

## CHAPTER-VI: STATE EXCISE

### EXECUTIVE SUMMARY

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**What we have highlighted in this Chapter** In this Chapter we present illustrative cases of ₹ 71.04 lakh selected from observations noticed during our test check of records relating to incorrect fixation of reserve price of poppy straw and incorrect fixation of Minimum Guarantee Quota (MGQ) of country made and foreign made liquor.

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**Trend of revenue receipts** Actual receipts during the period 2008-09 to 2012-13 exceeded the budget estimates and during the year 2012-13, there was an increase of 12.99 *per cent* which was due to increase in receipts of process fees.

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**Internal Audit** During the year 2012-13, we observed that 21 units were planned for audit, but no unit was audited by the Department.

We recommend that the Department may take necessary action for posting of required staff, so that the internal audit can be carried out regularly.

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**Impact of Audit** We conducted test check of the records of nine units of the State Excise Department during the year 2012-13 and found non-recovery of duty, non-levy of penalty, short realisation of licence fees, non/short levy of entertainment duty etc. amounting to ₹ 20.02 crore in 700 cases. The Department accepted underassessment, non/short levy of duty, licence fee etc. of ₹ 4.55 crore in 364 cases.

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**Our Conclusion** The Excise Department needs to operationalise the Internal Audit Wing and conduct internal audit regularly, so that shortcomings of the nature detected by us can be avoided in future. It is also recommended that the Department may consider strengthening the system of monitoring audit observations with special emphasis on recovery of accepted cases.

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## 6.1 Tax administration

The Excise Department is one of the major revenue earning Departments of the State. Receipts from State Excise comprise receipts from duty, fee or confiscation imposed or ordered under the provisions of Chhattisgarh Excise Act, 1915 and rules and notifications issued thereunder. It also includes revenue from manufacture, possession and sale of liquor, *bhaang* and poppy heads. The Department maintains a set of liquor shops and gives annual licences to private contractors to sell country spirit, foreign liquor, *bhaang* and poppy from their shops. Licences for manufacture of liquor are granted and renewed every year by the Excise Commissioner on payment of prescribed fee subject to prior approval of the State Government. The Department follows the under mentioned Acts and Rules:

- Chhattisgarh Excise Act, 1915;
- Chhattisgarh Distillery Rules, 1995;
- Chhattisgarh Foreign Liquor Rules, 1996; and
- Chhattisgarh Country Spirit Rules, 1995.

Under the provisions of the Chhattisgarh Entertainment Duty and Advertisement Tax Act, 1936, the Excise Department also collects revenue in the form of Entertainment Duty.

The Excise Department is headed by the Secretary cum Excise Commissioner at Government level. He is assisted by Additional Excise Commissioners, Deputy Commissioners, Assistant Commissioners, District Excise Officers and Assistant District Excise Officers. The Collector of the district is in-charge of the excise administration.

## 6.2 Trend of revenue receipts from State Excise

Actual receipts from State Excise during the years 2008-09 to 2012-13 along with the total tax receipts during the period is exhibited below:

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess(+)/shortfall(-)	Percentage of variation	Total tax receipts of the state	Percentage of the actual receipts vis-à-vis total tax
2008-09	950.00	964.10	(+) 14.1	1.48	6,593.72	14.62
2009-10	1,158.00	1,187.72	(+) 29.72	2.57	7,123.25	16.67
2010-11	1,390.00	1,506.44	(+)116.44	8.38	9,005.14	16.73
2011-12	1,550.00	1,596.98	(+)46.98	3.03	10,712.25	14.91
2012-13	2,200.00	2,485.68	(+)285.68	12.99	13,034.21	19.07

(Source: Finance Accounts of Government of Chhattisgarh)

We found that during the year 2012-13, the Finance Department (FD) had approved the budget estimate of ₹ 2,200.00 crore as against this actual receipts was ₹ 2,485.68 crore. The FD needs to be more accurate while preparing budget estimates as there was variation of more than 12 per cent. The Department stated that the variation was due to receipt of process fee.

### 6.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2013 amounted to ₹ 31.04 crore. The following table depicts the position of arrears of revenue during the period 2008-09 to 2012-13:

(₹ in crore)

Year	Opening balance of arrears	Demand raised during the year	Amount collected during the year	Closing balance of arrears
2008-09	22.82	0.49	0.05	23.26
2009-10	23.26	2.42	0.08	25.60
2010-11	25.60	0.37	0.67	25.30
2011-12	25.30	0.04	0.46	24.88
2012-13	24.88	6.57	0.41	31.04

(Source: Figures furnished by the Department)

### 6.4 Cost of collection

The gross collection from State Excise, expenditure incurred on their collection and the percentage of such expenditure to gross collection during the years 2010-11, 2011-12 and 2012-13 along with the relevant all India average percentage of expenditure on collection to gross collection of preceding years are indicated below:

(₹ in crore)

Year	Collection	Expenditure on collection of revenue	Percentage of expenditure on collection	All India average percentage of expenditure to gross collection of preceding year
2010-11	1,506.44	40.68	2.70	3.64
2011-12	1,596.98	52.06	3.26	3.05
2012-13	2,485.68	46.63	1.88	2.98

The percentage of expenditure on collection has come significantly below the all-India average in 2012-13. This is appreciated.

### 6.5 Internal Audit

Internal Audit Wing (IAW) of an organisation is a vital component of the internal control mechanism and is generally defined as the control of all controls. It enables the organisation to assure itself that the prescribed systems are functioning reasonably well.

We observed that during the year, 21 units were planned for audit but no unit was audited by the Department, though the IAW in the Department was working with strength of one Joint Director against the sanctioned strength of one Joint Director and two Assistant Internal Audit Officers.

**We recommend that the Department may take necessary action for posting of required staff, so that the internal audit can be carried out regularly.**

## 6.6 Impact of Audit

**6.6.1 Status of compliance to Audit Reports (2007-08 to 2011-12) :** During the period 2007-08 to 2011-12, through our Audit Reports we had pointed out the cases of non-recovery of duty, short realisation of licence fees, non/short levy of entertainment duty involving ₹ 24.61 crore. The Department has accepted the observations of ₹ 11.63 crore of which ₹ 1.66 crore was recovered till March 2012 as shown in the table below:

(₹ in crore)

Sl. No.	Year of Audit Report	Total money value	Amount accepted	Recovery made up to 31 March 2013
1	2007-08	14.95	8.68	Nil
2.	2008-09	1.20	0.07	0.03
3.	2009-10	0.48	0.48	0.04
4.	2010-11	2.47	2.39	1.58
5.	2011-12	5.51	0.01	0.01
	<b>Total</b>	<b>24.61</b>	<b>11.63</b>	<b>1.66</b>

It may be seen from the above table that the Department recovered only 14 *per cent* of the accepted amount.

**It is recommended that the Government may make efforts to recover the amount involved in the accepted cases at the earliest.**

### 6.6.2 Status of compliance to outstanding Inspection Reports (2007-08 to 2011-12):

During the period 2007-08 to 2011-12, through our Inspection Reports we had pointed out non-recovery of duty, short realisation of licence fees, non-levy of penalty, non/short levy of entertainment duty with revenue implication of ₹ 131.78 crore in 4,321 cases. Of these, the Department/Government had accepted audit observations in 2,471 cases involving ₹ 41.21 crore. The details are shown in the following table:

(₹ in crore)

Year of Inspection Report	No. of units audited	Amount objected		Amount accepted		Amount recovered (as on 31 March 2013)	
		Cases	Amount	Cases	Amount	Cases	Amount
2007-08	12	1,143	18.74	912	0.54	55	0.04
2008-09	10	223	17.79	56	2.85	2	0.02
2009-10	16	1,036	16.71	337	7.52	Nil	Nil
2010-11	9	1,332	64.62	1,084	22.02	6	3.37
2011-12	6	587	13.92	82	8.28	Nil	Nil
<b>Total</b>		<b>4,321</b>	<b>131.78</b>	<b>2,471</b>	<b>41.21</b>	<b>63</b>	<b>3.43</b>

It may be seen from the foregoing table that the Department recovered only eight *per cent* of the accepted amount.

**It is recommended that the Government may make efforts to recover the amount involved in the accepted cases at the earliest.**

**6.6.3 Status of compliance to Inspection Reports (2012-13):**

Out of the 16 units of the Excise Department, we conducted test check of nine units during the year 2012-2013 having total revenue (2011-12) of ₹ 1,024.04 crore. We found non/short levy of excise duty, non-levy of penalty for non-maintenance of minimum stock of spirit in warehouses, arrear of entertainment duty and non-levy of penalty and other irregularities amounting to ₹ 20.02 crore in 700 cases. The observations broadly fall under the following categories:

(₹ in crore)

Sl. No.	Category	No. of cases	Amount
1.	Non/short levy of excise duty	109	10.11
2.	Non-levy of penalty for non-maintenance of minimum stock of spirit in warehouses	66	5.78
3.	Arrear of entertainment duty and non-levy of penalty	126	0.32
4.	Other irregularities	399	3.81
<b>Total</b>		<b>700</b>	<b>20.02</b>

During the course of the year, the Department accepted underassessment, non/short levy of duty, licence fee etc of ₹ 4.55 crore in 364 cases.

A few illustrative cases involving ₹ 71.04 lakh are mentioned in the following paragraphs.

## 6.7 Audit observations

*We scrutinised the assessment records of Excise Duty, fee and charges in the District Excise Offices (DEOs) and found several cases of non-observance of the provisions of the Acts/Rules/Annual Excise Policies (AEP) leading to incorrect fixation of reserve price and minimum guarantee quota of country and foreign Liquor as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test checks carried out by us. Such omissions on the part of the Assistant Commissioners/District Excise Officers are pointed out by us each year, but not only do the irregularities persist, these remain undetected till an audit is conducted. There is need for the Department to improve the internal control system including strengthening of internal audit so as to avoid recurrence of such irregularities.*

## 6.8 Incorrect fixation of reserve price

As per letter No. 436 dated 21.02.2011 of Excise Commissioner, minimum reserve price on auction of poppy straw shop for the year 2011-12 was to be fixed at licence fee received during the year 2010-11. Licence fee received in 2010-11 by District Excise Office, Jagdalpur was ₹ 8.85 lakh. Further, a representative of Commissioner's office should be present at the time of auction to decide the below the reserve price.

We found (September 2012) during test check of G-1 register<sup>1</sup> of District Excise Officer, Jagdalpur out of nine test checked units that one group of poppy straw shops (5 retail and one wholesale) was auctioned by the

Collector, Jagdalpur at ₹ 5 lakh. On scrutiny of records, it was found that the licence fee received from that particular group of shop was ₹ 8.85 lakh during the year 2010-11. Therefore as per the orders of the Commissioner, the minimum reserve price should have been ₹ 8.85 lakh instead of ₹ 5 lakh. Thus, non-observance of the order of the Commissioner in fixing the minimum reserve price resulted in short realisation of revenue of ₹ 3.85 lakh.

We reported the matter to the Government/Department (June 2013) for their comments and during a meeting (August 2013), the Government replied that proceeding for auction was held on 30.3.2011 by the Collector. The maximum bid amount on 30.3.2011 was ₹ 5 lakh. The Collector accepted the maximum bid of ₹ 5 lakh and requested (March 2011) the Excise Commissioner for post facto approval.

The reply is not convincing as approval from the Commissioner was not there, which is required even for normal fixation of reserve price.

<sup>1</sup> G-1 register of monthly paid licence fee record

## 6.9 Incorrect fixation of Minimum Guarantee Quota of country liquor

The Excise Commissioner (EC) Chhattisgarh had issued (October 2009) instructions to all the Collectors to consider the actual demand and consumption of country liquor of each shop before sending proposals of Minimum Guarantee Quota (MGQ) for the year 2010-11. Further, it was also stated that Minimum Guarantee Quota (MGQ) of country liquor shops is to be assessed by the Excise Advisory Committee with the consultation of concerned Collector and send it to the Excise Commissioner for approval.

Excise Department generates revenue in the form of licence fee and excise duty. Licence fee is a fixed amount comprising 60 *per cent* of the target fixed which has to be paid compulsorily, irrespective of the actual sale of liquor and the second part is the excise duty on actual sales subject to minimum 40 *per cent* of the target fixed and is, therefore, the variable component of the excise revenue.

We found (October 2012) during test check of records<sup>2</sup> of the Assistant Commissioner, (AC) Korba out of nine test checked units that Collector had sent (November 2009) proposals of 10.95 lakh Proof Litre (P.L) for approval for the year 2010-11 to the EC. The Assistant Commissioner again sent (February 2010) revised proposals of 10.30 lakh P.L. which was approved by the Commissioner, However, no specific reasons were recorded for reducing the target. Thus MGQ approved for the year 2010-11 was 4.6 *per cent* less than the previous year's MGQ.

However, we observed from the records of the AC

that the yearly fixed MGQ and actual consumption of country liquor for the last four years were as follows:

Year	Yearly fixed MGQ of country liquor (in P.L.)	Yearly variation of MGQ (in <i>per cent</i> )	Actual consumption of country liquor (in P.L.)	Variation (in <i>per cent</i> ) Col. (4) to (2)
(1)	(2)	(3)	(4)	(5)
2007-08	10,30,000	-	10,86,104	5.44
2008-09	10,60,900	3.00	10,86,390	2.40
2009-10	10,80,000	1.80	11,33,043	4.91
2010-11	10,30,000	(-) 4.63	11,98,198	16.32

From the above table, it can be noticed that during the year 2007-08 to 2009-10, there was increase in MGQ and actual consumption of country liquor. Despite this, the Commissioner reduced the target for the year 2010-11

<sup>2</sup> Files of allotment of liquor shops



by 50,000 P.L. as compared to the previous year. However, no reasons were recorded for proposing reduction in MGQ.

Thus, inaction on the part of AC and Collector to prepare the target without considering the actual consumption of the previous year despite EC's instruction and approval of the same by the EC without ascertaining the compliance to its instructions led to incorrect fixation of MGQ of country liquor and consequential non realisation of licence fee of ₹ 52.89 lakh<sup>3</sup>.

We reported the matter to the Department/Government (June 2013) for their comments and during a meeting (August 2013), the Government replied that MGQ was reduced as revised proposal was sent from District and there was no loss in revenue due to this.

The reply is not convincing as there was no reason in the proposal to reduce the target from the original proposal. Further, in all districts of the State except Korba, the MGQ was increased in 2010-11 as compared to the previous year 2009-10.

### 6.10 Incorrect fixation of Minimum Guarantee Quota of foreign liquor

The Excise Commissioner, (EC) Chhattisgarh, had issued (October 2009), instructions to all the Collectors to consider the actual demand and consumption of foreign liquor of each shop before sending proposals of Minimum Guarantee Quota (MGQ) for the year 2010-11.

We found (October 2012) during test check of the files of allotment of Foreign Liquor Shops (FLS) of the Assistant Commissioner (AC), Excise, Korba, out of nine test checked units that in case of six<sup>4</sup> FLS, the

Collector had sent proposals (November 2009) of the target 90000 Bulk Litre for the year 2010-11 to EC, Chhattisgarh, Raipur. Further, the Collector had sent (February-2010) a revised proposals of the target of 82500 BL without mentioning any reasons for reduction in MGQ. However, we observed from the records of the AC that the actual consumption of malt by the above shops up to the end of December 2009 was 1, 30,163.06 BL. Further, it was also noticed that FLS had already consumed more than their yearly fixed MGQ of 2009-10 by the end of December 2009 itself. Despite this, the AC did not take into account the actual consumption while proposing the MGQ for the year 2010-11. Thus, inaction on the part of AC and Collector to prepare the target without considering the actual consumption of the previous year despite EC's

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Approved MGQ for the year 2010-11 by the EC	Collector proposal for fixation of MGQ for the year 2010-11	Difference in quantity
10,30,000 PL	10,95,300 PL	65,300 PL

Excise duty : 65,300\*54 = ₹ 35,26,200/-

Licence Fee : 35,26,200\*60/40 = ₹ 52,89,300/-

<sup>4</sup> Kothari, Rajgamaar, Hardibazaar, Kathghora, Chotia and Paali



instruction and approval of the same by the EC without ascertaining the compliance to its instructions led to incorrect fixation of MGQ of foreign liquor (Malt) and consequential non realisation of licence fee of ₹ 14.30 lakh (as shown in the *Appendix 6.1*).

We reported the matter to the Department/Government (June 2013) for their comments and during a meeting (August 2013), the Government stated that from the six shops, there was increase of 153.8 *per cent* during 2010-11, in actual consumption compared to the MGQ fixed and in all there was 78.67 *per cent* average increase in consumption.

From the reply itself it is clear that the MGQ fixed was unrealistic as there was increase of 78.67 *per cent* in consumption.