

Performance Audit of State Excise Duty

CHAPTER-I General

1.1 Introduction

The State Excise duty is one of the important sources of tax revenue, which is levied and collected as duty and fee on manufacture, storage, sale, import and export of liquor. The levy and collection of excise duty in the State is governed by the Punjab Excise Act 1914 and the Rules framed thereunder and the Punjab Excise Fiscal Orders, 1932.

The State of Punjab has 10 distilleries, two breweries, 19 bottling plants and warehouses. During 2009-10, there were 4553 vends for sale of Punjab Medium Liquor (PML)¹ and 2144 vends for sale of Indian Made Foreign Liquor (IMFL)², besides the bars and beer shops. For sale of PML licence in the form of L-13 and for sale of IMFL licence in the form of L-1 are issued to the wholesalers on payment of licence fee. For sale of PML and IMFL in retail, vends were auctioned upto 2005-06 and since 2006-07 the retail vends were being allotted by annual drawl of lots. For the retail vend of PML, licence in the form of L-14A and for the retail vend of IMFL, licence in form L-2 are issued. Licence in the form D-2 for production of liquor is issued to a distillery which works under the supervision of the Staff of Excise Department. A licence in the form of B-2 is issued to a brewery which produces beer under the supervision of the Staff of Excise Department. Similarly licence in the form of BWH-2 is issued to a bottling plant.

Why we conducted the Performance Audit

Though the Revenue from State Excise duty increased from ₹ 1568.16 crore in 2005-06 to ₹ 2373.07 crore in 2010-11, it did not keep pace with the increasing trend of consumption of liquor in the State. We therefore decided to ascertain whether the Excise Policy was revenue friendly and examine whether the Department was discharging its functions effectively and efficiently in the performance of levy and collection of the State Excise duty.

1.2 Organisational set-up

The Department of Excise and Taxation looks after the activities of both excise and other commercial taxes in the State. The Financial Commissioner (Taxation) is the Secretary to Government of Punjab, Department of Excise and Taxation. The Excise and Taxation Commissioner (ETC) is the head of the Department and is vested with powers under different Excise and Taxation

¹ PML denotes country liquor manufactured from spirit and de-mineralised water with added spices and essences.

² IMFL means all liquor manufactured in India other than country liquor made in imitation of 'imported foreign liquors' with or without any blend of such liquors.

Acts. The ETC is assisted by two Additional Excise and Taxation Commissioners-one for Value Added Tax and the other for Excise. Besides one Deputy Excise and Taxation Commissioner (Distilleries) at the State headquarter for supervision and control of the Distilleries, Breweries and Bottling plants, there are six other Deputy Excise and Taxation Commissioners (DETCs) posted at Amritsar, Faridkot, Ferozepur, Jalandhar, Ludhiana and Patiala divisions. These officers are in-charge of the divisions and act as Collectors for the purpose of excise administration. Twenty four Assistant Excise and Taxation Commissioners (AETCs) monitor the work at the district level. They are assisted by the Excise and Taxation Officers (ETOs) and other allied staff. The DETCs posted at the divisions and the AETCs posted at the district level look after the works related to both excise and commercial taxes. For the excise related activities, each AETC is assisted by the ETO (excise) and the Excise Inspectors (EI).

As far as excise is concerned, the main objective of the Department is to provide genuine liquor at reasonable rates so that public health is not jeopardised by taking unhygienic intoxicants and at the same time Government also earns revenue for the welfare of the state.

1.3 Audit objectives

The Performance Audit was conducted to ascertain:-

- whether provisions of the Acts and Rules framed thereunder and the prescribed procedure were enforced scrupulously to realise the fee and duties on manufacture and sale of liquor;
- the lacunae, if any, in the Acts, Rules and instructions for the purpose of prompt and effective realisation of the excise duty;
- whether adequate norms existed to govern the production and sale of liquor and they were enforced effectively;
- whether provisions relating to illicit liquor, prohibition, licensing etc. were effective and implemented by the Department and
- whether the internal control mechanism in the Department was adequate and effective to safeguard collection and account of excise receipts and for functions relating to prohibition etc.

1.4 Scope and methodology of audit

With a view to evaluate implementation of the excise policies, Punjab Excise Act, and the Rules and instructions issued by the Government from time to time, the records for the period 2005-06 to 2009-10 in the offices of ETC, Patiala, three³ out of six DETCs in the divisions, 12⁴ out of 24 AETCs, Five⁵ out of 10 distilleries, one⁶ out of the two breweries

³ Faridkot, Jalandhar and Patiala.

⁴ Barnala, Bathinda, Faridkot, Hoshiarpur, Jalandhar, Kapurthala, Mansa, Mohali, Nawanshahar, Patiala, Ropar and Sangrur.

⁵ AB Sugars Limited, Dasuya; Chandigarh Distillers and Bottlers Ltd, Banur; Jagatjit Industries Ltd., Hamira; Patiala Distillery Village Main, Patiala and Picadilly Sugar & Allied Industries Ltd., Patran.

⁶ M/s Mount Shivalik Breweries Limited, Bhankarpur; Derabassi.

and 7⁷ out of 19 bottling plants in the State were test checked between November 2010 and April 2011. Two divisions i.e. Faridkot and Jalandhar were selected on the basis of Probability Proportion to Size Selection System and the division at Patiala was selected on the basis of revenue potentiality and presence of large number of distilleries there. All the AETCs in the selected divisions were covered in audit.

1.5 Acknowledgement

The Indian Audit and Accounts Department acknowledges the cooperation of the Excise and Taxation Department and their field staff in providing necessary information and records for audit.

The Entry Conference was held with the Financial Commissioner, Taxation, and Government of Punjab on 15 November 2010 and with the Excise and Taxation Commissioner and his officers on 30th November 2010. During these meetings, the purpose of Performance Audit, issues for examination, sample selection etc. were discussed, besides seeking concerns, if any, of the Department requiring examination by Audit. An exit conference was held with the Excise and Taxation Commissioner on 14 July 2011 when the audit findings were discussed. Replies of the Department and views expressed during the meeting were kept in mind while finalising this report.

⁷ Avneet Distillers Pvt Ltd, Dera Bassi; Batra Breweries & Distillers Ltd, Dera Bassi; Mohan Meakin Ltd, Dera Bassi; National Industrial Corporation Ltd, Dera Bassi; NV Distillers, Dera Bassi; Punjab Expo Pvt Ltd, Jeoli, Dera Bassi and Rajasthan Liquors Pvt Ltd, Dera Bassi.
