

CHAPTER-III: STATE EXCISE

3.1 Results of Audit

In 2013-14, test check of the records of 15 out of 27 units revealed non/short levy of excise duty/ penalty and other irregularities involving ₹ 280.03 crore in 2,011 cases, which is detailed in Table 3.1:

Table-3.1

(₹ in crore)

Sl. No.	Category	Number of cases	Amount
1.	Performance Audit on “Levy and collection of Excise Receipts”	1	263.58
2.	Non/short levy of excise duty	43	12.20
3.	Non levy of penalty for failure to maintain minimum stock of spirit in warehouses	3	3.15
4.	Other irregularities	1,964	1.10
Total		2,011	280.03

During the course of the year, the Department accepted non/short levy of excise duty and other deficiencies of ₹ 7.24 crore in 100 cases.

A performance audit on “Levy and collection of Excise Receipts” having money value of ₹ 263.58 crore is discussed in the following paragraphs.

3.2 LEVY AND COLLECTION OF EXCISE RECEIPTS

Highlights

- Absence of mechanism to cross verify the transactions between distilleries/bottling units and Chhattisgarh State Beverages Corporation Limited (CSBCL) as well as transactions between CSBCL and retail licensees resulted in short realisation of duty aggregating ₹ 2.96 crore.

(Paragraph 3.2.9)

- The Department did not frame any rules to recover the licence fee of ₹ 178.41 crore from the licensees which was collected by them from the consumers during sale of liquor in excess of Minimum Guaranteed Quota.

(Paragraph 3.2.10)

- Non-adherence of provisions of Country Spirit Rules regarding chemical analysis before it is issued for human consumption led to supply of substandard country spirit.

(Paragraph 3.2.11.2)

- Non-registration of bond executed on export of IMFL led to non-realisation of stamp duty and registration fee amounting to ₹ 40.32 lakh.

(Paragraph 3.2.13)

- Incorrect fixation of average duty of foreign liquor by the Excise Commissioner led to short realisation of duty and licence fee aggregating ₹ 79.35 crore.

(Paragraph 3.2.14)

- Short realisation of process fee of ₹ 71.16 lakh due to non-clearance of bank drafts.

(Paragraph 3.2.15)

- Non-recovery of duty of ₹ 98.58 lakh on unacknowledged/delayed receipt of verification reports of exported IMFL.

(Paragraph 3.2.16)

- Non-realisation of duty of ₹ 63.79 lakh due to non-disposal of IMFL in miniature bottles.

(Paragraph 3.2.18)

3.2.1 Introduction

Receipts from State Excise comprises of receipts from duty, fee or confiscation imposed or ordered under the provisions of the Chhattisgarh Excise Act, 1915 and rules and notifications issued there under. It also includes revenue from manufacture, possession and sale of liquor, *bhaang* and poppy heads. The Department has the ownership of the liquor shops and gives annual licences to private contractors through lottery 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 the prescribed fee subject to prior approval of the State Government.

3.2.2 Organisational setup

Secretary cum Excise Commissioner (EC) is the administrative head of the Department. He is responsible for formulation and implementation of the excise policy. Two Additional Excise Commissioners and one Assistant Excise Commissioner (AEC) assist him at the headquarters. The Department has three divisions each headed by a Dy. Commissioner (DC) who supervises district offices, distilleries and bottling plants in the division. The Collector is the head of excise administration in each of the 27 districts and is assisted by AEC/District Excise Officer (DEO) at district headquarters/distilleries.

Chhattisgarh has three distilleries, nine bottling plants and five bottling plants with franchise for foreign liquor. Distilleries and warehouses are owned by private parties under administrative control of the Government. There are 26 warehouses in the State. The distilleries/bottling plants/warehouses are controlled and supervised by DEO/Assistant DEO/ Excise Inspector.

Role of Chhattisgarh State Beverages Corporation Limited

The Government decided (November 2001) for wholesale supply of Indian made foreign liquor (IMFL) through Chhattisgarh State Beverages Corporation Limited (CSBCL). The CSBCL is the sole authority to purchase IMFL from producers/suppliers and store it in its godowns. A retail vendor, after paying requisite duty for the quantity of IMFL required, obtains a transport permit from the concerned DEO/AEC and on the basis of permit, the CSBCL issues IMFL to the retail vendors.

3.2.3 Audit objectives

The Performance audit was conducted with a view to ascertain:

- whether adequate and sufficient procedure exists in the Department for assessment and collection of excise duty and licence fees and its credit to Government Account;
- whether the provisions of the Excise Policy were effectively implemented and were adequate to stop leakage of revenue; and
- whether an internal control mechanism exists in the Department and is adequate and effective.

3.2.4 Audit criteria

The following Acts and Rules were used as audit criteria:

- Chhattisgarh Excise Act, 1915;
- Chhattisgarh Excise Settlement of Licences for Retail Sale of Country/Foreign Liquor Rules, 2002;
- Chhattisgarh Distillery Rules, 1995;
- Chhattisgarh Foreign Liquor Rules, 1996;
- Chhattisgarh Country Spirit Rules, 1995; and
- Instructions issued by the Excise department from time to time.

3.2.5 Scope and methodology of Audit

“Levy and collection of excise receipts” was reviewed earlier, which featured as paragraph 3.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2008, Government of Chhattisgarh highlighting non-establishment of departmental laboratory in the State, excess wastage in transportation of bottled country spirit etc.

For the present Performance Audit on “**Levy and collection of excise receipts**” we conducted test check of the records for the period 2009-10 to 2013-14. The office of the EC, 11¹ out of 27 DEOs/AECs, six² out of 14 bottling units and two³ out of three distilleries were selected on the basis of simple random sampling without replacement with a view to evaluate the efficiency and effectiveness of the Department in enforcing the system and procedure prescribed for levy and collection of excise receipts. Audit was conducted between March 2014 and June 2014. Audit revealed number of system/compliance deficiencies which are discussed in the succeeding paragraphs. An entry conference with the Commissioner-cum Secretary of Excise, State Excise Department was held on 2 May 2014 wherein the scope of audit, methodology and audit objectives were discussed. The draft report was forwarded to the Government and the Department on 24 July 2014. The exit conference was held on 22 August 2014 wherein the audit findings, conclusions and recommendations were discussed. The Government was represented by the Commissioner-cum-Secretary of State Excise. The replies received during the exit conference and at other points of time have appropriately been included in the relevant paragraphs.

3.2.6 Acknowledgement

Indian Audit and Accounts Department acknowledges the co-operation of the State Excise Department in providing necessary information and records to audit.

¹ Ambikapur, Bilaspur, Bastar, Janjgir-Champa, Kawardha, Korba, Mahasamund, Mungeli, Raigarh, Raipur and Rajnandgaon

² M/s Aegis Beverages Pvt. Ltd., M/s Crown Distilleries Ltd, M/s Golden Prince Wines India Pvt. Ltd, M/s Legend Distilleries Pvt. Ltd, M/s Raipur Bottling Company and M/s Sarveshvari Bottling and Beverage Pvt. Ltd.

³ M/s Bhatia Wine Merchants Pvt. Ltd. and M/s Welcome Distilleries Pvt. Ltd

3.2.7 Trend of receipts of State Excise

Actual receipts from State Excise during the years 2009-10 to 2013-14 along with the total tax receipts of the Government of Chhattisgarh during the period are mentioned below:

Table-3.2

(₹ in crore)

Year	Budget estimate	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total receipts
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
2013-14	2,675.00	2,549.15	(-) 125.85	(-) 4.70	14,342.71	17.77

(Source: Finance Accounts of Government of Chhattisgarh)

It may be seen from the above table that the percentage of actual receipts over total receipts during 2009-10 to 2012-13 has gradually increased from 16.67 to 19.07 *per cent*. However, the same decreased to 17.77 *per cent* during 2013-14. The Department intimated that revenue decreased due to receipt of less number of applications for allotment of liquor shops than that of previous year.

3.2.8 Arrears of excise revenue

The following table depicts the position of arrears of revenue during the period 2009-10 to 2013-14:

Table-3.3

(₹ in crore)

Year	Opening balance of arrears	Addition during the year	Recovery made during the year	Closing balance of arrears
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
2013-14	31.04	0.00	0.59	30.45

(Source: Figures furnished by the Department)

The above table indicates that sincere efforts were not made to recover old dues. The recovery ranged between ₹ 8 lakh to ₹ 67 lakh against arrears of ₹ 23 crore to ₹ 31 crore during the five years. The Government may issue necessary instructions for realisation of the arrears in a time bound manner.

Settlement of shops

The Government of Chhattisgarh enacted “Chhattisgarh Excise Settlement of Licences for Retail Sale of Country/ Foreign Liquor Rules 2002” with effect from 15th March 2002. When a new licence is proposed to be granted in an area or locality, the licensing authority (Collector) invites applications for this purpose after giving wide publicity through daily newspapers having circulation in that area. In case, more than one application is received for shops/groups, the concerned Collector selects the application through software developed by National Informatics Center (NIC) for grant of licence. The Government settled the shops/groups for IMFL/country spirit for the period 2009-10 to 2013-14 as detailed below:

Table-3.4

Year	Number of sanctioned shops	Number of settled shops	Number of unsettled shops	Percentage of unsettled shops
2009-10	1074	1074	Nil	Nil
2010-11	1054	1054	Nil	Nil
2011-12	815	815	Nil	Nil
2012-13	731	727	4	0.01
2013-14	719	719	Nil	Nil

It may be seen from the above table that the Department achieved its target of settlement of shops during the audit period.

Audit observations

System deficiencies

Chhattisgarh Government has appointed CSBCL as the sole agent for procurement and storage of IMFL in Chhattisgarh. Other retailers lift the required quantity of IMFL after paying the duty and obtaining permit from the concerned DEO/AEC.

As per excise policy issued from time to time, Minimum Guaranteed Quota (MGQ) is determined on the basis of demand and actual consumption of liquor for the first six months of the previous year for any shop.

The annual excise policy issued by the EC provides that revenue from sale of liquor through country/foreign liquor shops situated in the State upto 2011-12 was divided into two parts i.e. 60 *per cent* licence fee and 40 *per cent* duty. Further, it was amended to 65 and 35 *per cent* respectively from 2012-13 onwards.

Various system deficiencies noticed during Audit are discussed in subsequent paragraphs.

3.2.9 Deficiencies noticed during cross verification of data

As per Rule 8(i) and (j) of the Chhattisgarh Foreign Liquor Rules 1996, licensee of FL 9/FL 9A (a licence granted for bottling of foreign liquor who manufacture and bottle foreign liquor by blending) may sell or transfer foreign liquor to FL-10

(a licence granted for storage and distribution of foreign liquor).CSBCL is the FL-10 licensee in Chhattisgarh. Further, the EC fixed the average duty of IMFL at ₹ 71.50 per Proof Litre (PL) for the period 2011-12 and 2012-13 and ₹ 90 per PL for the year 2013-14.

We collected information regarding dispatch and receipt of foreign liquor from FL-9/9A and FL-10 licensees. During the cross verification, we noticed cases of short and excess receipt of foreign liquor in FL-10 as discussed in succeeding paragraphs:

3.2.9.1 Absence of mechanism to verify dispatch/receipt of foreign liquor from distillery/bottling unit to CSBCL

As per the information provided by the FL 9/9A licensees, 1.62 crore PL of foreign liquor was dispatched to CSBCL during 2011-12 to 2013-14. But, CSBCL intimated that only 1.58 crore PL of foreign liquor had been received. This shows shortfall of 3.86 lakh PL of foreign liquor received at CSBCL. Neither AECs/DEOs verified the transactions nor EC instructed to cross check the dispatch and receipt of foreign liquor. Thus, in absence of a mechanism to monitor the transactions, the Department could not detect the irregularities resulting in short realisation of duty amounting to ₹ 2.81 crore (*Appendix 3.1*).

During the exit conference, the Government stated (August 2014) that the dispatch from distilleries/bottling units would be reconciled from the records of CSBCL and would be intimated to Audit. Further, a mechanism would be devised to monitor the transactions periodically.

3.2.9.2 Short realisation of duty due to non-verification of transactions between CSBCL and retail licensees

As per Rule 14 of Chhattisgarh Excise Settlement of Licences for Retail Sale of Country/ Foreign Liquor Rules 2002, a licensee of retail foreign liquor shop shall obtain foreign liquor from CSBCL after making payment of duty in the concerned district treasury. Further, the concerned DEO/AEC issue a permit to the licensee on production of *challan*. The CSBCL supplies the quantity of liquor to licensee as mentioned in the permit. There was no system in the Department to cross verify the quantity mentioned in the permit and the actual quantity of liquor lifted from CSBCL.

During test check of the MGQ registers of six⁴ out of 11 selected units we found that 15 out of 322 licensees of retail foreign liquor shops lifted 16.29 lakh PL of IMFL and 6.99 lakh Bulk Litre (BL) of malt between 2011-12 and 2013-14 after payment of duty. Further, we cross verified the information with the CSBCL and found that the licensees had actually lifted 16.43 lakh PL of IMFL and 7.20 lakh BL of malt from CSBCL between 2011-12 and 2013-14. Thus, the licensees had lifted excess of 0.14 lakh PL of IMFL and 0.21 lakh BL of malt without paying the duty. There was no system in place to cross verify the departmental figures

⁴ AECs Bilaspur, Janjgir-Champa, Korba, Raigarh and DEOs Bastar and Surguja

regarding quantity of foreign liquor issued with the records of CSBCL. The DEOs/AECs also failed to verify/monitor the transactions. This resulted in short realisation of duty of ₹ 15.42 lakh (*Appendix 3.2*).

During the exit conference, the Government stated (August 2014) that the DEOs/AECs has since been instructed for verification of permits issued by them.

We recommend that the Government may devise a mechanism to cross verify the transactions between distilleries/bottling units and CSBCL as well as transactions between CSBCL and retail licensees. IT based systems may be used for speedy reconciliation and to maintain accuracy.

3.2.10 Undue benefit to retailers by not recovering licence fee collected from consumers where sale is in excess of MGQ

As per Rule 2(5) of the Chhattisgarh Excise Settlement of Licences for Retail Sale of Country/Foreign Liquor Rules, 2002, 'Licence fee' means a sum fixed in consideration of the grant of the licence for exclusive privilege for selling of country/foreign liquor in a retail shop as fixed by the EC in consultation with the Government from time to time for the whole year or part thereof. Further, Rule 15 and 17 of the CG Excise policy, 2002 (as amended from time to time) provides the Secretary cum Commissioner to fix the brand-wise sale price and minimum lifting of MGQ fixed for a month respectively.

Rule 16 stipulates that a licensee may lift excess quantity of country/foreign liquor than the MGQ fixed for his shop for a year after paying the duty. No rules have been framed to collect the licence fee where the licensee lifts quantity in excess of the MGQ fixed for the country/foreign liquor. Furthermore, as per the information provided by the Commissioner, sale price includes landing price, margin of CSBCL, duty, licence fee etc.

During test check of the records relating to fixation of MGQ and lifting of country/foreign liquor in the 11 selected districts we found that as per records of CSBCL and DEOs/AECs, 1,121 out of 1,177 shops had lifted foreign liquor spirit, foreign liquor malt and country liquor 52.29 lakh PL, 31.62 lakh BL and 102.21 lakh PL respectively in excess of MGQ fixed during 2011-12 to 2013-14. Though the licensees had deposited the duty on excess liquor lifted, they did not deposit the licence fee collected from the consumers on sale of liquor. It was clear that the Department did not frame any rules for licensees to deposit the licence fee collected from the consumers where sale was in excess of MGQ. Thus, the Government was deprived of revenue of ₹ 178.41 crore (*Appendix 3.3*).

During the exit conference, the Government stated (August 2014) that the policies of the other States would be analysed and excise policy of the State would be amended, if necessary.

We recommend that the Government may introduce requisite provision to collect the licence fee from the licensee where sale is in excess of MGQ. The Government may also ensure to recover the licence fee already collected from the consumers by the licensees during the audit period.

3.2.11 Non-existence of Departmental Laboratory

3.2.11.1 Non-testing of fermentable sugar in case of grain in Government laboratory

Rule 5(4) of Chhattisgarh Distillery Rules, 1995 stipulates that as per the report furnished by the departmental laboratory or the Government approved laboratory, as the case may be, the Distillery Officer shall calculate the minimum quantity of alcohol which would have been produced by the distiller on the basis of minimum prescribed. In case recovery is below the prescribed minimum, the Distillery Officer shall call for the explanation from the distiller and forward the same along with his comments to the DC of the respective division. If necessary, the DC will make necessary enquiries and furnish the report to the EC for orders.

During test check of the fermentation and distillation registers of two distilleries (M/s Bhatia Wine Merchants Pvt. Ltd., Mungeli and M/s Welcome Distilleries Pvt. Ltd, Bilaspur), we found that these distillers had produced alcohol from grain i.e. rice. Both the distillers manufactured 1,194.02 lakh PL of alcohol in 2,371 setups between 2009-10 and 2013-14. The percentage of fermentable sugar found in the setups ranged between 57.60 to 64.92 and 41.85 to 63.63 in M/s Bhatia Wine Merchants Pvt. Ltd. and M/s Welcome Distilleries Pvt. Ltd, respectively as mentioned below:

Table-3.5

Name of the distillery	Year	Grain used (in Quintals)	No. of Setups	Percentage of fermentable sugar	Yield (PL)
M/s Bhatia Wine Merchants Pvt. Ltd., Mungeli	2009-10	1,93,995	265	57.60 to 62.60	1,13,28,276.30
	2010-11	3,44,805	430	61.46 to 62.44	2,02,53,197.00
	2011-12	3,53,295	429	61.70 to 64.62	2,13,82,042.70
	2012-13	3,41,400	418	62.48 to 64.86	2,07,49,769.80
	2013-14	3,94,633	530	63.09 to 64.92	2,41,11,820.00
		16,28,128	2,072		9,78,25,105.80
M/s Welcome Distilleries Pvt. Ltd, Bilaspur	2009-10	91,090	100	49.28 to 60.45	50,40,855.80
	2010-11	53,140	43	57.25 to 60.76	31,44,840.90
	2011-12	93,220	65	41.85 to 61.49	54,67,700.70
	2012-13	70,330	46	57.51 to 63.63	40,78,395.10
	2013-14	71,729	45	53.39 to 61.00	38,45,607.70
		3,79,509	299		2,15,77,400.20
Grand total:		20,07,637	2,371		11,94,02,506

It may be seen from the above table that during 2009-10 to 2013-14 the percentage of fermentable sugar gradually increased and was more in M/s Bhatia Wine Merchants Pvt. Ltd., Mungeli as compared to M/s Welcome Distilleries Pvt. Ltd, Bilaspur. Though both the distilleries used grains as raw material for manufacturing of alcohol, there was huge variation (53.39 and 63.09 in 2013-14) in percentage of fermentable sugar. In the absence of departmental laboratory, the Department has to accept the information furnished by the distillers.

During the exit conference, the Government stated (August 2014) that the process to establish Government laboratory is under progress.

3.2.11.2 Non-adherence to provisions of Country Spirit Rules led to supply of substandard country spirit

Rule 4 (1) of Chhattisgarh Country Spirit Rules, 1995 stipulates that the manufactured country spirit shall be of good quality and of such specification as may be determined by the EC. Further, it shall be subject to Chemical Analysis and if found substandard or unfit for human consumption, it shall be redistilled or rejected and destroyed as the case may be, under the orders of the Commissioner or an officer authorised by him. Further, Rule 4(3) of CG Distillery Rules, 1995 provides the chemical examiner to analyse every batch of spirit manufactured in the distillery before it is issued. The samples shall be drawn under the supervision of DEO posted in the distillery.

Out of 26 warehouses, we test checked 15 warehouses and found from permit issue registers of one warehouse at Bilaspur that 9,047.25 PL of country spirit was lifted in the month of July 2011, by the licensees after payment of duty of ₹ 4.89 lakh. However, the licensees returned the country spirit to the Warehouse officer citing substandard quality as complained by the consumers. The samples of the substandard spirit were tested (March 2013) by the Forensic Science Laboratory (FSL), Raipur and it was found to be unfit for human consumption. There was no provision in the Act to submit chemical analysis report in case of dispatch of country liquor from distillery to warehouse. Thus, the Department relied completely on the chemical analysis reports generated by the distiller's own laboratory which resulted in production and supply of substandard liquor in the market. Such cases were not found in other test-checked warehouses.

During the exit conference, the Government stated (August 2014) that the details had been called for from the DEO posted in the distillery. Accordingly, on the basis of information action would be taken against the distiller. Further, it also intimated that the process to establish Government laboratory is under progress.

We recommend that the Government should endeavour to establish departmental laboratory to avoid the risk factors.

3.2.12 Production of alcohol in excess of installed capacity

The Chhattisgarh Environment Conservation Board, Raipur vide its letters in 2010, 2012 and 2013 sanctioned the production capacity of IMFL upto 53.75 lakh, 45 lakh and 45 lakh litre per year for the period 2011-12, 2012-13 and 2013-14 respectively for M/s Raipur Bottling Company, Raipur.

We test checked six out of 14 bottling units and found from fermentation and distillation register and proforma-6⁵ of annual returns of M/s Raipur Bottling Company, Raipur that the company had produced 66.63 lakh litre, 71.20 lakh litre and 80.08 lakh litre during 2011-12, 2012-13 and 2013-14 respectively against the sanctioned limit of 53.75 lakh, 45 lakh and 45 lakh litre per year. It was clear that the company had produced excess amount of IMFL than sanctioned in three years. However, both the Department and the Environment board failed to

⁵ A proforma prescribed by the excise commissioner wherein details of production of alcohol is mentioned.

calculate the actual IMFL produced by the bottling company. Further, we noticed that the production of alcohol was within the limit of installed capacity in remaining five bottling units.

During the exit conference, the Government stated (August 2014) that a letter has been issued to the Environment Board to find out the penal provision for breach of conditions. The Secretary also intimated that action would be taken against the officials posted at the distillery.

3.2.13 Non-registration of bond executed on export of IMFL

Rule 12(4) of Chhattisgarh Foreign Liquor Rules, 1996 provides that the exporter of foreign liquor shall deposit the prescribed duty leviable on the full quantity of foreign liquor to be exported, or furnish a bank guarantee for an equal amount or 'execute a bond' (prior execution including registration) with adequate solvent sureties for the amount. Further, Section 33 and 35 of the Indian Stamp (IS) Act, 1899 read with Schedule I-A (15) provides that it would be obligatory on every public officer (Government departments were declared as public offices for the purpose of IS Act vide notification no. 196-six-SR-80 dated 20 March 1980) to impound cases which are unduly stamped and initiate action under Section 38 of the Act. Bond is a chargeable instrument on which stamp duty is leviable at four *per cent* on such amount or value.

During test check of bond file of FL-23 of M/s Bhatia Wine Merchant Pvt. Ltd., Mungeli we found that the licensee executed bond of ₹ 10 crore for export of foreign liquor for the period 2013-14. As per IS Act, the bond should have been registered and stamp duty of ₹ 40 lakh and registration fee of ₹ 0.32 lakh should have been levied. However, the DEO failed to register the bond, resulting in non-realisation of revenue of ₹ 40.32 lakh.

During the exit conference, the Government stated (August 2014) that instructions would be issued to the distillers for registration of document as the Government will also be benefited from such stamp duty.

3.2.14 Incorrect fixation of average duty of foreign liquor

As per Rule 14 (c) of "Chhattisgarh Excise Settlement of Licences for Retail Sale of Country/Foreign Liquor Rules 2002", duty rates and MGQ of foreign liquor shall be fixed by the Commissioner from time to time. Accordingly, the Commissioner fixed the average duty of foreign liquor at ₹ 71.50 per PL for the period 2009-10 to 2012-13 and ₹ 90 per PL for the year 2013-14 as detailed below:

Table-3.6

Period 2009-10 to 2012-13			
Ex-factory price of liquor (per case)	Duty rate (per PL)	Proposed lifting of liquor (in per cent)	Duty (in ₹)
Upto ₹ 600	₹ 70	95	66.50
From ₹ 600 to ₹ 900	₹ 90	2.5	2.25
₹ 901 and above	₹ 110	2.5	2.75
Total		100	71.50
Period 2013-14			
Upto ₹ 700	₹ 85	81	68.85
From ₹ 701 to ₹ 1000	₹ 100	9	9.00
From ₹ 1001 to ₹ 1500	₹ 115	7	8.05
From ₹ 1501 to ₹ 2000	₹ 130	2	2.60
From ₹ 2001 and above	₹ 150	1	1.50
Total		100	90.00

We approached CSBCL to collect the information regarding price range-wise lifting of foreign liquor for the period from 2009-10 to 2013-14. The CSBCL provided information only for the period 2011-12 to 2013-14 but failed to provide the information for 2009-10 and 2010-11 due to technical problem in the software.

During test check of the MGQ lifting register of all the selected 11 AECs/DEOs, we collected the information regarding price range-wise lifting of foreign liquor for the period 2009-10 and 2010-11 from AECs of Korba and Rajnandgaon. The remaining AECs/DEOs expressed their inability to provide the information. Accordingly, we noticed in these two offices that the average duty aggregated to ₹ 80.78 and ₹ 76.24 in Korba and Rajnandgaon respectively. Similarly, in 2010-11 the same aggregated to ₹ 86.97 and ₹ 76.88 respectively. Further, in all 11 selected districts the average duty aggregated to ₹ 82.9 in 2011-12 on the sale of ₹ 2.96 crore PL of liquor through 329 liquor shops. Though the average duty earned was ₹ 82.9 in 2011-12, the EC had fixed the average duty at ₹ 71.50 for the year 2012-13. Thus, the EC incorrectly fixed average duty without considering the previous year's average duty resulting in short realisation of duty of ₹ 27.77 crore and license fee of ₹ 51.58 crore (**Appendix 3.4**).

We also observed that the Department revised the average duty to ₹ 90 and ₹ 100 in 2013-14 and 2014-15 respectively. However, the Department did not consider the same in previous years.

During the exit conference, the Government stated (August 2014) that correct steps had been taken for fixation of average duty on IMFL from 2013-14. However, no comment was made on observation for the year 2011-12 made by Audit.

We recommend that the Government should devise a mechanism to evaluate the correct average duty on the basis of previous year's average duty.

Compliance deficiencies

3.2.15 Short realisation of process fee

As per Rule 6 of “Chhattisgarh Excise Settlement of Licences for Sale of Country/ Foreign Liquor Rules 2002”, process fee at the rate of ₹ 4,000 per application for licence of groups of liquor shops is payable. The amount of process fee will neither be adjustable in licence fee nor will be refundable in case of the licence is not granted.

During test check of the process fee file of AEC, Janjgir Champa we found that 52,206; 68,384; 83,414 and 1,04,577 applications were received in respect of allotment of licence of groups of liquor shops for the years 2010-11, 2011-12, 2012-13 and 2013-14 respectively. Accordingly, the Department received bank drafts valuing ₹ 20.88 crore, ₹ 27.35 crore, ₹ 33.37 crore and ₹ 41.83 crore and these were sent to the bank for clearance. At the end of March 2014, bank draft for process fee of ₹ 19.60 lakh, ₹ 49.60 lakh, ₹ 0.20 lakh and ₹ 1.76 lakh were not cleared by the banks for the year 2010-11, 2011-12, 2012-13 and 2013-14 respectively. This resulted in short realisation of process fee of ₹ 71.16 lakh.

During the exit conference, the Government stated (August 2014) that action would be taken to verify the transactions and steps would be taken to deposit the amount in the Government account. The Secretary also assured that action would be taken against the erring officials.

We recommend that the Government may endeavour to take appropriate action regarding reconciliation of bank drafts to ensure deposit of revenue in Government account.

3.2.16 Non-recovery of duty on unacknowledged/delayed receipt of verification reports of exported IMFL

Rule 12 of Chhattisgarh Foreign Liquor Rules, 1996 stipulates that the export of foreign liquor within India is permissible on payment of duty or on furnishing a bank guarantee or on executing a bond with adequate solvent sureties for the amount of duty involved. Further, Rule 13 stipulates that the licensee should obtain a verification report from the importing unit and furnish it to the authority who issued the permit within 21 days of the expiry of the permit. If the licensee fails to do so, duty leviable on liquor exported shall be recovered from him.

During test check of the verification of consignment register of M/s Bhatia Wine Merchant Pvt. Ltd., Mungeli we found that the licensee exported 3.25 lakh PL of foreign liquor on 50 out of 129 permits between January and February 2014. Out of these 50 permits, verification reports for 16 permits carrying 1,09,537.65 PL foreign liquor were not received from the destination units till the date of audit (April 2014) and verification reports in remaining 34 permits were received after the prescribed time limit of 21 days. However, the DEO failed to take action to recover the duty. This resulted in non-recovery of excise duty of ₹ 98.58 lakh (1,09,537.65 PL * ₹ 90 = ₹ 98,58,389) in 16 cases where permits have not been received.

During the exit conference the Secretary accepted the audit observation and intimated that instructions have been issued to the concerned DEOs/AECs to follow the provisions of the Rules.

3.2.17 Allowance of inadmissible wastage in export of IMFL

Rule 16 of Chhattisgarh Foreign liquor Rules, 1996 provides that the maximum wastage allowance for all exports of bottled foreign liquor shall be 0.25 *per cent* irrespective of the distance. If wastages/ losses during the export of bottled foreign liquor exceed the permissible limit, duty on such excess wastage shall be recovered from the licensee.

During the test check of the verification of consignment register of M/s Bhatia Wine Merchant Pvt. Ltd., Mungeli we found in 470 out of 1,071 cases that the distiller exported 30.26 lakh PL foreign liquor and claimed the wastage due to transit loss of 20,717 PL against the admissible wastage of 7,565 PL between August 2011 and December 2013. However, the DEO without considering the limit of 0.25 *per cent*, incorrectly allowed the excess wastage of 13,152 PL. This resulted in non-levy of duty of ₹ 11.63 lakh (**Appendix 3.5**).

During the exit conference, the Government stated (August 2014) that cases would be examined and action would be taken accordingly.

3.2.18 Non-realisation of duty due to non-disposal of IMFL in miniature bottles

As per instructions of EC (February 2012), consumption of IMFL in 90 ML miniature bottles was prohibited for sale. Further, it was also instructed (October 2013) to FL 9 and 9A bottling units from time to time that liquor in unsold bottles of 90 ML is to be rebottled in 180 ML, 375 ML and 750 ML after due approval from the FSL, Raipur for human consumption.

During test check of the spirit stock register of four⁶ out of six bottling units we found that 70,879.5 PL of liquor in 90 ML miniature bottles were lying unsold since 2011-12. Despite Commissioner's instructions in February 2012, the DEOs did not initiate any action to rebottle the liquor in 180 ML, 375 ML and 750 ML after due approval from the FSL for human consumption. Thus, inaction by the DEOs led to non-realisation of duty of ₹ 63.79 lakh.

During the exit conference, the Government stated (August 2014) that refilling of liquor stored in 90 ML bottles would be undertaken. It would be tested in the laboratory to ensure that the quality is intact.

3.2.19 Revenue locks in bottling units not provided

Rule 5(4) of Chhattisgarh Foreign Liquor Rules 1996 stipulates that store vats shall be kept in a room or building provided with only one door. Such room or building shall be designated as the 'Spirit Room' or a 'warehouse' and shall be kept under revenue lock (which are printed tickets intended to paste on the general locks of a room). Further, Rule 7(1) provides that all operations relating to

⁶ M/s Aegis Beverages Pvt. Ltd, M/s Golden Prince Wines India Pvt.Ltd., M/s Raipur Bottling Company and M/s Sarveshvari Bottling and Beverage Pvt. Ltd

the filling of bottles with foreign liquor shall be conducted under the supervision of the officer-in-charge of excise department. Bottled foreign liquor shall be stored in a separate room or rooms called the 'store for bottled liquor' which shall be secured with a revenue lock. In the bottling room, bottling vats may be kept or erected and foreign liquor manufactured may be stored therein. All the spirit vats must be secured with revenue locks.

We found during the visit of three⁷ out of six bottling plants in Raipur that these companies have been using general locks instead of revenue locks for bottling hall, store for bottled liquor-room, spirit room, liquor collection room etc. There is every possibility of leakage of revenue and unauthorised access by persons other than the departmental staff.

During the exit conference, the Government stated (August 2014) that revenue locks would be issued to the concerned units.

3.2.20 Non-providing of information of holograms issued

As per condition 2 of F.L 10 and Country Spirit 2D licence, a manufacturer of foreign/country liquor has to affix hologram on every bottle cap manufactured in bottling unit.

During the course of audit, we collected information from distilleries and bottling plants regarding number of holograms used for the period 2009-10 to 2013-14. We called for (November 2013) the information regarding issue of holograms to distilleries and bottling plants to the EC. However, the EC did not furnish the information regarding issue of holograms. Thus, cross verification of the same could not be done.

During the exit conference, the Government stated (August 2014) that software developed by NIC has been launched for tracking the holograms.

3.2.21 Internal Control Mechanism

Internal Control Mechanism (ICM) is an in-built mechanism by which an organisation can evaluate its own activities and performances to take corrective measures. For this purpose, the Department has to adopt a system of internal audit, updating of rules, regulations, manuals, periodical review meetings, inspection of subordinate offices and furnishing of periodical reports and returns to their higher authorities.

An Internal Audit Wing (IAW) existed in the Department since 2005-06. Officers from Finance Department are posted in the wing on transfer on deputation basis and clerical staff are posted from within the Department. The wing did not plan any unit for conducting audit between 2009-10 and 2013-14.

3.2.21.1 *Manpower deployment in Internal Audit*

The different posts sanctioned and men in position since 2009-10 to 2013-14 who were entrusted with the audit of all the units of the Department are as follows:

⁷ M/s Crown Distilleries Ltd, M/s Raipur Bottling Company and M/s Sarveshvari Bottling and Beverage Pvt. Ltd

Table-3.7

Year	Sanctioned post				Total	Men-in-position				Total
	Joint Director (Finance)	Asst. Accounts Officer	Asst. Grade -2	Asst. Grade -3		Joint Director (Finance)	Asst. Accounts Officer	Asst. Grade -2	Asst. Grade -3	
2009-10	1	2	1	1	5	1	1	Nil	1	3
2010-11	1	2	1	2	6	1	1	Nil	1	3
2011-12	1	2	1	2	6	1	1	Nil	1	3
2012-13	1	2	1	2	6	1	1	Nil	2	4
2013-14	1	2	1	2	6	1	1	Nil	2	4

It may be seen from the above table that there was a shortfall in Asst. Accounts Officer and Asst. Grade-2 during the five years.

During the exit conference, the Government stated (August 2014) that internal audit would be made effective shortly.

The Government may take initiatives to conduct internal audit of distilleries, bottling units and subordinate offices at regular interval to safeguard the revenue in interest of Government.

3.2.21.2 Flying Squads at Divisional Level

The offices of the flying squads were established from 1 July 1999. There are three flying squads at division level in Bastar, Bilaspur and Raipur. The DC is the officer-in-charge of the flying squad and one AEC and other executive and clerical staff is posted to assist him. They are required to inspect the work of the DEOs/AECs, the field staff posted in the districts, the distilleries and warehouses and important excise centres in their respective charge. Information pertaining to DC flying squads, Bastar, Bilaspur and Raipur showing the status of targets and inspection is as mentioned below:

Table-3.8

Name of the Division	Year	Target fixed for inspection	Inspection against the target	Number of registered crimes
Bastar	09-10 to 13-14	614	390	573
Bilaspur	09-10 to 13-14	720	1,520	1,472
Raipur	09-10 to 13-14	289	164	2,696

It may be seen from the above table that the targets for inspection could not be achieved in Bastar and Raipur divisions and shortfall was 36.5 *per cent* and 43.26 *per cent* respectively. Whereas, Bilaspur division achieved the target of inspection. The DC, Bastar intimated that the target could not be achieved due to non-posting of Sub-Inspectors and regular strikes called by naxals. Further, the DC, Raipur intimated that the target could not be achieved due to non-posting of DEO and AEC.

During the exit conference, the Government stated (August 2014) that the targets have been fixed as per the departmental manual.

We recommend that the Government should strengthen the flying squads and ensure the inspections as per the targets.

3.2.21.3 Maintenance of vital records

The Department has to maintain the registers/records as mentioned below:

- (i)* At Distillery- Registers relating to receipt and consumption of raw materials (D-5), distillation register (D-9), issue of spirit/ENA etc.
- (ii)* At Bottling Plant- Consignment register (D-19), Vat register (D-10), Spirit Account (D-11), Bottling Register (D-12), Issue of sealed bottled liquor (D-17) etc.
- (iii)* At Warehouse- Consignment register (D-19), Spirit Account (D-11), Bottling Register (D-12), Issue of sealed bottled liquor (D-17), Monthly Spirit Stock Account (D-23).etc.
- (iv)* At DEO/AEC office- Licence registers (G-1), Demand and collection register (G-2), Challans for payment of duty and licence fee, etc.

During the audit we noticed in all the test check units that the records are being maintained and transactions were recorded up-to-date.

3.2.22 Conclusion

The Audit revealed a number of compliance and system deficiencies leading to leakage of revenue as discussed in preceding paragraphs and requires top attention at the Government/Department level. We observed that:

- Non-existence of mechanism to cross verify the receipt of foreign liquor from distilleries/ bottling units to CSBCL as well as dispatch of foreign liquor from CSBCL to retail vendors resulted in short receipt/ excess dispatch of foreign liquor without realising the duty.
- Department had no mechanism for reconciliation of bank drafts received on account of process fee for grant of licence of liquor shops resulting in non-deposition of the same in Government account.
- The Department did not set up a sample testing laboratory even after Audit mentioned this in paragraph 3.2 of Audit Report for the year ended March 2008 leading to high risk of spurious liquor being consumed.
- Though the Government has set up an IAW but it failed to conduct any internal audit of distilleries, bottling units and subordinate offices to safeguard the revenue in interest of Government.