

EXECUTIVE SUMMARY

Increase in tax collection	In 2011-12, the collection of revenue from State Excise increased by 25.84 <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 on observations pointed out by us in earlier years.	During the period 2007-08 to 2011-12, we had pointed out non/short realisation of excise duty, licence fee, penalty <i>etc.</i> with revenue implication of ₹ 75.80 crore in 20 cases. Of these, the Department/Government accepted audit observation in eight cases involving ₹ 70.04 crore but recovered only ₹ 0.55 crore in five cases. The recovery position as compared to acceptance of objections was negligible.
Results of audits conducted by us in 2010-11	In 2011-12, we test checked the records of eight units relating to State excise and found short/non-realisation of excise duty, fees, fines <i>etc.</i> involving ₹ 42.95 crore in 39 cases. The Department failed to respond to any of the any of the audit observations. No recovery was intimated.
What we have highlighted in this Chapter	In this Chapter, we present illustrative cases of ₹ 0.90 crore selected from observations noticed during our test check of records relating to assessment and collection of duties, fees <i>etc.</i> 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.

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.

Our conclusion

It also needs to initiate immediate action to recover the non-realisation of duties, fees penalties *etc.* pointed 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 2007-08 to 2011-12 along with the total tax receipts during the same period is exhibited in the following table and graph.

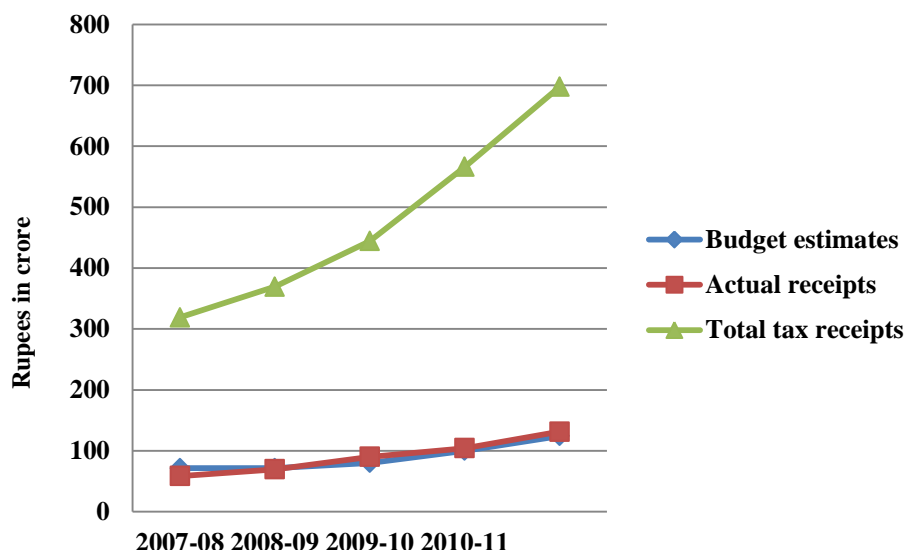
(₹ in crore)

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
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
2011-12	124.44	131.50	(+) 7.06	6	697.54	19

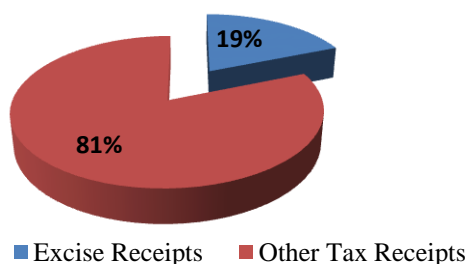
Thus, the percentage variation which was 18 *per cent* in 2007-08 had shown correction and went up to the level of 6 *per cent* in 2011-12. The variation is within limit and shows that the budget estimates were properly framed.

Excise receipts have 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 2011-12 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 the high cost of collection was furnished. The Department 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
2009-10	90.29	7.23	8.19	3.66
2010-11	104.50	9.95	9.52	3.64
2011-12	131.50	10.99	8.36	3.05

¹ Departmental figures

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 ₹ 75.80 crore in 20 paragraphs. Of these, the Department/Government had accepted audit observations in eight paragraphs involving ₹ 70.04 crore and had since recovered ₹ 0.55 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
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	-	-	-	-
2011-12	4	0.90	4	0.90	2	0.27
Total	20	75.80	8	70.04	5	0.55

Thus, against the accepted cases involving ₹ 70.04 crore, the Department/Government has recovered an amount of ₹ 0.55 crore which is 0.79 *per cent* of the accepted amount.

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 seven units relating to the Excise Department during the year 2011-12 revealed non-realisation of duties, fees *etc.*, amounting to ₹ 42.95 crore in 39 cases, which can be categorised as under:

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Non-realisation of fees/duties <i>etc.</i>	9	33.29
2.	Non-renewal of licences	13	1.53
3.	Loss of revenue	10	7.6
3.	Other irregularities	7	0.53
Total		39	42.95

During the year, the Department failed to respond to any of the irregularities brought to their notice.

A few illustrative audit observations involving ₹ 0.90 crore 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 ₹ 0.90 crore.

3.7 Loss of revenue

Delay in selling holograms resulted in a revenue loss of ₹ 17.76 lakh.

In August 2009, the Commissioner of Excise (COE), GOM procured one

A new Rule (Rule 373) inserted in the Meghalaya Excise Rules in April 2009 required all liquor and beer bottles sold in the State to have holograms to be supplied by the Excise Department to manufacturers/bottlers/bonded warehouses, who would then affix them to the bottles before effecting sales. The cost of each hologram was fixed by the Department as under:

Cost of hologram	₹ 1.25
Central Sales Tax	₹ 0.05
Government share	₹ 0.12
Total	₹ 1.42

crore holograms from a firm which however, could not be distributed to the manufacturers/bottlers/bonded warehouses due to a case filed by the Meghalaya Wine Dealers' Association in the Gauhati High Court challenging the GOM's decision to introduce the holograms. The Court dismissed the case on

12 March 2010. It was observed that COE instead of selling the holograms immediately from 13 March 2010 sold them in a phased manner *i.e.*, to distilleries from May 2010, bonded warehouses from June 2010 and retail wine shops from July 2010 onwards.

A check of the records of six² offices of the COE revealed that 1,47,99,848 bottles of IMFL, beer *etc.*, were sold by bonded warehouses in five³ out of seven districts in the State during 13 March 2010 to 31 July 2010 without holograms resulting in revenue loss of ₹ 17.76 lakh calculated on the basis of the GOM's share of ₹ 0.12 per hologram.

On this being pointed out (August 2011) the Department stated in September 2012 that affixation of holograms was done in three phases after consultations with the companies, wholesalers and retailers as a result of which there was a delay. The reply is not acceptable as there was no

²Superintendents of Excise, Tura, Williamnagar, Khliehriat, Nongpoh, Jowai and Deputy Commissioner of Excise, Shillong.

³ East Garo Hills, West Garo Hills, East Khasi Hills, Ri-bhoi and Jaintia Hills.

provision for affixation of holograms in three phases in the court order of 12 March 2010.

3.8 *Non-realisation of security deposit*

13 bonded warehouses had not paid security deposit of ₹ 39 lakh.

Under Rule 246 of the Meghalaya Excise Rules, a security in the form of a fixed deposit valid for five years and pledged in favour of the COE was to be furnished by all bonded warehouses as a guarantee for due observance of the conditions and terms of their licence and prompt payment of licence fees. The GOM on 11 October 2010 notified the security deposit for a bonded warehouse at ₹ 3 lakh.

A test check of records of the COE in April 2012 revealed that 13 bonded warehouses⁴ had not made the security deposit which, at the rate of ₹ 3 lakh per bonded warehouse, amounted to ₹ 39 lakh. Non-realisation of the security deposit is fraught with the risk of loss of revenue in case of default in payment of licence fees by the 13 bonded warehouses.

On this being pointed out (May 2012), the Department stated in September 2012 that out of 13 bonded warehouses, security deposit in respect of seven bonded warehouses has been realised. Realisation in respect of the remaining six⁵ bonded warehouses has not been intimated (March 2013).

⁴ (1) DMB Bonded Warehouse, Williamnagar (2) Simsang Bonded Warehouse, Williamnagar (3) MM Bonded Warehouse, Williamnagar (4) BM Bonded Warehouse, Shillong (5) ML Bonded Warehouse, Khliehriat (6) RAM Bonded Warehouse, Shillong (7) DS Bonded Warehouse, Jowai (8) BA Bonded Warehouse, Shillong (9) Reliance Bonded Warehouse, Shillong (10) VFR Bonded Warehouse, Jowai (11) SS Bonded Warehouse, Ladrymbai (12) BM Bonded Warehouse, Tura (13) Renaissance Bonded Warehouse, Ri-bhoi.

⁵ (1) Simsang bonded warehouse, Williamnagar (2) MM Bonded warehouse, Williamnagar (3) BM Bonded Warehouse, Tura (4) ML Bonded warehouse, Khanapara (5) BM Bonded Warehouse, Shillong (6) Renaissance Bonded Warehouse, Ri-bhoi.

3.9 Non-renewal of brand names

Twelve distilleries failed to register 41 brands of liquor which led to non-realisation of revenue of ₹ 19.50 lakh.

Under Rule 363(1) of the Meghalaya Excise Rules, no person can sell IMFL, beer, wine and bottled-in-origin (BIO) products in the State unless its brand name and label are registered with the COE. The registration is valid upto 31 March of the next year after which it may be renewed on payment of the prescribed renewal fees. The GOM fixed the fees for registration of IMFL at ₹ 45,000, beer at ₹ 22,000 and BIO products at ₹ 25,000.

A test check of records of the COE in April 2012 revealed that the registration of 41 brands of IMFL, beer, wine and BIO products of 12 distilleries⁶ were not renewed during 2011-12 although the distilleries were required to apply for re-registration of the brand names before the

last day of the preceding year. The COE also neither issued demand notices to them nor cancelled the brand name registration certificates authorising their sale within the State. Thus, the lack of timely action by the COE resulted in non-realisation of revenues of ₹ 19.50 lakh and the illegal sale of unregistered liquor products in the State.

On this being pointed out, the Department stated in September 2012 that in respect of two distilleries the renewal fees have been realised. In respect of the others, the brands were cancelled. The reply is not acceptable as the same should have been cancelled immediately on non-receipt of renewal fees at the beginning of the year and not subsequently.

⁶ (1) KDC Guwahati (2) Axis Enterprise, Guwahati (3) MDH Beverages Ltd Byrnihat (4) SKOL Breweries Ltd Mumbai (5) SKOL Breweries Ltd Aurangabad (6) Vallee de Vin Pvt. Ltd, Thane (7) Sikkim Distilleries, Rangpo (8) Carlsberg India Ltd. New Delhi (9) Bacardi Martini Pvt. Ltd, New Delhi (10) Prathamesh Wines Pvt. Ltd, Nashik (11) Associates Wines Pvt. Ltd. Pune. (12) Nashik Vintners Pvt Ltd, Mumbai.

3.10 Local chiefs failed to deposit licence fees collected from outstills

The Department failed to realise licence fees of ₹ 13.46 lakh collected by eight local chiefs from 299 outstills.

Examination of the records of the COE in April 2012 showed that eight

The GOM in November 2008 fixed fees for outstill licenses at ₹ 3000 per annum. In Meghalaya, the COE has empowered the local chiefs to act as excise officers with the authority to issue licences for manufacture and sale of country spirit within their respective territories. The chiefs were permitted to retain 50 per cent of the licence fees collected by them while the balance was to be deposited into Government account.

local chiefs⁷ out of ten chiefs appointed, collected licence fees totalling ₹ 26.91 lakh from 299 outstills⁸ during the period from April 2009 to March 2012. The chiefs however, failed to deposit the government's share of 50 per cent of the fees amounting to ₹ 13.46 lakh nor did the

Department also take any action to realise the revenue.

After this was pointed out (May 2012), the Department stated in September 2012 that the matter had been referred to the Government to revoke the powers of the local chiefs to collect the licence fees. The reply is, however, silent regarding non-deposit of the licence fees by the local chiefs.

⁷ (1) Syiem of Myllem (2) Syiem of Khyrim (3) Syiem of Nongspung (4) Syiem of Mawphlang (5) Syiem of Sohra (6) (7) Sirdar of Mawlong (8) Sirdar of Pamsangut.

⁸ an establishment where country liquor is manufactured and sold.