

CHAPTER-VII CONCLUSION AND RECOMMENDATIONS

The irregularities noticed during test check of records of different field units of the State Excise Department have been discussed in the preceding chapters. The conclusions arrived at and summary of recommendations are mentioned in the succeeding paragraphs.

7.1 Conclusion

We noticed a number of system and compliance deficiencies in the audit of the State Excise Department as stated below :

- The department had no monitoring mechanism for ascertaining the total sales made by the retailers during a year for working out the actual license fee payable by them in respect of the Foreign Liquor shops which led to loss of revenue in the form of license fee. There was no system of watching the receipt of correct quantity of molasses in the distilleries from the sugar factories.
- There was short accounting of molasses in the sugar factories. Subscriptions to the molasses fund by sugar factories was made at rates lower than the prescribed ones.
- Incorrect re-distillation wastage was allowed during production of Extra Neutral Alcohol and Absolute Alcohol from Rectified Spirit. This resulted in loss of revenue in a number of cases.
- Distilleries had failed to achieve norms of minimum production, minimum fermentation and distillation efficiency. The department did not take the punitive action prescribed in the rules against the concerned distilleries. The Department also failed to impose fines on production of alcohol over and above the annual/daily approved installed capacity. These factors led to loss of excise revenue.
- We also noticed that there was excess transit and storage wastage of rectified spirit and extra neutral alcohol, duty was not being charged on excess strength of alcohol bottled, the rates of excise duty on beer were applied incorrectly and incorrect amount of wastages of TRS were allowed. These irregularities resulted in loss of revenue.
- Spirits were stored in pharmacies without executing required bond and inadmissible transit wastage of spirit was allowed to pharmacies.
- Interest on belated payments was not levied by the Department.
- Essential security measures like excise locks were not provided/not interchanged at regular intervals. We also noticed realisation of overtime fees at lower rates in the distilleries and absence of overtime fees provision for sugar factories that led to loss of revenue to the Government.

- The department did not undertake any exercise for effective redeployment of staff. Internal inspection of the different field units was below the norms fixed. Internal audit was weak; it did not even conduct the audit of all the units it had selected in its audit plan.

7.2 Summary of recommendations

The Government/department may consider:

- putting in place a monitoring system that may be by way of introducing periodical returns for ascertaining the increase in the actual sales as compared to the presumptive sales at the apex level so as to enable the Government to fix the license fee correctly;
- issuing directions to ensure that the provisions for getting the passes back within the prescribed period are complied with and in case of default impose penalty without any delay;
- issuing directions to the department for taking corrective steps for measurement of molasses in accordance with the prescribed rules;
- issuing directions for ensuring maintenance of the basic records in the sugar factories to ensure correctness of the quantity of the molasses mentioned in the statements submitted to the Controller;
- issuing directions for levying administrative charges as per the Act, irrespective of the grades of the molasses;
- strengthening the system to ensure that the prescribed deterrent measures against distilleries not achieving the norms are enforced and the enforcement monitored so that there is no loss of excise duty;
- putting in place measures to verify that the distilleries achieve the minimum fermentation and distillation efficiency. A system to verify the correctness of the sample test of wash done by the distillery staff should also be put in place;
- defining clearly the distinction between strong beer and mild beer by fixing the strength of strong beer as five to eight *per cent* and that of mild beer as below five *per cent*;
- taking stringent measures to ensure imposition of fines as per rules in case of any breach in the provisions of the Act/Rules;
- putting in place a monitoring system for indicating the quantity of bottled and unbottled beer separately in the Monthly Stock Taking returns and issuing directions for not allowing any wastage on bottled beer;
- making suitable provision for levy of overtime fee for excise staff posted in sugar mills and specifying a point of time at which night begins for the purpose of working out overtime;

- examining the issues and making suitable amendments in the rules regarding loss of TRS in transit and storage as it involves loss of revenue. A penal provision also needs to be incorporated regarding loss of TRS in transit/storage beyond permissible limits and failure of distilleries to recover minimum quantity of fermentable sugar;
- ensuring that the instructions issued by the Commissioner for conducting the inspections are strictly followed and norms for inspection of AT Laboratories be fixed; and
- ensuring that internal audit of breweries, sugar factories, pharmacies and AT Labs are conducted at regular intervals and all the units planned for audit are covered by the internal audit.

**Lucknow,
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