 (Per Kg)	NIL
2	DS supplied to agencies other than Government organization within the state		7.70	NIL
3.	Liquor Cordial imported in bulk and bottled in India	60	250	NIL

3.2 Additional Excise Duty

As was the case in the previous Excise policy, the liquor prices in the State would be rounded off to the next ₹ 5 in order to make case transactions convenient at the retail outlets, The Excise Department would charge the additional Rounding off Excise Duty only where required in order to ensure that the liquor prices are rounded off to next ₹5 This additional license fee shall be a part of M RP build-up and would be included in wholesale issue price at which lifting from wholesale depot is made The wholesales would transfer this amount periodically to the excise Department.

THE EXCISE DUTY ON ENA BASED CHEAP LIQUOR

Sl. No	Category of liquor	Strength	Excise Duty = Specific Component × LPL+ Ad valorem	
			Specific Component (₹ per LPL)	Ad-valorem Component (₹ as % on landing cost)
1	ENA based cheap liquor	50° UP	100	50%

1. The license fee for production and bottling of ENA based cheap liquor shall be ₹ 20.00 lakh.
2. The bottling fee shall be ₹ 13/- & ₹ 16/- for own brand and other than own brand respectively.
3. The Wholesaler & Retailer margin shall be 0.1% of the landing cost & 18% of the Wholesale issue price & VAT respectively.
4. The EAL fee shall be charged @₹1/- per bottle.

PROVISION FOR REGISTRATION/ AGREEMENTS

Since registration of agreement on premises for vending of liquor under Section- 17 of the Indian Registration Act, 1908 is posing a major bottleneck for finding suitable sites for operation of liquor shops, the licensees are given the option for submitting agreements without registration with the land owner to avoid closure of shop under compelling circumstances. However in such circumstances, the licensees/ EPH shall have to pay **₹25000/-** for exercising this option.

TEMPORARY LICENSE

Temporary license for consumption of liquor in the premises shall be granted by the District Collectors after prior approval of Excise Commissioner with fee as prescribed below.

- Up to 500 persons per days- ₹ 10000/-
- 501 to 1000 persons per day- ₹ 20000/-
- 1001 to above persons per day- ₹ 30000/-

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ANNEXURE-II

Amendment and Notification for M & TP Act, 1955

(Referred to in para 11.5)

1. In the Finance Act, 2000, amendments were made in the Medical and Toilet Preparations Act, 1955 (M&TP Act), to replace the existing Schedule so as to change all the rates of duty to ad valorem. A provision was also made enabling the Central Government to notify Retail Sale Price (RSP) based assessment in respect of specified goods where RSP is required to be declared. The said amendments were to come into force from an appointed date to be notified. 1st March, 2003 has been appointed as the date on which the said amendments shall come into effect.

(Notification No. 1/2003-M&TP, dated 1.3.2003)

2. The effective rates of duty on different categories of medicinal preparations and toilet preparations will now be as follows:-

Sl. No.	Description	Rate of duty
1.	(a) Allopathic medicinal preparations containing alcohol, narcotic drug or narcotic (b) Ayurvedic/Unani/Indigenous system medicinal preparations not containing alcohol but containing narcotic drug or narcotic. (c) Toilet preparations containing alcohol, narcotic drug or narcotic.	16%
2.	Ayurvedic/ Unani/ Indigenous system medicinal preparations containing alcohol which are prepared by distillation or to which alcohol has been added.	6%
3.	(a) Ayurvedic/ Unani/ Indigenous system medicinal preparations containing self-generated alcohol capable of being consumed as ordinary alcoholic beverages. (b) Homoeopathic preparations containing alcohol.	4%
4.	Ayurvedic/ Unani/ Indigenous system medicinal preparations containing self-generated alcohol not capable of being consumed as ordinary alcohol beverages.	Nil

(Notification No. 2/2003-M&TP, dated 1.3.2003)

3. Toilet preparations containing alcohol, narcotic drug or narcotic have been notified for retail sale price based assessment and the abatement being allowed will be 40% of the retail sale price. (Notification No. 3/2003-M&TP, dated 1.3.2003).

The Finance Act, 2000

(5) In sub-heading No. 2403.15 for the entry in column (4), the entry “₹400 per thousand” shall be substituted.

(6) In sub-heading No. 2403.19 for the entry in column (4), the entry “₹495 per thousand” shall be substituted.

(7) In sub-heading Nos. 5802.51, 5803.00, 5804.11, 5804.12, 5901.10 and 5901.90, for the entry in column (4) occurring against each of them, the entry “8%” shall be substituted.

THE SIXTH SCHEDULE

(See Section 115)

In the Medicinal and Toiler Preparations (Excise Duties) Act, 1955, with effect from such date as the Central government may, by notification in the Official Gazette appoint for the “SCHEDULE”, the following shall be substituted, namely:-

THE SCHEDULE

[See Section 3]

Item No.	Description of dutiable goods.	Rate of duty.
(1)	(2)	(3)
	<u>Medicinal preparations</u>	
1.	Allopathic Medicinal Preparations:	
	(i) Medicinal preparations containing alcohol which are not capable of being consumed as ordinary alcoholic beverages-	
	(a) Potent or proprietary medicines	20% ad valorem
	(b) Others	20% ad valorem
	(ii) Medicinal preparations containing alcohol which are capable of being consumed as ordinary alcoholic beverages-	
	(a) Medicinal preparations which contain known active ingredients in therapeutic quantities.	20% ad valorem
	(b) Others	20% ad valorem
	(iii) Medicinal preparations not containing alcohol but containing narcotic drug or narcotic.	20% ad valorem

Item No.	Description of dutiable goods.	Rate of duty.
(1)	(2)	(3)
2.	Medicinal preparation in Ayurvedic, Unani or other indigenous systems of medicine-	
	(i) Medicinal preparations containing self generated alcohol which are not capable or being consumed as ordinary alcoholic beverages.	4% ad valorem
	(ii) Medicinal preparations containing self generated alcohol which are capable of being consumed as ordinary alcoholic beverages.	4% ad valorem
	(iii) All other containing alcohol which are prepared by distillation or to which alcohol has been added.	6% ad valorem
	(iv) Medicinal preparations not containing alcohol but containing narcotic drug or narcotic.	20% ad valorem.
3.	Homeopathic preparations containing alcohol	4% ad valorem
	<u>Toilet preparations.</u>	
4.	Toilet preparations containing alcohol or narcotic drug or narcotic	50% ad valorem.

156 [Act 11]

A.I.R

The Appropriation (No. 2) Act, 2000

Explanation-I – “Patent or proprietary medicines” means any medicinal preparation which bears either on itself or on its container or both, a name which is not specified in a monograph in a pharmacopoeia, formulary or other publications notified in this behalf by the Central Government in the Official Gazette, or which is a brand name, that is, a name or a registered trade-mark under the Trade and Merchandise Marks Act, 1958 (43 of 1958), or any other mark such as a symbol, monogram, label, signature or invented words or any writing which is used in relation to that medicinal preparation for the purpose of indicating or so as to indicate a connection in the course of trade between the preparation and some person having the right either as proprietor or otherwise to use the name or mark with or without any indication of the identity of that person.

Explanation-II – Where any article is chargeable to duty at a rate dependent on the value of the article, such value shall be deemed to be the value as determined in accordance with the provisions of Section 4 of the Central Excise Act, 1944 (1 of 1944).

Explanation-III – (1) Notwithstanding anything contained in Explanation-II, the Central Government may, by notification in the Official Gazette specify any

dutiable goods in relation to which it is required under the provisions of the Standards of Weights and Measures Act, 1976 (60 of 1976) or the rules made thereunder or under any other law for the time being in force, to declare on the package thereof the retail sale price of such goods, to which the provisions of Clause (2) shall apply.

(2) Where dutiable goods specified under Clause (1) are chargeable to duty with reference to value then, notwithstanding anything contained in Explanation-II, such value shall be deemed to be the retail price declared on such goods less such amount of abatement, if any, from such retail price as the Central Government may allow by notification in the Official Gazette.

(3) The Central Government may, for the purpose of allowing any abatement under Clause (2), take into account the duty of excise, sales tax and other taxes, if any payable on such goods.

(4) Where on the package of any dutiable goods more than one retail sale price is declared, the maximum of such retail sale price shall be deemed to be the retail sale price for the purposes of Clause (2).

(5) Where different retail sale prices are declared on different packages for the sale of any dutiable goods in packaged form in different areas, each such retail sale price shall be the retail sale price in the purposes of valuation of the dutiable goods intended to be sold in the area to which the retail sale price relates.

(6) For the purpose of this Explanation, “retail sale price” means the maximum price at which the excisable goods in packaged form may be sold to the ultimate consumer and includes all taxes local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertisement, delivery, packing, forwarding and the like, as the case may be, and the price is the sole consideration for such sale.

THE APPROPRIATION (NO. 2) ACT, 2000

[ACT NO. 11 OF 2000]

{12th May, 2000}

An Act to authorise payment and appropriation of certain sums from and out of the Consolidated Fund of India for the services of the financial year 2000-2001.

[Test of the Act is not printed here]

1st March, 2003**Notification No. 1/2003-M&TP**

In exercise of the powers conferred by Section 115 of the Finance Act, 2000 (10 of 2000), the Central Government hereby appoints the 1st day of March, 2003 as the date on which the provisions of the said section and the Sixth Schedule to the said Finance Act shall come into force.

Alok Shukla

Deputy Secretary to the Government of India

F. No. 334/1/2003-TRU

1st March, 2003**Notification No. 2/2003-M&TP**

In exercise of the powers conferred by rule 8 of the Medicinal and Toilet Preparations (Excise Duties) Rules, 1956, the Central Government, being satisfied that it is necessary in the public interest so to do, hereby exempts the dutiable goods of the description as specified in column (3) of the Table below, falling within the item No. of the Schedule to the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 (18 of 1955), as specified in the corresponding entry in column (2) of the said Table, from so much of the duty of excise leviable thereon under the said Schedule, as is in excess of the amount calculated at the rate specified in the corresponding entry in column (4) of the said Table.

Table

Sl. No.	Item No.	Description of dutiable goods.	Rate of duty.
(1)	(2)	(3)	(4)
1.	1	Allopathic Medicinal Preparations (i) Medicinal preparations containing alcohol which are not capable of being consumed as ordinary alcoholic beverages - (a) Patent or proprietary medicines (b) Others (ii) Medicinal preparations containing alcohol which are capable of being consumed as ordinary alcoholic beverages - (a) Medicinal preparations which contain known active ingredients in therapeutic quantities. (b) Others (iii) Medicinal preparations not containing alcohol but containing narcotic drug or narcotic.	16% ad valorem 16% ad valorem 16% ad valorem 16% ad valorem
2.	2	Medicinal preparations in Ayurvedic, Unani or other indigenous systems of medicine, containing self-generated alcohol which are not capable of being consumed as ordinary alcoholic beverages.	Nil
3.	2	Medicinal preparations in Ayurvedic, Unani or other indigenous systems of medicine, not containing alcohol but containing narcotic drug or narcotic.	16% ad valorem
4.	4	Toilet preparations containing alcohol or narcotic drug or narcotic.	40% ad valorem.

Alok Shukla

Deputy Secretary to the Government of India

1st March, 2003**Notification No. 3/2003-M&TP**

In exercise of the powers conferred by section 8 of the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 (18 of 1955), read with clause (1) of Explanation III of the Schedule to the said Act, the Central Government hereby specifies that the provisions of clause (2) of said explanation III shall apply to the dutiable goods of the description specified in column (3) of the Table below and falling within the item No. of the said schedule, specified in the corresponding entry in column (2) of the said Table and allows as abatement the percentage of the retail sale price as specified in the corresponding entry in column (4) of the said Table.

Table

Sl. No.	Item No.	Description of dutiable goods.	Abatement.
(1)	(2)	(3)	(4)
1.	4	Toilet preparations containing alcohol or narcotic drug or narcotic.	40%

Alok Shukla

Deputy Secretary to the Government of India

F. No. 334/1/2003-TRU

NOTIFICATIONNew Delhi, the 10th June 2003

No. 4/2003 – M&TP

G.S.R. 473(8) – In exercise of the powers conferred by rule 8 of the Medicinal and Toilet Preparations (Excise Duties) Rules, 1956, the Central government being satisfied that it is necessary in the public interest so to do hereby makes the following amendment in the notification of the Government of India in the erstwhile Ministry of Finance and Company Affairs (Department of Revenue) No. 2/2003-M&TP dated the 1st March 2003 (GSR 150(E) dated the 1st March 2003) namely,

In the said notification in the table after Sl. No. 3 and entries relating thereon the following shall be inserted namely –

(1)	(2)	(3)	(4)
3A	3	Homeopathic preparations containing alcohol	Rupees twenty per litre of pure alcohol content.

F. No. 356/15/2003-TRU

V. SIVASUBRAMANIAN

Deputy Secretary

ANNEXURE-III

ALLOCATION OF DUTIES AMONG PARTY PERSONNEL

The Senior Officer among the two Assistant Audit Officer/Section Officers of the party should normally remain in charge of the party. The allocation of work should be made as far as practicable in the following manner:-

Assistant Audit Officer-I

Preparation of allocation of duties among party personnel

- 1 Issue of information memos.
- 2 Settlement of paras in the previous I.Rs
- 3 General examination of settlement, case and licence fee registers.
- 4 Settlement of paras of previous TAN
- 5 Check of settlement files of IMFL, C.S. and O.S.
- 6 Review of the work done by Sr. Auditor
- 7 Helping the Senior Audit Officer/Audit Officer in drafting Inspection Report after collection of all POMs issued.
- 8 Taking part in the discussion of the Draft Inspection Report along with the Senior Audit Officer/Audit Officer.

Assistant Audit Officer-II

Check of settlement files on Bhang/Tadi.

- 1 Check of Demand, Collection and Balance Register.
- 2 Checking of licence fee register with challan register.
- 3 District Opium Account and Bhang Gola Account.
- 4 Checking of charge S.I. records.
- 5 Verification of challans with Treasury records.

Auditors

- 1 Copying of challans for the selected months.
- 2 Checking of leave account and Service Books.
- 3 Checking of D.C.B. and totalling of Cash Book, T.A. & L.T.C. claims etc.
- 4 Any other work as entrusted by the A.A.O./A.O.

Annexure-IV

(Referred to Para No. 16.4)

Sl.No.	Description	Details
1	Name of the Entity	
2	Period of audit	
3	Duration of audit	
4	Have the documents of the Entity(such as the Financial budgets/outcome budgets/ Results Framework Documents/Annual Report/New Policies and changes in policy, previous Inspection Reports/Performance Audits Reports conducted earlier etc.	
5	Have the documents and data from secondary sources(such as Reports of the State and Union Governments and of various Commissions/Census data/Statistics put out by Government/NSSO data/digitized data available in data. Government in, VLC data, Beneficiary data (if applicable) etc. and other sources like media reports, research reports, academic reports etc.) been desk reviewed.	
6	Potential risk/focus areas that emerge of the review conducted as at (4) and (5) above	
7	List the audit objective that are intended to be pursued both on regularity and propriety aspects	
8	Summarise the planned scope of audit	
9	Audit procedures that are intended to be applied (review of records physical verification, joint inspections, external evidence collection etc.)	
10	Broad Assignment Plan for each party member	
11	Other remarks	

Senior Audit Officer/Audit Officer

Group Officer

ANNEXURE -V**(Referred to Para No. 16.6)****TITLE SHEET**

(TO BE SUBMITTED ALONG WITH DRAFT INSPECTION REPORT)

	PART A Summary of audit results	
1.	Name of the organisation audited	
2.	Name of party personnel	
	(i) Sr. Audit Officer/Audit Officer (ii) Assistant Audit Officer/Supervisor (iii) Sr. Auditor/Auditor	
3.	Period of Audit	
4.	Date of commencement and completion of audit (Extension of time, if any, granted may be separately included)	
5.	Whether Entry Conference was held with the Audited Entity? If yes, enclose Minutes/Record of discussions. If no, provide reasons.	
6.	Number of potential paras (drawing reference to Para Nos) included in Part-II A of the Inspection Report	
7.	Number of paras (drawing reference to para nos) relating to fraud or misappropriation, presumptive fraud and leakage of revenue etc.	
8.	Paras relating to persistent irregularities etc. that need to be brought to the notice of HOD through Management Letter	
9.	Briefly mention the challenges faced during audit (Non-production of records, Manpower or resources constraints, scope limitation etc.) and how they were addressed during the course of audit.	
10.	Suggestions for overcoming such challenges in future audits	
11.	Whether Exit Conference was held and draft Inspection Report discussed with the Head/Nodal Officer of the Audited Entity. If no, reasons may be indicated	Minutes as per Annexure-A to be enclosed
12.	Date of submission of Draft inspection Report and all working papers to Hqrs. (May be submitted within a period of 7 working days from the date of conclusion of audit)	
13.	Reasons for delay in submission of Draft IR etc. to Hqrs. with reference to the allotted time period, if any.	
14.	General remarks, if any.	

SL. NO.	Part B (Details of audit process followed)				
1	Whether the allocation of duties amongst each member of the Audit Team (SAO/AO/AAO/Sr.Auditor/Auditor) was prepared in line with the planned broad assignment plan and acknowledged by the respective party members? If no, reasons for justification may be provided.			Allocation of duties as per Annexure-B to be enclosed	
2.	Sampling method adopted (Use as many rows as needed)			List of Files/vouchers/other documents reviewed may be enclosed)	
	Section/Wing being audited	Nature of document	Not selected for review	Percentage of selection	Sample method adopted
	Purchase/works/ Establishment etc.	File vouchers	Indicate actual number selected	(Indicate percentage of each category)	Random/ Stratified/ Judgmental
3.	Whether focussed areas identified and procedure applied were as planned (with reference to the plan as approved by Group Officer before commencing the audit). If no, reasons and justification may be provided.				
4.	Whether all issued marked for examination by Group Officer on supervision/Hqrs. section have been addressed			Compliance to Group Officer comments on supervision to be enclosed as per Annexure-C .	
5.	Whether all works assigned as per allocation of duties were completed. If so, provide whether the reasons and justifications are provided.			Certificate as per Annexure-D to be enclosed.	
6.	Briefly indicate the potential focus areas for next audit				
7.	Whether daily diaries indicating the documents/records checked by team members of the Audit Team have been prepared, signed and enclosed?			Daily diary as per Annexure-E to be enclosed for each member	
8.	Whether a certificate of obtaining sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report has been provided?			Certificate as per Annexure-F to be enclosed.	
9.	Whether key documents have been referred in the para and the source of evidence been provided as footnotes?				
10.	Please indicate the position of outstanding paras of previous Inspection Reports.				
	Period of Inspection Reports	No. of paras outstanding (Opening)		No. of paras outstanding (Closing)	Reasons for the paras remaining outstanding
11.	Whether a certificate that the audit was conducted in accordance with the CAG;s Auditing Standard 2017 has been provided			Certificate as per Annexure-F to be enclosed.	
12.	Whether a certificate that the audit party has compiled with the Audit Quality Framework and Code of Ethics has been provided?			Certificate as per Annexure-F to be enclosed.	
				Sr. Audit Officer/Audit Officer	

ANNEXURE-A**Sample Format of Minutes/Record of Discussions at the conclusion of Audit**

Minutes of the Minutes held on _____ to discuss audit observations to be included in the draft inspection Report for the period _____ relating to the Ministry of _____/Audited Entity_____.

Present:

From Ministry's Side	From Audit side

(Note:- The minor and procedural irregularities which were noticed during the course of audit have either been settled on spot after taking assurance from the auditee or have been issued to the Ministry in the shape of Test Audit Note).

The audit observations were discussed in detail and necessary clarifications, wherever sought, were given from the Audit side.

It was pointed out by Audit that initial replies from the Ministry in respect of _____ audit observations were still awaited and the same may be furnished on priority. In response, the Ministry assured to send the replies at the earliest possible.

The meeting ended with vote of thanks.

Signature	Signature
(Name & Designation)	(Name & Designation)
From Ministry's Side	From Audit Side

Annexure-B**Proforma for Duty list of each member of the Audit Team**

Duties assigned	Noted and signed (Acknowledgement)
SAO/AO: Name 1.	
AAO/Supervisor : Name 1. 2.	
Sr. Auditor/Auditor: Name 1. 2.	

Annexure-C**Follow up of supervision by the Group Officer**

Name of the Audited Entity	Date of Supervision	Comments/Queries of the Group Officer	Action taken by the Audit Team on Comments/Queries

Annexure-D**Certificate at the conclusion of Audit**

We have examined all the issues as per the duty list (except the following) and necessary audit observations based on audit scrutiny, have been issued.

Sl. No.	Brief particulars of the issues which could not be seen in audit	Reasons therefore [non availability of records, time constraints, shortage of manpower, other constraints/reasons] etc.
1		
2		

Sr. Audit Officer/Audit Officer

Annexure-E**Daily Diary of each member of the Audit Team**

Date	Brief details such as file number, item of work done, records seen and examined etc.

(Signature)**(Name of the Officer & Designation)****Annexure-F****Certificate**

It is certified that:

- (a) sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report have been obtained and have been submitted along with the Draft Inspection Report
- (b) that the audit was conducted in accordance with the CAG's Auditing Standards 2017
- (c) the audit party has complied with the Audit Quality Framework and Code of Ethics

Sr. Audit Officer/Audit Officer

Annexure-‘G’

**Statement showing the classification principles for categorization of
Inspection Report paras**

Classification Principle	Category	Part-II A	Part-II B
a) Nature of Objection	1) Systemic issues	Systemic Issues: Systemic deficiencies/ weakness/deviations (other than issues that are only procedural) subject to materiality as per (b) below.	Systemic Issues: Procedural deviations that do not significantly impair process (es). outputs and outcomes
	2) Isolated cases	Isolated cases: Individual cases of deviation/violation and aberrations that relate to operational, functional and financial matters subject to materiality as per (b) below.	Isolated cases: Individual cases of deviation/violation and aberrations that relate to establishment, personnel, administrative and other miscellaneous matters.
(b) Materiality	1) Quantitative	Issues that are quantifiable (quantitative)-Materiality value has to be determined for each audited entity.	Cases of (a) above and those that ordinarily pertain to Part-II-A but are not material.
	2) Qualitative	Issues where materiality is determined by context (Qualitative)-Materiality has to be determined based on professional Judgment after considering various factors that are enumerated in Compliance Auditing Guidelines (para 5.11).	However, cases that can be classified as trivial need not be reported.
(c) Fraud and misappropriation, presumptive fraud, Leakage of revenue	NA	All cases to be taken as Part-II-A	NA

Matrix for grading the Inspection Reports

Sl. No	Process Parameter	Allocated score	Scoring methodology	References Compliance Auditing Guidelines
1	Planning	30		Chapter 4
1(a)	Desk review- Understanding the auditable entity			
	Review of guard file, data analysis and understanding internal controls. This should comprise review of both internal documents and external applicable data bases/data.	10	<p>This has two dimensions.</p> <p>Review of Internal documents (Max score-5): A comprehensive review of the entire range of available documents would yield the maximum score of 5 and a limited/restricted review would have to be correspondingly scored lower than 5.</p> <p>Review of internal documents include budgets-financial and outcome, rules/regulations, past audit findings etc.</p> <p>Review of relevant external databases Max (score-5): A comprehensive review of the entire range of available data/data sets/reports would yield the maximum score of 5 and a limited/restrictive review would have to be correspondingly scored lower than 5.</p> <p>Review of external data includes data analysis of relevant databases, reports/statistics of Government etc.</p>	Para 4.3, 4.10 to 4.15, 4.20 and Hqrs. guidelines on Data analytics and compliance audit
	Identification of potential risk/ focus areas	10	<p>This has two dimensions.</p> <p>Focus areas from past audits (Max score-5): Identification of persistent irregularities, systematic issues emerging from past audit findings would be scored based on the range of areas identified upto a maximum of 5.</p> <p>New focus areas (Max score-5): Identification of any new focus area(s) would yield a score of 5.</p>	

1(b)	Audit Plan- Planning audit procedures			
	Determination of scope of audit and Audit Objectives	05	Determination the scope and audit objectives duly approved by the Group Officer (as per the prescribed template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Para 4.6 to 4.8
	Deciding the assignment plan for team members, audit procedures and preparation of audit design matrix if applicable.	05	Deciding the assignment plan and broad audit procedure duly approved by the Group Officer (as per the envisaged template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Para 4.16 and 4.17
2	Conducting the audit	45		Chapter 5
2(a)	Findings and evidence			
	Extent of findings from identified risk/focus areas	25	<p>The score against this parameter would have to be determined on the basis of the percentage/rate of conversion of risk/focus areas identified (as at 1 (a) above) into findings in the Inspection Report. The specific findings from other than focus areas included in the Inspection Report would also be considered.</p> <p>(A) Clear cases of overpayments/wasteful or infructuous expenditure/leakage of revenue/revenue foregone or short-collected/frauds or presumptive frauds/ losses/ non-compliance with laws or rules/violation of contractual obligations/undue favour to contractors/service providers (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 25. If 60% of the paras fall in this category it would fetch a score of 15 i.e 60% of 25)- Max score-25).</p> <p>(B)Clear cases of idle investments/blocking of funds/delays in procurements, commissioning of equipment,</p>	Paras 5.10 to 5.14

			<p>project execution and diversion or mis-utilisation of funds (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 15. If 20% of the paras fall in this category it would fetch a score of 3 i.e 20% of 15) Max Score-15).</p> <p>(C)Procedural issues either not involving financial implications or having financial implications lower than materiality (scoring based on proportion of such paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 5. If 20% of the paras fall in this category it would fetch a score of i.e 20% of 5)- (Max score-5).</p> <p>In case of 'NIL', Inspection Reports, the conduct of audit has to be evaluated against the nature of the audited entity (high risk/medium risk/low risk) focus areas that have been pursued against applicable audit criteria. The scoring would be based on proportion of focus areas that were pursued vis-à-vis that were identified during planning stage and compliance to the envisaged audit process (if all areas were satisfactorily pursued against applicable audit criteria and the audit process was followed it would yield a full score of 25 else the score would have to be proportionately reduced).</p>	
	Extent of sufficient and appropriate Evidence (Key documents) obtained and evaluated.	10	<p>Part-II-A-(Max Score-8): The score against this parameter would have to be determined on the basis of the percentage of paras in the Inspection Report for which sufficient and appropriate evidence have been obtained and evaluated. (e.g. If the IR has 20 Part-II-A paras and full set of KDs (evidence) have been obtained for only 14 pars (70% of paras), this parameter</p>	<p>Paras 5.5, 5.6, 5.10 to 5.14</p>

			would fetch a score of 5.6 (70% of the maximum allocated score of 8). Part-II-B-(Max Score 2): The score against this parameter would be on similar basis as envisaged for Part-II-A paras above.	
2(b)	Documentation			Para 5.10 to 5.15
	Preparation of Audit file and documentation of working papers-Extent of field work done-	10	Preparation of Audit file comprehensively as envisaged in Compliance Auditing Guidelines and containing the audit strategy, scope and methodology, sample selection, audit procedures applied. Audit Design and Audit Findings matrices (where applicable) etc and documenting the working papers comprehensively as envisaged in Compliance Auditing Guidelines and detailing the extent of work done, contracts/agreements examined etc would yield the full score of 10. The score against this parameter would have to be proportionately reduced based on the extent of gaps in documentation observed during the process of vetting the IR. This is applicable for NIL IRs also.	
3	Reporting	25		Chapter-6
3(a)	Drafting and presentation			
	Drafting quality	05	The score against this parameter would have to be determined on the basis of extent of revision that was necessary while vetting the IR. This is not applicable for NIL I`	Para 6.5 and Hqrs. Guidelines
	Appropriate classification of paras into Part-II-A and Part-II-B	05	The score against this parameter would have to be determined on the basis of the proportion of paras that were incorrectly classified to the total paras (e.g if two out of six paras in the IR were incorrectly classified (which had to be rectified during vetting process) i.e 30% incorrectly classified and 70% correctly classified, the score to be awarded would be 3.5 (70% of the total score). This is not applicable for NIL I`	Guidelines issued by Hqrs.

	Mortality of paras	05	The score against this parameter would be determined on the basis of percentage of paras retained (number of paras retained with reference to total paras in Draft IR) during the vetting process, i.e if 80% of the paras have been retained, the score to be awarded would be 4 (80% of the total score). This is not applicable for NIL I'	
3(b)	Timeliness			Para 6.4
	Submission of Draft IR	05	Despatch of Draft IR/emailing the Draft IR promptly (7days) would yield the full score of 5, which would be proportionately reduced for delays as under: Delay upto five days: 4 Delay upto seven days : 3 Delay upto Nine days: 2 Delay upto 12 days : 1 Delay > 12 days : 0 This would apply to NIL IR also.	
	Issue of IR	05	Issue of IR promptly within in the specified time (30 days) would yield the full score of 5, which would be proportionately reduced for delays as under: Delay upto five days: 4 Delay upto one week : 3 Delay upto 10 days : 2 Delay upto two weeks: 1 Delay > two weeks : 0 This would apply to NIL IR also.	
	Total	100		

IR Grading

Score of IR	Less than 25	26-30	31-35	36-40	41-45	46-50	51-60	61-70	71-80	81-90	91-100
IR Grade	0	1	2	3	4	5	6	7	8	9	10

Annexure-VI

INTOSAI

Guidelines for Internal Control Standards Issued by Internal Control Standards Committee International Organisation of Supreme Audit Institutions June 1992

Overview of Internal Control Concepts, Objectives, and Standards

1. Internal control is a management tool used to provide reasonable assurance that management's objectives are being achieved. Therefore, responsibility for the adequacy and effectiveness of the internal control structure rests with management. The head of each governmental organisation must ensure that a proper internal control structure is instituted, reviewed, and updated to keep it effective.
2. The Supreme Audit Institution also has a responsibility for ensuring adequate internal control. It should encourage and support:
 - the establishment of detailed organizational internal control structures for each governmental unit based on the standards presented in this document; and
 - a review of that structure to assure that the controls are working as intended and are adequate to achieve the desired results.
3. As they are ultimately responsible for the adequacy of the internal control structure and its implementation, it is important that managements of all organizational units within government understand the nature of the internal control structure and the objectives internal controls are to achieve. An internal control structure is defined as the plans of an organisation, including management's attitude, methods, procedures, and other measures that provide reasonable assurance that the following general objectives are achieved.
 - promoting orderly, economical, efficient, and effective operations and quality products and services consistent with the organisation's mission;
 - safeguarding resources against loss due to waste, abuse, mismanagement, errors, and fraud and other irregularities;
 - adhering to laws, regulations, and management directives; and
 - developing and maintaining reliable financial and management data and fairly disclosing that data in timely reports.
4. The following standards form the framework for an internal control structure and have been categorized as general standards and detailed standards:

General Standards

Reasonable Assurance: Internal control structures are to provide reasonable assurance that the aforementioned general objectives will be accomplished.

Supportive Attitude: Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.

Integrity and Competence: Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to understand the importance of developing, implementing, and maintaining good internal controls and to accomplish the general objectives of internal controls.

Control Objectives: Specific control objectives are to be identified or developed for each activity of the organisation and are to be appropriate, comprehensive, reasonable, and integrated into the overall organizational objectives.

Monitoring Controls: Managers are to continually monitor their operations and take prompt, responsive action on all findings of irregular, uneconomical, inefficient, and ineffective operations.

Detailed Standards

Documentation: The internal control structure and all transactions and significant events are to be clearly documented, and the documentation is to be readily available for examination.

Prompt and Proper Recording of Transactions and Events: Transactions and significant events are to be promptly recorded and properly classified.

Authorization and Execution of Transactions and Events: Transactions and significant events are to be authorized and executed only by persons acting within the scope of their authority.

Separation of Duties: Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions and events should be separated among individuals.

Supervision: Competent supervision is to be provided to ensure that internal control objectives are achieved.

Access to and Accountability for Resources and Records: Access to resources and records is to be limited to authorized individuals who are accountable for their custody or use. To ensure accountability, the resources are to be periodically compared with the recorded amounts to determine whether the two agree. The asset's vulnerability should determine the frequency of the comparison.

5. These standards would be applicable to all governmental organizational units. They can be viewed as the minimum acceptable standards that organisations follow when instituting internal controls and provide criteria for auditors when auditing the internal control structure.

6. The standards presented here are not new ideas. Many of them are currently incorporated in government operations. Their presentation as a framework, however, may be new. The remainder of this document discusses in greater detail the definition and limitations of internal control, the standards of internal control, the establishment of the framework for internal controls, and the implementation and monitoring of internal control structures.

Guidelines on Internal Control System

I. Objectives

1. Does the organisation have a statement defining its objectives clearly and in specific terms?
2. Whether the objectives can be identified from the policy guidelines issued by the management where there is no written statement of objectives?
3. Whether the broad objectives broken down into detailed targets periodically by way of plans? Whether separate targets for each responsibility center are formulated?
4. Whether the objectives are being revised periodically in the light of changes in internal and external environment?
5. Whether the objectives are expressed in specific quantitative terms i.e. rate of return, physical output or quantum of service etc.
6. Whether the guidelines in terms of policies in the area of management are clear-cut.

II. Planning.

- 1 Whether the organisation have a system of long range and short range planning?
- 2 Whether planning is viewed as the starting point of the management function. Whether the planning is related to the objectives of the organisation?
- 3 What is the degree of involvement of various levels of management in the planning process?
- 4 Whether the operating plans are being prepared periodically and expressed in quantitative terms for each area of operations?
- 5 How are the budgets are framed? Whether the budgeting is a coordinated activity?
- 6 How the budget estimates developed?
- 7 Whether the budget estimates are reviewed by a high level committee in depth?

- 8 Whether it is prepared, scrutinized and approved sufficiently before budget period?
- 9 Whether the budget conveyed to all operational levels in time and it is easily understandable?
- 10 How far the functional managers committed to the targets set up in the budget?

III. Organisation

1. Whether the company have a well-defined organizational structure and an organizational chart has been prepared?
2. What are the various levels in the organizational hierarchy. Whether the authority and responsibility are clear? Whether there is a position where a person reports to two or more authorities?
3. Whether the principles of formal organisation are being followed?
4. What is the managerial philosophy in the organisation? Whether the decision making is centralized or decentralized?
5. What is usual span of supervision?
6. What is nature of superior – subordinate relationship in general? Whether the authority patterns fraternal in nature?
7. How do the various managers view people at work?
8. What is the system of motivation in the organisation? Whether the motivation is performance based?
9. Whether the distribution of work is done as per the modern theories of organisation? Whether there is too much specialization?

IV. Control

1. What is the philosophy of control? Whether the controls are close, detailed and frequent. They are broad and periodic?
2. Whether there is a list of active and identifiable controls? Whether the controls are physical or monetary or both?
3. Whether the control related to plans?
4. What are the main parameters of controls? Whether these are defined precisely for each responsibility areas?
5. Whether the controls highlights variances between actual performance and targets?
6. Whether the controls are acceptable to various levels of management?
7. Whether there is system of rewards and punishment linked with controls?

8. Whether the cost of each control has been worked out and ensured that cost does not exceeds the benefits?
9. Whether the controls are reviewed periodically and inactive controls are eliminated? What is the procedure for altering or terminating controls?
10. What is the detailed system of operational control over various assets and transactions of the organisation?
11. What is control system over such, bad debts, fixed assets, pay roll, inventory levels, research and development, overtime, tax-payment, obsolescence and collection of sundry debtors?

I. System and Procedures

1. Who is responsible for designing system? Whether the department responsible for it is adequately manned with qualified people?
2. Whether there are proper descriptions, flow charts and manuals showing various systems?
3. Whether the system related to the changing technology and environment of the business and whether there is a system of periodic review?
4. Whether the systems properly explained to various people before they are put in operation? What other steps are taken to meet the usual resistance to a new system?
5. Whether there is a periodic review of cost benefit or a particular system?
6. What are the various forms in use? Whether they are designed to give proper information with minimum efforts?
7. What are the steps taken to reduce the paper work?
8. Whether the routing of various forms and statements periodically reviewed keeping in view the need for information at various levels and possibility of delays?
9. Whether the filing and storage procedure for various documents properly laid down? Is there a definite system for automatic disposal of documents?
10. Whether the organisation has a computerised information system? Whether its cost effectiveness, need for creation of necessary knowledge and motivation levels have been considered?
11. Whether there is periodic review of efficacy of computerised system in the context of developments in technology?

VI. Accounting and Finance

1. What is the role of accounting and finance department in overall management structure? Whether it is properly staffed with qualified persons? What is its relationship with other departments?

2. Whether the organisation have a proper system of financial accounts and cost accounts? Are the two integrated or separate?
3. Whether the financial accounting system is efficient? How regularly the trial balance is prepared and how much time it takes in preparing the final accounts after annual closing?
4. How effective is the internal control checks in the accounts department? Whether the system have been designed to minimize the possibility of errors, frauds and mis-appropriations? What are the control on flow of cash, goods and documents?
5. Whether the manuals and flow charts exists describing various accounting procedures and they are reviewed periodically?
6. Whether there is in an internal audit department and how the reports of internal auditors are dealt with?
7. Whether the costing systems suited the needs of the department?
8. Whether standard costs been determined? Whether they are developed on the basis of time, motion and work studies?
9. Whether the cost statements are prepared in time and reviewed periodically?
10. What is the system of budgetary control? How are the variance between actual figures and budget figures dealt with?
11. What are the basis of allocation, apportionment and absorption or overheads? Are they fair and objective?
12. Whether the costs are classified by their nature and the cost department use the technique of marginal costing for profit planning?
13. Whether the future requirement of funds estimated periodically? Are the projections related to the planned level of activities?
14. Whether the capital structure designed keeping cost and risk factors in mind?
15. What is the cost of the capital? How does it compare with that of other similar units?
16. Whether detailed financial analysis conducted before funds are committed for capital expenditure?
17. Whether working capital requirement properly analysed? Are they related to the changes in the level of activities?
18. Whether the policies regarding credit, stocks and cash etc. are reviewed periodically to keep the working capital at the optimum level?
19. How the working capital financed?

- 20.** How the cash management organized? Is it centralized? How do various segments of organisation receive adequate cash?
- 21.** Whether there is a constant watch on the solvency and liquidity of the organisation? Whether ratios are computed periodically to ensure that the organisation earns an optimum return on investment while maintaining a sound financial health?
- 22.** How does the return on investment of the organisation compare with that of other similar organisations?
- 23.** What is the system of financial control? Whether the various divisions appraised on the basis of their financial results.

ANNEXURE-VII**Office of the Comptroller and Auditor General of India, New Delhi****No. 1167-Rep(S)/237-2003****Dated: 03 September 2003**

To

All Principal Accountants General (Audit),

All Accountants General (Audit),

Principal Director of Audit (Central), Mumbai.

Subject: Evaluation of Internal Control System and Internal Audit Arrangement in Government Departments.

Sir/Madam,

In continuation of my DO letter No. 1158-Rep(S)/237-2003 dated 01 September 2003 on the above subject I am to state that from the Audit Report 2003-04 onwards the Integrated Audit of a department shall include a section on "Internal Control System and Internal Audit Arrangement".

While Chapter-20 of the Manual of Standing Orders (Audit) – Second Edition-2002, as a part of Systems Audit provides general principles of such an evaluation, a more detailed guidelines in this subject is enclosed for your use.

Kindly acknowledge the receipt of this letter.

Yours faithfully,

Sd/-

(R.B. Sinha)**Principal Director (RS)****Encl: As above.**

Evaluation of Internal Control Mechanism and Internal Audit System

As an external auditor of Government entities, the CAG is required to make an assessment of the effectiveness of the internal audit arrangements in Government Departments. Though the responsibility for internal audit resides with the department, the responsibility for reviewing the adequacy of internal control mechanism including internal audit lies on us.

Concept of Internal Control Mechanism and Internal Audit

Internal Control is an integral part of an organization's operation and is the principal focus of the **Internal Audit's** attention.

Internal Control Mechanism with reference to financial matters like maintenance of cash book, custody of cash, expenditure control, budgetary control, control at the Treasury level, reconciliation of expenditure with those in the books of the Accountant General, etc., maintenance of stores and stocks, custody of valuable assets, purchases, execution of schemes/works/projects etc. are laid down in departmental rules and manuals. Adherence to these rules and manuals reasonably provide assurance to the department about compliance of applicable rules thus achieving reliability of financial reporting, effectiveness and efficiency of department's operations. These controls exist within the department to safeguard against errors, irregularities in operational and financial matter besides ensuring sound accounting and financial reporting.

Internal Auditors shall, as an independent entity within or outside the department, examine and evaluate the level of compliance to the departmental rules and procedures, and in the aggregate, provide independent assurance to senior management on the adequacy of the risk management and internal control framework for the department.

Guidelines

Source documents: The important source documents that will form the basis of audit scrutiny to evaluate the adequacy of Internal Control Mechanism are as follows:

- (i) Budget rules/Manual
- (ii) General Financial Rules.
- (iii) Treasury Rules/Manual
- (iv) Departmental Accounts Manual
- (v) Delegation of Financial Powers.
- (vi) Technical manual if any relating to quality assurance
- (vii) Project/Scheme guidelines issued by the State Government and the Union Government in case of Central/Centrally sponsored schemes.
- (viii) Guidelines of external agencies in case of Externally Aided Projects.
- (ix) Any other departmental codes regarding purchases, Stores etc.
- (x) Government orders and instructions particularly those issued by the Finance Department.

Scope of Audit

Evaluation of Internal Control System shall be confined to adherence to various control measures envisaged in the Codes, Manuals, guidelines, instructions of the Government or any other external agencies. Auditors should, therefore, be careful in making observations on compliance aspects and risk assessment thereof rather than on bad spending, irregularities, unauthorized expenditure etc.

Components of Internal Control System to be seen in audit

I. Internal Controls of various Departments

A. Budgetary Control:

- (i) Preparation of Budget Estimates and timeliness of submission of the estimates to the higher authority.
- (ii) Expenditure without budget provision or excesses over budget provision
- (iii) Unnecessary drawal of funds to avoid lapse of budget provision
- (iv) Irregular drawal of advance from Contingency Fund
- (v) Surrender of Funds and reasons thereof.

B. Expenditure Control:

- (i) Maintenance of Cashbook by the DDOs, Physical verification of Cash. Periodical surprise check of cash, Bank Reconciliation Statements for moneys kept in Bank Accounts, Analysis of Monthly closing balance, Reporting of Theft/loss of cash and action taken thereon.
- (ii) Letter of Credit System introduced in various Departments
- (iii) Non-submission/Delayed submission of Detailed contingent Bills against AC Bills.
- (iv) Adequacy of security bond submitted by the person handling cash
- (v) Book of Drawals and Remittances to Treasuries, reconciliation with Treasury Officer's record.
- (vi) Submission of Expenditure Statement to the controlling officer, explanations for excess over budget allotment, if any.
- (vii) Purchase procedure, splitting up of purchase orders to avoid sanction of higher authority, unnecessary purchase to utilise the budget allotment.
- (viii) Rush of expenditure in the last quarter of the year particularly in the month of March.
- (ix) In case of DDOs in Public Works and Irrigation Departments, the responsibility of an Internal Auditor including Internal Control measures discharged by the Divisional Accounts Officer is to be seen with reference to Departmental code and related Accounts Code.
- (x) In case of DDOs in Forest Department, details checks may be exercised with reference to Section-V of MSO (Audit) Second Edition – 2002.

C. Controls at Treasury level

- (i) Standards of checks exercised by the Treasury Officer on the bills preferred by the DDOs for payments.
- (ii) Maintenance of Appropriation Registers for each DDOs
- (iii) Maintenance of LOC Register for the DDOs in the Departments where the LOC system has been introduced.
- (iv) Verification of authenticity and correctness of the preferred bills.
- (v) Other prescribed controls as per State's Treasury Code/Manual.

D. Stores Management and Inventory Control

- (i) Maintenance of Stores Ledger, Physical Verification of Stores, Adequacy of action on shortages/pilferages, valuation and fixation of Issue price of stores
- (ii) Security of Stores and prevention from damages.
- (iii) Disposal of old, unserviceable, surplus and damaged stores.

E. Control in Project Management

- (i) Internal control aspects as provide under A, B and C above.
- (ii) Functioning of Financial Adviser and chief Accounts Officer set up for major projects – Role of FA & CAO as an Internal Auditor, it's independence from the administrators of the project, influencing the FA & CAO's decision by the Administrators particularly in passing claims in respect of works/major purchases/supplies etc., are some interesting areas for audit probe.
- (iii) Role of Project Implementation Committee.
- (iv) Evaluation of implementation by any agency within or outside the department including reports/suggestions by the External Funding Agencies.

II. Internal Controls of Finance Department

While evaluating the effectiveness of the Internal Control mechanism in the Finance Department, the role and responsibility of the Finance Department specially with regard to preparation of budget estimates, expenditure control mechanism, regulation of plan expenditure, Government's debt services, etc. shall be seen. In addition the control exercised by it and/or the Directorate of Treasuries and Accounts over the functioning of the Treasuries shall be subject of scrutiny in Audit. For this purpose the audit party shall visit the selected Treasuries and Sub-Treasuries in the state to see the effectiveness of the control measures related to Treasury functioning.

Controls on Treasuries by the Directorate of Treasuries/Finance Department

- (i) Compliance to Treasury Codes/Manuals particularly with regard to regularity in submission of prescribed returns by the Tos to Directorate of Treasuries/Finance Department; Analysis of RBI statements/scrolls received in the Finance Department along with the returns received from Treasuries.
- (ii) Prescribed Inspection of Treasuries by the Directorate/Finance Department and effectiveness of such Inspection on internal working of Treasuries.

Inspection Reports issued by the Office of the Accountant General (A&E) on working of Treasuries as well as those on Pension Payment may be additional input for our evaluation purpose.

Components of Internal Audit System

The following aspects of Internal Audit system may be evaluated:-

- Organisation of Internal audit functionaries, independence enjoyed by the Internal Audit Wing;
- Internal Auditing standards set by the Government;
- Responsibilities and Duties of Internal Audit Organisation;
- Training of audit personnel;
- Planning of Internal Audit : Whether based on risk-indicators corroborated through risk analysis;
- Adequacy of coverage and periodicity of the audit;
- Inspection Reports issued by Internal Audit, timeliness of responses to the audit observations and volume or pendency (analysed year-wise for five years);
- Pendency in Internal Audit coverage.
- Overall effectiveness of Internal Audit in terms of :
 - (i) Departmental compliance to internal audit observation;
 - (ii) Systems corrected at the instance of Internal Audit;
 - (iii) Resources and penal actions undertaken at the instance of Internal Audit; and
 - (iv) Quality of checks exercised: Evaluation of the parameters.
- Special Audits done by Internal Audit Wing : Outcome

The items of Control measures existing in the Government system and procedures mention above are of general nature. There shall be several other measures in accordance with State's Rules, Treasury Manuals, and Procedures, which are also to be evaluated to make the review a comprehensive one.

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Annexure-VIII

MODEL PARAS OF EXCISE DEPARTMENT OF DIFFERENT STATES

CAG REPORT ON STATE EXCISE DEPARTMENT, GOVERNMENT OF ODISHA 2015

3.5.2 Non-levy of fine on expired IMFL

As per Rule 39 (1) of the Board's Excise Rules (BER), 1965, the licensee shall remove all bottled liquor from an approved storeroom within three months after it is bottled. As per Rule 39A (7), the SE shall be careful while issuing import and transport permits with a view to voiding unnecessary piling up of huge stock which may lead to sedimentation and deterioration in quality if not disposed of in time and if any stock of IMFL becomes unfit for human consumption owing to long storage or other factors, the licensee shall be squarely responsible and shall be liable to pay a fine equal to five times the duty payable to the Government on the stock so spoiled. Further, the stock so found unfit for human consumption is required to be destroyed by the SE as per Rule 135 of the Rules *ibid*. During test check of records of SE, Berhampur relating to stock taking accounts and batch-wise figures of closing stock of one distillery, Audit noticed (December 2014) that four brands of IMFL involving 509.25 cases 2 Officer's Choice XXX Rum, Chancellor FB Whisky, Xing Mango Tropicana Vodka and Ultra Smooth Vodka. (3,339.97 LPL) were shown in closing stock as on 31 March 2014. From the report of the Officer-in-Charge (OIC) of the Unit, it was noticed that these stocks were lying in warehouse for a period ranging from more than 3 to 12 years. OSBC Ltd is the sole authority to sell IMFL / Beer in the State of Odisha since 2001 and as per the above rules, the IMFL stock was required to be sent to the OSBC depot within three months of its manufacture. Although more than 3 to 12 years had elapsed from the respective dates of manufacturing, the SE neither took any action for destruction of the above stock of expired IMFL nor did impose the requisite fine amounting to ₹ 34.07 lakh as per the provisions of BER. After Audit pointed this out (December 2014), the SE, Berhampur stated (December 2014) that action would be taken for destruction of the old stock and realisation of fine after verification of the stock. The matter was reported to the EC, Odisha in January 2015 and the Government in June 2015. Their replies are awaited (December 2015).

3.5.3 Non-realisation of extra hour operation charges and overtime fees

As per Rule 20 of BER, 1965, all operations in a distillery, bottling unit and brewery which require the presence of an Excise officer shall be stopped on Sundays, other public holidays and specially declared holidays. The production unit may function for the second shift with prior permission of the EC and additional staff shall be posted as determined by the EC. The licensee shall pay, in addition to the cost of establishment of additional staff, ₹ 1,000 per each extra hour of operation of his bottling unit / warehouse beyond the scheduled hours.

Further, overtime fees at the rate of one-seventh of a day's pay of the Officer concerned for each hour of overtime work shall be paid by the unit. During scrutiny of records relating to extra hour operations in two District Excise Offices (DEOs), Audit noticed (August 2014 and January 2015) that one sugar factory under DEO, Ganjam had not paid extra hour operation charges of ₹ 20.02 lakh for carrying out 2,002 extra hours operations beyond the scheduled hours during April to June 2013. Similarly, overtime fee amounting to ₹ 3.42 lakh in respect of Excise staff engaged for 2,013 extra hours in five Distillery / Bottling / Brewery units under DEO, Khurda during 2013-14 had also not been paid by those units till the date of audit. The DEOs also did not raise demand for realisation of the above dues. Thus, Government revenue of ₹ 23.44 lakh remained unrealised. After Audit pointed this out, while SE, Khurda issued demand notice in August 2014, SE, Ganjam stated (January 2015) that demand would be raised after verification of records. Audit reported the matter to the EC, Odisha, Cuttack in March 2015 and the Government in June 2015. Their replies are awaited (December 2015).

3.5.4 Non-realisation of establishment cost

As per Rule 33 (3) of BER, 1965, potable foreign liquor shall not be stored either in shape of bottles or in bulk or compounded, blended, reduced, bottled in a warehouse or storeroom in bond and issued or sold therefrom otherwise than in the presence of an Excise Officer. Further, as per Rules 34 (1) and 34 (2) of the Rules *ibid*, the EC shall appoint the Excise Officers (EOs) for proper supervision of the operations carried out in each warehouse or storeroom mentioned in Rule 33 (3). The licensee shall pay to the State Government, at the end of each calendar month, such fees which shall not exceed the whole of the cost of the excise staff employed for the purpose. During test check of records of breweries and distilleries in three DEOs, Audit noticed (between September and December 2014) that EOs and staff were posted at different times during 2013-14 in one brewery and two distilleries for supervising the operations such as warehousing, compounding, blending of potable foreign liquor and sale of the same to different liquor manufacturing units, wholesale traders as well as retailers of the State. As per the provisions of BER, the units were liable to deposit the gross salary paid to the EOs and staff towards cost of establishment at the end of each calendar month. It was, however, noticed that neither the DEOs claimed the establishment cost for the year 2013-14 nor did the units deposit the same in Government Account. Thus, establishment cost of ₹ 11.91 lakh remained unrealised. After Audit pointed out (between September and December 2014) these cases, SE, Balangir stated (November 2014) that steps would be taken to realise the establishment cost. The SEs of Sundargarh and Dhenkanal stated (between September and December 2014) that demand notices would be issued after verification of records. Audit reported the matter to the EC, Odisha in March 2015 and the Government in June 2015. Their replies are awaited (December 2015).

3.5.6 Non-realisation of differential Excise Adhesive Label fee

As per Rule 115-B of BER, 1965, Excise Adhesive Label (EAL) shall be affixed on each bottle / can of IMFL / Beer and on each pouch / container of country spirit (CS). In the AEP for the year 2013-14, Government increased the fee of polyester based hologram EAL from 35 to 50 paise for each bottle of IMFL, Beer and CS pouch / bottles. During test check of EAL Fee Registers of the bottling unit of a sugar factory under the DEO, Ganjam for the year 2013-14, Audit noticed (December 2014) that the unit had 1,05,74,548 numbers of EAL in its closing stock at the end of the year 2012-13 which was purchased at the rate of 35 paise per EAL. Though the unit utilised the said stock of EAL during 2013-14, it however paid EAL fee at the old rate (35 paise) instead of 50 paise per EAL. The SE, Ganjam also did not raise demand for the differential EAL fee. This resulted in short realisation of EAL fee of ₹ 15.86 lakh.

After Audit pointed out (January 2015), the SE, Ganjam stated (January 2015) that demand would be raised after verification of records. Audit reported the matter to the EC, Odisha, Cuttack in April 2015 and the Government in June 2015. Their replies are awaited (December 2015).

3.5.7 Non-realisation of State Excise Duty on less production of spirit

As per Rule 13 of the BER, 1965, samples of raw materials used in distilleries for manufacture of spirit and spirit manufactured therefrom shall be sent to the Chemical Examiner for examination once in July and again in December each year and at other times, if required. In the absence of any norm, Chemical Examiner's report is the only basis provided in the rules on which the production of spirit can be ascertained. As per AEPs of 2009-10 and 2011-12, minimum SED on CS for those years was ₹ 18 and ₹ 20 per LPL respectively. During test check of stock taking reports of a distillery for the years 2009-10 to 2013-14 in the office of the SE, Koraput, Audit noticed (June 2014) that samples of molasses used by the distillery as raw materials were sent to the State Drug Testing and Research Laboratory (SDTRL), Odisha for chemical examination twice a year during the above period. As per the test reports of SDTRL, the average out-turn of alcohol per MT of molasses was shown as 201.97 BL and 214.16 BL for 2009-10 and 2011-12 respectively based on which, production of alcohol from 5,470.89 MT of molasses utilised by the distillery during the above two years should have been 19.18 lakh LPL (at 166.6 degree strength). However, the Unit disclosed production of only 18.65 lakh LPL of spirit. Although the SE was aware of the test report, he failed to detect the shortfall in production of 53,006.15 LPL of spirit and realise the differential SED of ₹ 10.04 lakh at the minimum rate of ₹ 18 and ₹ 20 per LPL applicable on CS during 2009-10 and 2011-12 respectively. After Audit pointed this out (June 2014), the SE stated (June 2014) that clarification would be sought for from the Distillery Officer concerned and compliance would be furnished later. Audit reported the matter to the EC, Odisha and the Government in June 2015. Their replies are awaited (December 2015).

CAG REPORT ON STATE EXCISE DEPARTMENT, GOVERNMENT OF MEGHALAYA 2016

3.4 Evasion of excise duty

Three bottling plants fraudulently concealed 2.44 lakh BL of ENA and evaded excise duty of ₹ 3.14 crore. [SE, Nongpoh; April 2014] For manufacture of IMFL in a bottling plant, Extra Neutral Alcohol (ENA) is reduced to 75 per cent proof by adding water. Colour and flavour are then added to the product to get the liquor. The standard norm¹ of conversion of ENA per case of liquor is as under: Size (in millilitres) Requirement of ENA in Bulk Litres (BL) 180 ml 3.84 (BL) 375 ml 4.00 (BL) 750 ml In Meghalaya, excise duty on General Brand of liquor is ₹ 514 per case of 12 bottles of 750 ml or equivalent quantity. Audit of records of the Superintendent of Excise (SE) revealed that three bottling plants² utilised 57.28 lakh BL of ENA between April 2013 and March 2014 for production of 8.66 lakh cases of liquor containing 750 ml/375 ml and 5.26 lakh cases of liquor containing 180 ml bottles. As per standard norms, for production of the above quantity of liquor, 54.84 lakh³ BL of ENA should have been actually utilised. The bottling plants, thus, fraudulently overstated the quantity of ENA actually utilised, resulting in concealment of 2.44 lakh BL of ENA from which 0.61 lakh cases of liquor of 375 ml/750 ml bottles⁴ could be manufactured. Despite the monthly figures pertaining to consumption of ENA and production of IMFL therefrom being available with the SE, no steps were taken by the SE to reconcile the difference and ascertain reasons for overconsumption of ENA by the bottling plants. Failure of the SE to properly monitor the functioning of the bottling plants thereby resulted in evasion of excise duty amounting to ₹ 3.14 crore.

The case was reported to the Excise Department, Government of Meghalaya in July 2014; their reply has not been received (November 2015).

3.5 Short realisation of excise duty

Short levy of ad-valorem duty on cost price resulted in short-realisation of excise duty amounting to ₹ 0.15 crore. [SEs, Jowai & Williamnagar; November 2014 & February 2015] Under Section 21 of the Assam Excise Act, 1910 (as adapted by the Government of Meghalaya) the State Government can levy duty on consumption of liquor. The Excise Department, Government of Meghalaya in April 2011 imposed excise duty on Rum⁶ procured and sold under canteen licence at ad-valorem rate of 40 per cent of the cost price subject to a minimum of ₹ 257 per case of 12 bottles of 750 ml size or equivalent quantity. In Meghalaya, the minimum cost price of Rum was fixed at ₹ 784 per case⁷ with effect from 09 May 2012. It was observed from the records of the Superintendents of Excise (SEs) pertaining to import of Rum by the Police Canteens that during the period between March 2012 and March 2014, a total of 36810 cases of Rum were imported by the State Police Canteens from different bonded warehouses within the State on which, excise duty amounting to ₹ 1.15 crore was realisable at ₹

313.60 per case⁸, against which, the SEs realised ₹ 1 crore by charging ad-valorem duty at the rate of ₹ 273 per case thereby resulting in short realisation of excise duty amounting to ₹ 0.15 crore. No reasons could be shown by the SEs for charging ad-valorem duty at a lower rate despite clear instructions from the State Government as per the notification of April 2011. Thus, failure of the SEs to conform to Government instructions and realise the prescribed excise duty resulted in short realisation of revenue to the said extent. The cases were reported to the Excise Department,

3.9 Revenue not realised due to failure to register brand names

Twenty-five distilleries/companies failed to register the brand names of 115 brands resulting in revenue amounting to ₹ 0.52 crore not being realised. [CE, Meghalaya; July 2014] Under Rule 363(1) of the Meghalaya Excise Rules, no person can sell IMFL, beer and Bottled-in-Origin products in the State unless the brand name and the label of that product are registered with the CE. The registration is valid upto 31 March of the next year after which it may be renewed on payment of prescribed fees. The Government of Meghalaya in June 2012 notified¹⁶ the revised fees for registration from ₹ 45,000 to ₹ 60,000 in case of IMFL brands and from ₹ 22,000 to ₹ 35,000 in case of beer. Audit of records of the CE revealed that registration of 125 brands manufactured by 25 distilleries/companies¹⁷ were not renewed for the year 2015-16 although the distilleries and companies were required to apply for reregistration of the brand names before the last day of the preceding year. Despite non-renewal of brand names, no action was taken by the CE to either issue demand notices to the distilleries/companies for renewal of the brand names or cancel the brand names in order to prevent their import and sale within the State. Thus, lack of timely action by the CE resulted in revenue amounting to ₹ 0.52 crore not being realised as registration fees. Besides, there was a risk of unregistered products being sold in the State in violation of the provisions of the Excise Rules. The case was reported to the Excise Department, Government of Meghalaya in July 2014; their reply has not been received (November 2015).

Audit Report for the year ended 31 March 2016, Government of Sikkim

4.10.3.3 Loss of revenue on bottling fees of beer ₹ 6.27 Crore

As per Rule 53A of Sikkim Excise (Brewery) Rules, 2000, bottling fee on beer bottled in Sikkim on behalf of companies located outside Sikkim is to be charged and the Department issued notification (9 March 2011) prescribing a bottling fee of ₹ 15 per case for such beer bottled in Sikkim. Further, under Rule ibid, "The Licensee shall pay bottling fee as may be notified by the State Government on the volume of production manufactured in the brand name owned by the collaborator" vide notification dated 25 September 2013. However, though the Department intended to charge bottling fee on beer bottled in Sikkim on behalf of companies located outside Sikkim, it wrongly mentioned the same as "beer bottled from outside Sikkim" instead of mentioning "beer bottled in Sikkim for company/firm located outside Sikkim" in the notification. However, in pursuance of earlier audit observation, the phrase "beer bottled from outside Sikkim" was replaced by "beer bottled in Sikkim for company/firm located outside Sikkim" in the notification of August 2014. It was noticed that the Department could not realise the prescribed fee despite issue of notification of March 2011 due to error in its language. Due to this mistake, the Officers in-charge at M/s Denzong Albrew Ltd., Mulukey and M/s Sikkim Breweries Ltd., Bagheykhola were unable to realise bottling fee on the basis of notification of March 2011. The Department started realisation of bottling fee from concerned breweries only on local sale and not on exported beer of such brands from 5 September 2014 onwards after amendment (August 2014). In this connection, it was also pertinent to mention that as per Rules ibid in cases of manufacture of beer, bottling fee as prescribed by the Department was to be charged to the licensee on the volume of production, irrespective of whether it was sold within the State or exported outside the State. The notification envisaged charging of bottling fee of ₹ 15 per case which was revised to ₹ 18 per case from 11 February 2016. Thus, bottling fee (on outside brand beer) was not realised which were sold locally till amendment of notification (i.e. August 2014) and bottling fee was also not realised on beer exported outside the State either before or after amendment of the notification. During the period 1 April 2011 to 4 September 2014, a local sale of 3,17,984 cases of outside State brands of beer was made; similarly an export of 38,55,230 cases of outside State brands of beer was made during 2011-12 to 2015-16, on which bottling fee of ₹ 6.27 crore was not realised .

Thus, due to non-realisation of bottling fee on beer, the Department sustained a revenue loss of ₹ 6.27 crore. The Department stated (May 2016) that the intention of the Department was not to charge bottling fee on outside brands of beer exported to other States and now they were in the process of making necessary amendments. In a further reply, the Department stated (October 2016) that it had amended Rules vide notifications dated 2 September 2016 imposing the bottling fee only on volume of local sale instead of total production. However,

the fact remained that the Department could not realise bottling fee on outside brands of liquor on local sale prior to amendment of 5 September 2014. Further, it did not charge any bottling fee on export to other States though the Rule did not give any exemption in this regard.

4.10.3.4 Loss of revenue on bottling fees on export of IMFL ₹ 2.75 Crore

Under the provisions of Rules 33 and 34 of Sikkim Excise (Distillery for manufacture of Spirit and Foreign Liquor) Rules, 2000, the Department, in order to introduce bottling fee, issued notification (9 March 2011) prescribing a fee of ₹ 101.25 per case for IMFL bottled in Sikkim on behalf of manufacturers from outside the State, which was subsequently revised to ₹ 101 per case from 14 August 2014 and ₹ 116 per case from 11 February 2016 onwards. In this connection, it is also pertinent to mention that as per Rules ibid in cases of manufacture of foreign liquor, bottling fee as prescribed by the Department was to be charged to the licensee on the volume of production. Thus, bottling fee was to be charged on total production irrespective of whether it was sold within the State or exported outside the State. Scrutiny revealed that the distilleries which were involved in production of outside brands of IMFL were charged bottling fee but only on local sale of such brands. Bottling fee was not charged on outside brands of IMFL exported to other States as detailed in the following table:

The Department stated (May 2016) that the intention of the Department was not to charge bottling fee on outside brands of liquor exported to other States and now they were in the process of making necessary amendments. In a further reply, the Department stated (October 2016) that it had amended Rules vide notifications dated 2 September 2016 imposing the bottling fee only on volume of local sale instead of production. Reply was not acceptable as amendment notification dated 2 September 2016 was against Sikkim Excise (Brewery) Rules, 2000 and the fact remained that the Department could not realise bottling fee on outside brands of liquor exported to other States till date.

4.10.3.11 Observations relating to implementation of holograms

As per notifications issued (29 March 2010) by the Department, all bottles containing IMFL and beer should have the prescribed hologram. For regulation of hologram, the Department indents printed holograms from security printers and issues these to the distilleries/breweries/bonded warehouses. The printing cost of holograms is borne by the distilleries/breweries/bonded warehouse. However, the Department realises ₹ 0.10 per hologram issued to the distilleries/breweries/bonded warehouse as administrative charges. Audit scrutiny pertaining to the holograms during 2011-12 to 2015-16 revealed the following: □ Two¹⁷ distilleries and one¹⁸ brewery had accounted for less holograms against the holograms actually issued to them by the Department. Against the 24,91,00,000 holograms issued, these distilleries/brewery had accounted for 23,27,00,253 holograms only. This led to short accounting of 1,63,99,747 holograms by the above distilleries/brewery. The short realisation of

Excise Duty of ₹ 52.76 Crore could not be ruled out as there was possibility of holograms being used for unaccounted production and sale of IMFL/beer.

□ One¹⁹ distillery, two²⁰ breweries and one²¹ bonded warehouse had received/accounted for excess number of holograms. Against 3,63,00,000 holograms actually issued, these distillery/breweries/bonded warehouse showed receipt of 3,78,20,000 holograms. This resulted into excess receipt/accounting of 15,20,000 holograms which led to a possibility of issue of 15,20,000 holograms to these distillery/breweries/bonded warehouse without payment of administrative charge of ₹ 1.52 lakh. □ Two²² distilleries, one²³ brewery and one²⁴ bonded warehouse utilised holograms more than what they were supposed to utilise in respect of actual production of IMFL, beer and imported liquors²⁵. The actual utilisation of holograms per bottle as taken from the actual production/import of various kinds of liquors was supposed to be 7,34,58,405; however, these units had shown utilisation of 7,66,79,344 holograms, resulting in excess utilisation of 32,20,939 holograms. This led to a possibility of utilisation of excess holograms in unaccounted production/import of liquors by the said distilleries/ brewery/bonded warehouse resulting in possible evasion of Excise revenue of ₹ 9.17 Crore by them. Details are given in Appendix 4.10.2. □ Three²⁶ distilleries and two²⁷ breweries utilised holograms less than what they were supposed to utilise. As per the records of actual production of various kinds of liquors they should have used 25,31,33,584 holograms. However, as per the actual production of IMFL/beer, 19,76,77,930 holograms were used, resulting in less utilisation of 5,54,55,654 holograms. This led to a possibility of dispatch/sale of 5,54,55,654 bottles of various kinds of liquors without affixing holograms raising questions on their authenticity. □ The Sikkim Excise Act and Rules did not have any provision for wastage/loss of holograms. Despite this, some of the distilleries/breweries had shown wastage/loss of holograms but the Department never took any action against these distilleries/breweries for such spoil/loss of holograms. Further, these spoilt/lost holograms were neither incorporated in the records of the Department nor was any action taken by the Department to take possession of spoilt holograms to rule out any misuse. □ In this connection, it is also pertinent to mention that all distilleries/breweries had been submitting monthly statements of receipt and utilisation of holograms but the Department had never reconciled the account of holograms. While accepting audit observations, the Department stated (May 2016) that they would ensure maintenance of proper records relating to holograms and would make Rules for provision of their wastage and would ensure that all wasted holograms were taken back by the Department. The Department further stated (October 2016) that it had constituted a Committee to monitor the wastage and proper accounting of holograms.

4.10.3.12 Under-utilisation/excess utilisation of production capacity

Five distilleries/bottling plants of IMFL, three breweries and one ENA producing unit were in operation during the period of audit. It was seen that at the time of applying licenses, distilleries/breweries mentioned the details of the

project reports which inter-alia contained information on the installed plants production capacity and their market strategies. Accordingly, the Department issued licenses to these units. The production capacity vis-à-vis actual production and possible loss of minimum Excise revenue due to short production of IMFL/beer/ENA during the period under report were as given in the following table: (Total 4,26,33,52,556 Source: Departmental figures and audit analysis). Against nine distilleries/breweries, distilleries/breweries had utilisation below 20 per cent of their installed/production capacity. This led to under-utilisation of their installed/production capacity ranging from 96.91 per cent to 81.34 per cent. Though the records on installed/production capacity and actual production were available with the Department, it had not analysed the under-utilisation/decline in actual production for possible remedial action. In respect of one unit producing IMFL (Mount Distilleries Ltd, Majhitar), the actual production was more than its production capacity; however, neither the permission for carrying out additional production for this unit was taken nor was any such condition imposed at the time of issue of license. Further, any penalty clause for underproduction and over-production was not included in the conditions of the licenses. While accepting audit observation, the Department stated (May 2016) that they would press upon the distilleries/breweries for making market strategy in such a way that they ensure maximum production. The Department further stated (October 2016) that it was under the process of examination of the matter and if necessary, it would make amendment in the existing Rules. However, the fact remained that the distilleries/breweries could not utilise their maximum production/installed capacity on which the State Exchequer could have earned a minimum Excise revenue of ₹ 426.34 Crore.

4.10.3.13 Short realisation of annual license fee of ₹ 5.23 lakh

The Department revised (12 November 2014) its rates of license fees to be charged from various hotels, bars, retail shops, etc. The revised rates were made effective from 17 November 2014 (date of publication in the Gazette). As per the prevailing system in the Department, the Excise trade licenses are renewed in advance on financial year basis. However, it was seen that while renewing licenses during March/April 2015, though license fees for the year 2015-16 were realised at enhanced rates but arrear proportionate to license fees at revised rates for the period 17 November 2014 to 31 March 2015 were not realised from any of the licensees. This resulted in short realisation of annual license fee of ₹ 4.89 lakh. Further, it was also seen that the Department revised (11 February 2016) the rate of the annual license fees of some categories of hotel-cum-bar shops. The revised rates were enforced with immediate effect. However, it was seen that while renewing licenses during March 2016 for the year 2016-17, though license fees for the year 2016-17 were realised at enhanced rates but the proportionate arrear of the license fees at revised rates for the period 11 February 2016 to 31 March 2016 were not realised from seven licensees. This resulted in short realisation of annual license fee of ₹ 0.34 lakh. While accepting audit observation, the

Department stated (May 2016 and October 2016) that specific effective date would be ensured while issuing notification in the said regard.

4.10.3.20 Absence of Internal Audit Wing

Internal Audit is an important tool for appraisal of deficiencies in the activities of the Department, like proper and timely assessment and realisation of dues, implementation of Acts/Rules and issue of guidelines for proper accounting, etc., for better collection of revenue and plugging various loopholes within the organisation. The Department did not have their own Internal Audit Wing. The Internal Audit Wing under the control of FRED, Government of Sikkim is responsible for Internal Audit of all the departments under the control of State Government. However, it was observed that the Internal Audit Wing of the FRED had not conducted any audit of the Department during the period under report.

4.10.3.21 Computerisation of the functioning of the Department In order to systematise the collection of State Excise revenue and for the purpose of transparency in working of the Department, computerisation could have proved to be an effective solution.

However, no such system existed in the Department and functions like licensing, regulation of alcohol, tax collection, budget, staff details, etc. were not maintained in the form of data base. The Department had not taken any steps for computerisation of the said systems. Consequently, the Department did not have the previous year's records/data in complete shape for effective control and future plans. Though the Department stated (May 2016) that they had already initiated the process of computerisation and online monitoring system, they failed to produce any documentary evidence in support of their claim. In a further reply, Department stated (October 2016) that they had provided computers to all the Excise Offices in the manufacturing units and the zonal office, Jorethatng and taken up the matter with the IT Department regarding the online monitoring system and financial implication and Detailed Project Report was in process.

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