

EXECUTIVE SUMMARY

Increase in tax collection	In 2010-11, the collection of revenue from State Excise was increased by 17.74 <i>per cent</i> over the previous year due to increase in number of Bonded Warehouses, enforcement activities and revision of licence fee.
Internal audit not conducted	Audit of State Excise Department has not been conducted by the Examiner of Local Accounts over the past few years. This resultantly had its impact in terms of the weak internal controls in the Department leading to substantial leakage of revenue. It also led to the omissions on the part of the Department remaining undetected till we conducted audit.
Very low recovery by the Department of observations pointed out by us in earlier years.	During the period 2005-06 to 2009-10, we had pointed out non/short realisation of excise duty, licence fee, penalty etc. With revenue implication of ₹ 82.16 crore in 20 cases. Of these, the Department/ Government accepted audit observation in seven cases involving ₹ 72.85 crore but recovered only ₹ 0.22 crore in two cases. The recovery position as compared to acceptance of objections was negligible.
Results of audits conducted by us in 2010-11	In 2010-11, we test checked the records of eight units relating to State Excise and found short/non-realisation of excise duty, fees, fines etc involving ₹ 38.57 crore in 30 cases. The Department accepted short/non-realisation of duties, fees, fines etc in one case and recovered ₹ 2.23 lakh.
What we have highlighted in this chapter	In this chapter, we present illustrative cases of ₹ 98.64 lakh selected from observations noticed during our test check of records relating to assessment and collection of duties,

fees etc by the Department, where we found that the provisions of the Acts/Rules were not observed.

It is a matter of concern that similar omissions have been pointed out by us repeatedly in the Audit Reports for the past several years, but the Department has not taken corrective action. We are also concerned that though these omissions were apparent from the records which were made available to us, the Department was unable to detect these mistakes.

Our conclusion

Due to non-functioning of the internal audit wing, the Department could not address the system deficiencies and detect the loopholes and lacunae in its functioning.

It also needs to initiate immediate action to recover the non-realisation of duties, fees penalties etc printed out by us, more so in those cases where it has accepted our contention.

CHAPTER III: STATE EXCISE

3.1 Tax administration

The Principal Secretary, Excise, Registration, Taxation and Stamps (ERTS) Department is the head of the Excise Department at the Government level. At the Department level, the Commissioner of Excise (CE) monitors the functioning of the Department. The implementing authority at the district level is the Superintendent of Excise (SE), who is responsible for the collection of all excise duties and fees as also for the proper functioning of the bonded warehouses and distilleries. The Assam Excise Act and Rules, the Assam Distillery Rules and the Assam Bonded Warehouse Rules (adopted by Meghalaya) regulate all excise related activities including revenue collection in the State. The Excise Department is one of the highest revenue earning departments in the State, after Taxation and Mining & Geology departments.

3.2 Trend of receipts

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

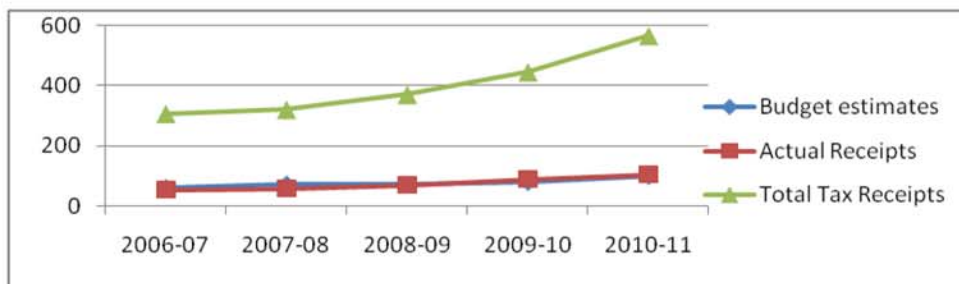
(₹ in crore)

Year	Budget estimates	Actual receipts	Variation Excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2006-07	60.00	53.95	(-) 6.04	10	304.74	18
2007-08	71.58	58.62	(-) 12.96	18	319.10	18
2008-09	71.57	69.79	(-) 1.78	2	369.44	19
2009-10	80.15	90.29	(+) 10.14	13	444.29	20
2010-11	100.14	104.50	(+) 4.31	4	566.07	18

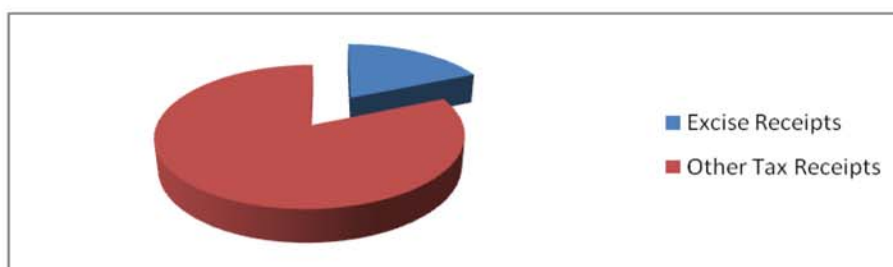
Thus, the percentage variation which was (-) 6 per cent in 2006-07 had shown correction and went up to the level of (+) 4 per cent in 2010-11. The variation is within limit and shows that the budget estimates were properly framed.

Excise receipts have been consistently been in the range of 18-20 per cent of the total tax receipts of the State for the last five years.

A line graph of budget estimates, vis-à-vis the actual receipts and total tax receipts of the State may be seen below:



Also a pie chart showing the position of actual excise receipts vis-à-vis the total tax receipts during the year 2010-11 may be seen below:



3.3 Cost of collection

The percentage of cost of collection (expenditure incurred on collection) of the Excise Department during the year and the preceding two years mentioned in the following table indicates that it is more than the All India average percentage of the cost of collection. Besides no reason for increase in cost of collection during 2011-12 over 2009-10 were furnished by the Department. The Government needs to take appropriate measures to bring down the cost of collection.

Year	Actual revenue (in crore)	Cost of collection (in crore) ¹	Percentage of expenditure on collection	All India average percentage of preceding years
2008-09	69.79	6.21	8.90	3.27
2009-10	90.29	7.23	8.19	3.66
2010-11	104.50	9.95	9.52	3.64

¹ Departmental figure

3.4 Impact of audit reports

3.4.1 Revenue impact

During the last five years (including the current year's report), we have pointed out non/short levy, non/short realisation etc., with revenue implication of ₹ 78.88 crore in 20 paragraphs. Of these, the Department/Government had accepted audit observations in six paragraphs involving ₹ 72.82 crore and had since recovered ₹ 0.28 crore. The details are shown in the following table:

(₹ in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted		Amount recovered	
	No.	Amount	No.	Amount	No.	Amount
2006-07	4	3.98	2	3.68	-	--
2007-08	3	0.43	1	0.16	-	--
2008-09	1	68.66	1	68.59	1	0.16
2009-10	8	4.82	2	0.39	2	0.12
2010-11	4	0.99	-	-		
Total	20	78.88	6	72.82	3	0.28

Thus, against the accepted cases involving ₹ 72.82 crore, the Department/Government has recovered an amount of ₹ 28 lakh which is 0.38 per cent.

We recommend that the Department needs to revamp its revenue recovery mechanism to ensure that they could recover at least the amount involved in the accepted cases.

3.5 Results of Audit

Test check of the assessment cases and other records of 08 units relating to the Excise Department during the year 2010-11 revealed non-realisation of duties, fees etc., amounting to ₹ 38.57 crore in 30 cases, which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-realisation of fees/duties etc.	6	29.91
2.	Non-renewal of licences	7	0.80
3.	Other irregularities	17	7.86
Total		30	38.57

A few illustrative audit observations involving ₹ 16 lakh are mentioned in the succeeding paragraphs.

3.6 Non-compliance of the provisions of the Acts/Rules

The provisions of the Assam Excise Act 1910 and Rules framed thereunder (adopted by Meghalaya) require levy and payment of:

- Annual fee in advance for renewal of licence at prescribed rate.
- Import Pass fee for import of absolute alcohol/IMFL.
- Security deposit in advance for ensuring prompt payment of licence fees, penalties.

Non-compliance of the provisions of the Act/Rules in some cases as mentioned in succeeding paragraphs resulted in non-realisation of ₹ 16 lakh.

3.7 Non-realisation of licence fee

A bottling plant, for renewal of licence is required to pay in advance, an annual fee at rates prescribed from time to time. The validity period of licence is from April of a year to March of the next year. As per instruction 141 of the Excise Act, if the licensee fails to pay licence fee before the start of the next financial year, his establishment is to be closed by the Assistant Commissioner of Excise (ACE) with the approval of the Commissioner of Excise (COE) until the fee is paid and on failure to pay the fee promptly, the licence is required to be cancelled.

We noticed during test check of records of the COE, Meghalaya in April 2010 that M/s North East Bottling plant did not renew the licence for the period 2008-09, 2009-10 and 2010-11. The ACE did not take up the matter with the COE to either issue demand notice to the licence owner to pay the fees or cancel the licence. Instead, the bottling plant was also allowed to manufacture and sell IMFL during the period which was highly irregular. Thus, laxity on the part of the COE led to unauthorised operation of the

plant besides non-realisation of licence fee of ₹ 12.30 lakh.

We reported the case to the Excise, Registration, Taxation, Stamps (ERTS) Department in May 2010; reply was awaited (September 2011).

3.8 Irregular grant of exemption

Under Rule 27 of the Meghalaya Excise Rules, import of foreign liquor shall be covered by a pass and the State Government is empowered to grant exemptions to certain organisations / institutions from payment of pass fee for the import of denatured spirit only. Further, under Rule 370 of the Rules ibid, pass fee of ₹ 12 per Bulk Litre (BL) is leviable on liquor imported into Meghalaya.*

* Ethyl alcohol to which a poisonous substance, such as acetone or methanol, has been added to make it unfit for consumption.

We noticed during test check of the records of the Assistant Commissioner of Excise (ACE), East Khasi Hills, Shillong in May 2010 that M/s Induscreed, Industrial Estate, Shillong, imported 36,000 BL of absolute alcohol² between June 2009 and February 2010 for

use in the manufacture of drugs and medicines. For import of the aforesaid spirit, three import permits were issued without realisation of import pass fee. Since import pass fee is exempted for the purpose of import of denatured spirit only, the grant of exemption is irregular leading to loss of revenue³ of ₹ 4.32 lakh.

We reported the case to the ERTS Department in May 2010; reply was awaited (September 2011).

3.9 Non-levy of import pass fee

Rule 370 of the Assam Excise Rules, 1945 (as adapted by the GOM) empowers the State Government to levy import pass fee (IPF) on Indian Made Foreign Liquor (IMFL)/ beer/wine brought into the State from outside the State. The rate of the IPF is ₹ 31.20 per case of beer and ₹ 108 per case of IMFL**.*

* Vide Excise Department Notification dated 25 April 2003

** Vide Excise Department Notification dated 16 March 2007

During test check of records of the Excise Department (ED) in the past, we noticed that the IPF was not being realised on IMFL/ beer/wine imported into the State by defence and paramilitary forces. Mention of this observation was made in the following Comptroller and

Auditors General's Audit Reports (ARs).

² Alcohol used for medicinal purposes and / or drinking.

³ 36000 BL @ ₹ 12 per BL = ₹ 4,32,000

(₹ in lakh)

ARs for the year en	Para No.	Loss of revenue
2005-06/	6.9	22.93
2006- 2007	6.14	21.88
2008-2009	4.2.19	61.00
2009- 2010	4.8	52.14
TOTAL		157.95

However during scrutiny of the records of the ACE, Shillong and Superintendent of Excise (SE), Nongpoh in April 2010 and September 2010, we noted that the situation remained unchanged. For instance, during April 2009 to March 2010 the ED issued permits to defence and paramilitary forces to import into the State 50,030 cases of IMFL and 9,578 cases of beer on which the IPF of ₹ 57.02 lakh was not realised.

We are of the view that since there is no provision in the Rules *ibid* which exempt defence and paramilitary forces from payment of the IPF or formal executive instructions to this effect, non-levy of the same was erroneous besides resulting in a recurring revenue loss to the public purse. We further ascertained that in Assam, the IPF was being levied on IMFL/beer/wine imported into that State by defence and paramilitary forces.

We recommend that the Department/Government take a considered decision on whether to exempt or levy the IPF on IMFL/beer/wine imported into the State by defence and paramilitary forces. If the decision is to exempt the imports, the Rules *ibid* will then need to be amended accordingly.

We reported the case to the ERTS Department in June 2011; reply was awaited (September 2011).

3.10 Non-realisation of security deposit

Under Rule 246 of the Assam Excise Rules (as adapted by the GOM), an advance deposit pledged as security in favour of the COE, GOM for due observance of the conditions and terms of the licence and ensuring prompt payment of licence fees, shall be deposited by all licencees.

The State Government vide notification dated 03 July 2009 brought all companies manufacturing liquor, under the purview of security deposit for registration of brand labels at rates specified in the notification for sale of liquor within the State.

We noticed during test check of records of the COE in April 2010 that the COE fixed the security deposit payable by different companies on sale of different brands of liquor within the State as prescribed by the GOM as per aforesaid notification. We,

however, noticed that one distillery⁴ and 13 companies⁵ manufacturing IMFL, wine and beer had not deposited security to the tune of ₹ 25 lakh based on the approved rates. Non-payment of security deposit is fraught with the risk of loss of revenue in case of default in payment of dues by the licencees.

The case was reported to the ERTS Department in May 2010; reply was awaited (September 2011).

⁴ NEB Bottling Plant

⁵ Radico Khaitan Ltd., Southern Agrifurane India Ltd., IFB Agro India Ltd., Mayell and Fraser (P) Ltd., Tilaknagar India Ltd., Bacardi Martini, Champagne Indage India, Sula Vineyards, Associate Wines, Renaissance Winery, Bacardi Martini, Manav Breweries, Spencers Distilleries and Breweries.