

CHAPTER-III

STATE EXCISE

3.1 Tax administration

Excise duty on liquor for human consumption and licence fee is levied under the UP Excise Act, 1910 and Rules made thereunder. Various kinds of liquor, such as country liquor and Indian Made Foreign liquor are manufactured from alcohol. Excise duty on production of alcohol and liquor in distilleries forms a major part of excise revenue. Apart from excise duty, licence fee also forms part of excise revenue.

The Principal Secretary (State Excise) is the administrative head of State Excise Department at Government level. The Department is headed by the Excise Commissioner (EC). The Department has been divided in Agra, Gorakhpur, Lucknow, Meerut and Varanasi zones which are headed by the Joint Excise Commissioner. Besides, Excise Inspectors under the control of Assistant Excise Commissioner of the respective districts are deputed to oversee and regulate levy/ collection of excise duties and allied levies.

3.2 Internal audit

Internal Audit 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. The position of sanctioned strength and men-in-position is given in **Table 3.1**.

Table 3.1

Staff position of Internal Audit wing

Sl.No.	Designation	Sanctioned post	Men-in-position	Shortfall	Percentage of shortfall
1.	Finance Controller	1	1	0	0
2.	Sr. Finance and Account Officer	1	0	1	100
3.	Finance and Account Officer	1	1	0	0
4.	Assistant Account Officer	2	1	1	50
5.	Sr. Auditor	9	1	8	88.89
6.	Accountant	10	3	7	70
7.	Auditor	3	4	0	0

Source: Information provided by the Department

The details of Internal Audit (IA) planning such as number of units planned for audit, number of units audited and shortfall are shown in **Table 3.2**.

Table 3.2

Audit planning of Internal Audit wing

Year	Total no. of Units	No. of Units planned	No. of units Audited	Shortfall
2010-11	350	126	141	15
2011-12	350	138	123	-15
2012-13	352	140	119	-21
2013-14	365	140	109	-31
2014-15	365	140	113	-27

Source: Information provided by the Department

The above table shows that the audit planning of the Department is not realistic as the Department during 2011-12 to 2014-15 could not achieve target of units planned for internal audit due to shortage of staff.

The internal audit conducted by the IAW and number and amount of objection raised and settled during the year is shown in the **Table 3.3**.

Table No. 3.3

Objection raised by Internal Audit Wing

Year	Opening balance		Addition during the year		Clearance during the year		Closing balance	
	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved	No. of cases	Amount involved
2010-11	310	2,023.53	176	204.13	126	117.03	360	2,110.63
2011-12	360	2,110.63	136	70.22	199	352.35	297	1,828.50
2012-13	297	1,828.50	140	58.75	244	266.75	193	1,620.50
2013-14	193	1,620.50	101	46.13	70	37.52	224	1,629.11
2014-15	224	1,629.11	108	101.73	55	41.77	277	1,689.07

Source: Information provided by the Department.

This shows that the compliance made by the Department against the cases raised by the IAW is very low.

We recommend that the IAW may be strengthened and an annual audit plan should be prepared in a realistic way. The Department should take appropriate steps for speedy recovery in cases raised by the IAW.

3.3 Results of audit

In 2014-15, the State Excise Department realised revenue of ₹ 13482.57 crore. Our test check of the records of 138 units out of 353 units relating to State Excise showed non/short realisation of excise duty/ licence fee/ interest and other irregularities involving ₹ 38.36 crore in 220 cases, which fall under the following categories as mentioned in the **Table 3.4**.

Table 3.4

Results of Audit

Sl. No.	Categories	(₹ in crore)	
		Number of cases	Amount
1.	Non/short realisation of excise duty	17	0.89
2.	Non realisation of licence fee/interest	77	8.79
3.	Other irregularities	126	28.68
Total		220	38.36

Source: Information available in the Audit office.

During the course of the year, the Department accepted underassessment and other deficiencies of ₹ 4.84 crore in 155 cases, of which an amount of ₹ 4.28 crore in 140 cases were recovered during the year. In remaining cases no reply has been received from the Department.

A few illustrative cases of compliance deficiency involving ₹ 4.90 crore are discussed in the following paragraphs.

3.4 Audit observations

Our scrutiny of records in the offices of the State Excise Department showed cases of Non-forfeiture of Basic Licence Fee and security deposits, non-imposition of interest and short levy of licence fee as mentioned in the succeeding paragraph in this chapter. These cases are illustrative and are based on a test check carried out by us. We point out such omissions each year, but not only do the irregularities persist; these remain undetected till we conduct an audit. There is need for the Government to improve the internal control system so that recurrence of such lapses in future can be avoided.

Audit findings

3.5 Non-forfeiture of Basic Licence Fee and security deposits

The licensees did not deposit the entire amount of security deposit within prescribed time limit. For this default action for cancellation of settlement and forfeiture of deposited basic licence fee and security money amounting to ₹ 3.66 crore, was not initiated as envisaged in the Rules.

Rule 12 of the Uttar Pradesh Excise (Settlement of Licences of Retail Sale of Country Liquor) Rules 2002 provides that amount of Basic Licence Fee (BLF) shall be deposited in full within three working days, half of the security amount within 10 working days and rest of the amount within 20 working days of receipt of the intimation of the selection of shop. In case of default, the selection of shop would be cancelled and amount of BLF and security deposits, if any, would be forfeited in favour of the Government and the shops would be resettled forthwith.

We examined G-12 (details of settled shops) and Settlement files of Country Liquors of District Excise Offices, Basti and Raebareli, between November 2014 and March 2015 and found that during the year 2013-14 though the licenses of 32 country liquor shops were settled or renewed, these licensees, did not deposit the entire amount of security deposit in prescribed time frame. The delay ranged from 22 to 63 days. For this default no action was initiated as envisaged in Rule. As no relaxation is allowed under the provisions/ rules, the inaction of the Department deprived the Government of ₹ 3.66 crore by way of depositing BLF and security deposit as shown in **Table 3.5**.

Table 3.5
Non-forfeiture of Basic Licence fee and Security deposits

(Amount in ₹)						
Sl. No.	Name of units	Number of Shops	Period of Late deposit of Security Deposit	Basic Licence Fee required to be forfeited	Security Deposit required to forfeited	Total Amount required to forfeited
1	DEO, Basti	14	33 to 63 days	1,70,52,430	1,10,57,578	2,81,10,008
2	DEO, Raebareli	18	22 days	51,61,430	33,66,243	85,27,673
	Total	32	22 to 63 days	2,22,13,860	1,44,23,821	3,66,37,681

Source: Information available from G-6 register.

We reported the matter to the Department and the Government (November 2014 and May 2015). The Government while accepting (November 2015) our observation in principle however expressed their practical difficulties in resettlement of shops in mid of the year. Thus provision prescribed in the Rules was not followed.

3.6 Non-levy of interest on belated payment of excise revenue

Interest of ₹ 88.03 lakh on the belated payment of excise revenue was not charged by the Department.

Section 38-A of the United Provinces Excise Act, 1910 provides that where any excise revenue is not paid within three months from the date on which it becomes payable, interest at the rate of 18 *per cent* per annum is recoverable from the date on which such excise revenue becomes due.

We examined arrear register and G-6 (Register maintained by the excise offices having all the receipts of the State Excise Department) of five DEOs out of 71 DEOs checked, (between June 2014 and March 2015) and found that excise revenue of ₹ 1.04 crore pertaining to the period of April 2003 to April 2013 was deposited between August 2006 and October 2014 i.e. with delay of 14 months to 12 years in 65 cases out of 69 cases test checked. However, interest on the belated payment amounting to ₹ 88.03 lakh was not charged by the Department. The details are given in **Table 3.6**.

Table 3.6

Non-levy of interest on belated payment of excise revenue

							(₹ in lakh)
Sl. No.	Name of office	Number of shops	Due Period of deposit	Period of Deposit	Amount	Period of delay in months	Amount of Interest
1	District Excise Office, Bagpat	1	April 2003	August 2006 to May 2014	16.88	53 to 144	20.18
2	District Excise Office, Jaunpur	7	April 2008 to April 2013	May 2014 to September 2014	7.72	14 to 79	4.04
3	District Excise Office, Kannauj	25	April 2008	February 2010 to September 2012	29.74	23 to 54	12.57
4	District Excise Office, Kanpur Nagar	24	April 2008	July 2014 to August 2014	35.79	77	40.79
5	District Excise Office, Varanasi	8	April 2008 to April 2012	August 2014 to October 2014	14.14	29 to 80	10.45
Total		65	April 2003 to April 2013	August 2006 to October 2014	104.27	14 to 144	88.03

Source: Information available from G-6 register.

We reported the matter to the Department and the Government (between July 2014 and May 2015). The Government accepted (November 2015) the observation and stated that revised amount of ₹ 20.03 lakh has been recovered in one case. Notices for recovery of interest in remaining cases have been issued.

3.7 Short levy of licence fee on model shops

The license fee of a model shop was not fixed as per norms prescribed in the excise policy.

As per State Excise Policy notified on 28 February 2013, the licence fee for setting up a model shop for the year 2013-14 or part thereof was fixed as ₹ 11 lakh, or the highest licence fee among the settled retail shops in the town for the same year for both foreign liquor and beer whichever was higher, but it could not be more than ₹ 30 lakh.

We examined Model shops settlement files, excise policy and G-12 of DEO Kanpur (March 2015) and observed that the two model shops of *Singhpur* and

Mandhana were newly created for the year 2013-14. Highest licence fee of foreign liquor and beer shop of the town for the year 2013-14 was ₹ 50 lakh. Thus licence fee of both the model shops was required to be fixed as ₹ 60 lakh (₹ 30 lakh for each shop) as provided in the excise policy. The Department fixed and realised the total licence fee of ₹ 24.05 lakh (₹ 11 lakh for *Singhpur* and ₹ 13.05 lakh for *Mandhana*) instead of ₹ 60 lakh. The DEO has ignored the actual licence fee of foreign liquor and beer shop as provided in the excise policy for the concerned year. This resulted in short levy of licence fee of ₹ 35.95 lakh.

We reported the matter to the Department and the Government (March 2015 to May 2015). The Department replied that the license fee of the model shops was fixed according to their potential and it was approved by the competent authority of the Government. The reply of the Department indicates that the norms were not fixed with due diligence hence these were not followed (November 2015).