Executive Summary

Context

With a view to provide better quality of liquor at a reasonable price to the consumers, curb the supply of illicit liquor and for gathering revenue from excise duties a 'New Excise Policy' was promulgated with effect from 1 April 2001 in Uttar Pradesh. It also aimed to reduce the monopoly of the liquor syndicates and bring in new players in the business.

This report

In order to examine the gamut of elements which total up to the excise revenue in the state, we examined the system in existence. To preset a holistic picture we focused on both the Headquarters' structure and field formations, financial management vis-a-vis appropriate accounting thereof, operational control and staffing requirement of the State Excise Department. We have also examined the aspects of leakage of revenue and lack of coordination in the working of the department.

Audit findings

Our test check of the records of the offices of State excise, conducted during the years 2008-09 and 2009-10 (upto December 2009) for this Performance Audit Report, indicated a large number of cases of low recovery of alcohol from molasses, non-lifting of minimum guaranteed quota (MGQ) of country liquor, non-realisation of licence fee, non-levy of interest and other irregularities which have a revenue impact of ` 1,344.56 crore.

District Excise Offices

We found that 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. This led to loss of licence fee of ` 2.07 crore. Excise duty of ` 1.04 crore was not levied by the department on short lifted quantity of country liquor and the entire Basic Licence Fee and security deposits of ` 11.28 crore were not deposited in time as required under the rules.

Sugar factories

To ensure that correct quantities of molasses arrived in the distilleries from the sugar factories there is a system of verification of MF 4 passes. Inaction in verifying the same by the department led to the loss of excise revenue of ` 58.09 crore.

In the accounting system of the molasses there are lacuna due to which there was short accountal of molasses with involvement of excise revenue of ` 21.40 crore. Deposits in molasses fund at lower than prescribed rates by sugar factories led to short deposit of ` 75.77 lakh in the fund.

Distilleries, Breweries and Alcohol Technologists Laboratories

Incorrect redistillation wastage allowed during production of Extra Neutral Alcohol and Absolute Alcohol from Rectified Spirit led to revenue loss of ` 42.97 crore.

Distilleries failed to achieve norms of minimum production, minimum fermentation and distillation efficiency. Loss of excise revenue of ` 133.30 crore was caused by these failures but the department did not take the punitive action prescribed in the rules against the concerned distilleries. The Department also failed to impose fines of ` 788.78 crore on production of alcohol over and above the annual/daily approved installed capacity. Excess transit and storage wastage of Rectified Spirit and Extra Neutral Alcohol, duty not charged on excess strength of alcohol bottled, wrong rates of excise duty on beer, incorrect amount of wastages allowed were noticed which resulted in loss of revenue. Interest on belated payments was also not levied by the Department.

Other irregularities

Spirits stored in pharmacies without executing required bond, inadmissible transit wastage of spirit allowed to pharmacies, excise locks not provided/not interchanged at regular intervals, were some of the issues we noticed. Realisation of overtime fees at lower rates and non-realisation of the overtime fees at revised salary rates led to loss in fees of ` 85.21 lakh. Transit and storage wastage of TRS, below norms recovery of fermentable sugar from Total Reducing Sugar and other issues involved loss of excise revenue of ` 279.83 crore.

Internal control management

Despite actual staff strength being below sanctioned strength, 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 and failed to achieve the audit plan prepared.