

**CHAPTER – 2**  
**STATE EXCISE**



## CHAPTER 2 STATE EXCISE

### 2.1 Introduction

State Excise revenue comprises receipts from manufacture, possession and issue of liquor, *bhang* and poppy straw for sale under the provisions of the Madhya Pradesh Excise Act, 1915 (MP Excise Act) and Rules made thereunder. Under the MP Excise Act, "liquor" means intoxicating liquor, including spirits, wine, *tari*<sup>17</sup>, beer, all liquids consisting of or containing alcohol and any substance which the State Government may, by notification, declare to be liquor.

### 2.2 Tax Administration

The Principal Secretary, Commercial Tax Department is the administrative head of the State Excise Department at the Government level. The Excise Commissioner (EC) is the Head of the Department and is assisted by one Additional EC (Addl. EC), three Deputy Excise Commissioners (DEC) at Gwalior (Headquarters), seven DEC Divisional Flying Squads in Divisions, 15 Assistant Excise Commissioners (AEC) and 54 District Excise Officers (DEO) in districts. The District Collector heads the Excise administration in the district and is empowered to settle shops for retail vending of liquor and other intoxicants and is also responsible for realisation of Excise revenue.

### 2.3 Trend of Revenue Receipts

State Excise is one of the important sources of tax receipts for Madhya Pradesh and constitutes 18.40 *per cent* of the total tax receipts of Madhya Pradesh. The trend of receipts from State Excise for the last five years is exhibited in **Table 2.1**:

**Table 2.1**  
**Trend of receipts**

(₹ in crore)

Year	Budget estimates	Actual receipts	Variation of Actual receipts from Budget estimates (in per cent)
2013-14	5,750.00	5,907.39	(+) 2.74
2014-15	6,730.00	6,695.54	(-) 0.51
2015-16	7,800.00	7,922.84	(+) 1.57
2016-17	7,700.00	7,532.59	(-) 2.17
2017-18	8,600.00	8,245.01	(-) 4.12
<b>Total</b>	<b>36,580.00</b>	<b>36,303.37</b>	

(Source: Budget Estimates and Finance Accounts of the Government of Madhya Pradesh)

Above table indicates that budget estimates prepared by the Department for the year 2017-18 were not achieved and fell short by 4.12 *per cent*. Department attributed the reason for shortfall to the ban on sale of alcohol within 500 meter of National and State Highways by Hon'ble Supreme Court and closure of liquor shops on the banks of the Narmada river by the Government of Madhya Pradesh.

<sup>17</sup> *Tari* means fermented or unfermented juice drawn from any kind of palm tree.

## 2.4 Internal Audit

An Internal Audit Cell (IAC), headed by a Joint Director (Finance) assisted by six Assistant Internal Audit Officers (AIAO), conducts the internal audit of the Department. The posts of AIAO are filled in by deputation of officers from the MP Treasuries and Accounts Department. The IAC prepares roster for audit of subordinate offices every year. It was intimated by the Department that during 2017-18, a total of 43 offices were planned for auditing, out of which audit of only 25 offices were carried out by the IAC. This resulted in 42 *per cent* shortfall.

Audit scrutinised (November 2018) the Inspection Reports (2017-18) relating to internal audit of 15 district offices<sup>18</sup> and found that in majority of units, IAC had failed to address the issue of reconciliation of challans with Treasury records, delay in sending monthly reconciliation statement to Treasury Officer and EC and unduly filled *Tauzi* in prescribed format.

## 2.5 Results of Audit

During the year 2017-18, 41<sup>19</sup> out of 61 audit units of State Excise Department (one office of Excise Commissioner and 60 Excise units) were covered for audit. Revenue generated by the Department during the year 2016-17 aggregated to ₹ 7,532.59 crore, of which the audited units collected ₹ 5,039.20 crore (67 *per cent*).

During 2017-18, Audit noticed the loss of Excise Duty and other issues, amounting to ₹ 342.87 crore in 7,448 cases, which is seven *per cent* of the revenue collected by the audited units. Details are mentioned in **Table 2.2**:

**Table 2.2**  
**Results of Audit**

Sl. No.	Categories	₹ in crore)	
		No. of cases	Amount (in crore)
1	Penalty not imposed for violation of licence agreement	3,685	92.39
2	Loss of Revenue due to fraudulent challans submitted by licensees	1,426	45.26
3	Award of tender at a price lower than reserved price	2	43.10
4	Penalty not imposed on licensees who did not send EVCs	166	41.03
5	Licence fees not levied on liquor shop	53	10.49
6	Outstanding Excise Revenue not recovered	5	5.49
7	Undue benefit to contractors	2	2.49
8	Penalty not imposed for not maintaining minimum stock in glass bottles	90	1.83
9	Irregular supply of country/foreign liquor	66	1.27
10	Other observations (short levy of bottling fees, short/non-submission of bank guarantee, failure to maintain minimum stock, excess wastage, etc.)	1,953	99.52
<b>Total</b>		<b>7,448</b>	<b>342.87</b>

<sup>18</sup> **AEC** Alirajpur, Chhatarpur, Dhar, Gwalior, Jabalpur and Khargone.

**DEO** Ashoknagar, Dewas, Guna, Mandsaur, Neemuch, Narsinghpur, Shajapur, Tikamgarh and Vidisha.

<sup>19</sup> Office of one Deputy Commissioner, 26 DEOs and 14 AECs.

These observations were communicated to the Government and the Department during the period from May 2017 to February 2018. Out of these, the Department accepted the recovery in 3,295 cases involving ₹ 222.14 crore and assured to review 2,565 cases involving ₹ 66.76 crore. However, recovery of ₹ 10.71 lakh in 160 cases has been intimated by the Department (September 2019).

## 2.6 Follow-up of previous Audit Reports

In the Audit Reports for the period from 2012-13 to 2016-17, Audit had pointed out various observations amounting to ₹ 2,145.31 crore in 54 paragraphs against which recovery of ₹ 7.42 crore only was effected by the Department. Out of these 54 paragraphs, 15 paragraphs were selected by the Public Accounts Committee (PAC) for discussion and one para was only discussed (August 2019). No recommendations were received during 2017-18.

A case involving loss of Government revenue of ₹ 36.22 crore is mentioned in the following paragraph:

### 2.7 Non-adherence to mandatory checks like verification/ Reconciliation of challans with treasury records led to loss of revenue to the Government

**Fifteen licensees of AEC, Indore deposited ₹ 1.20 crore in treasury instead of payable Excise Duty and license fees of ₹ 37.42 crore by tampering with 1,061 challans produced to the Department, which were not reconciled with Treasury's records. The weak internal control in the Department led to loss of revenue ₹ 36.22 crore.**

As per Madhya Pradesh Financial Code, Controlling Officer of the Department concerned is required to see that the dues of Government are correctly assessed, collected and regularly paid into the Treasury. For the above, Controlling Authority must maintain a separate Departmental account and at the end of the month, prepare a *tauzi* or Departmental return from registers, giving the total receipts of the month according to their heads of revenues. It should be verified by the Treasury Officer with the Treasury Registers and the result of his verification noted at the foot of each return. If any mistake or erroneous credits are discovered in the Treasury Registers on comparison with the Departmental returns, the Treasury Officer should immediately inform the misclassification and/or erroneous credits of the Departmental return to the Controlling Authority. The Controlling Authority will reconcile discrepancies between the Departmental and Treasury accounts.

Further, as per Finance Department instructions<sup>20</sup>, the Treasury Officer is required to provide a list of all challans deposited during the month in the revenue head concerned to all the Drawing and Disbursing Officers (DDOs) under the Treasury. The DDO concerned will compulsorily verify all challans deposited with Treasury/Bank and resolve the difference, if any, with the Treasury. The Treasury Officer will not pass the pay bill of the head of office in the absence of verification certificate.

Audit scrutinised (between January 2018 and December 2018) the records (copy of challans, Treasury records for reconciliation, List of challans certified by the

<sup>20</sup> Finance Department GoMP vide letter No. 1889/1843/2001/C/4 dated 05 October 2001.

District Treasury Officer, Departmental enquiry reports) of the Office of the AEC, Indore for the period from April 2015 to July 2017 and test-checked 47,792 challan out of 87,000 challan (55 per cent) remitted during the audit period. It found that 15 licensees<sup>21</sup> deposited only ₹ 0.98 crore Excise Duty and ₹ 0.22 crore as license fees in the Treasury, against payable Excise Duty of ₹ 25.13 crore and license fees of ₹ 12.29 crore as license fees for Country Liquor (CL) and Indian Made Foreign Liquor (IMFL) resulting in loss of revenue to the Government in the form of Excise Duty ₹ 24.15 crore and license fees of ₹ 12.07 crore. The aggregated loss of Excise Duty and license fees for CL and IMFL to the Government comes to ₹ 36.22 crore. (**Appendix I**). This was done by tampering with 1,061 challans produced to Department which were not reconciled with Treasury records. The methodology involved depositing lesser amount in the Treasury and later inflating the challans so obtained by prefixing certain numerals and in words before written amount on the challans. These inflated challans were later submitted to the Excise Office and irregular higher benefits were availed.

Further, during the scrutiny of test-checked challans, it was also noticed that Departmental copy of 87 challans were not made available, Treasury copy of 67 challans were not made available, and in 28 cases neither Departmental nor Treasury copies of challans were produced to audit.

Due to absence of one or both Departmental and Treasury copies of above challans, audit could not compare them against each other as done with the aforesaid 47610 (47,792 – 182) challans. Therefore, fraudulent amount involved in these challans, if any, could not be examined and assessed by audit.

Audit further observed that during period from April 2015 to June 2017, there were monthly differences in revenue receipts of Departmental figures and Treasury figures, which were neither reconciled by the Department nor any reason for difference was recorded. Had the reasons for differences been analysed and action taken timely, the above fraud could have been avoided. Internal audit was also not conducted by the Department during the objected period.

On this being pointed out, the Department stated (September 2019) that an investigation was carried out (August 2017) by an Inquiry Committee constituted by the Department which had confirmed the above irregularities and loss to the exchequer. On the above enquiry report, prima facie, Departmental Inquiry against eight delinquent officials had been initiated which were under progress. The Department intimated (September 2019) that a recovery of ₹ 21.89 crore had been made from licensees involved and remaining recovery was under progress. With regard to non-production of 182 challans, the Department intimated that the above challans had been seized by the police due to criminal offences registered by the Department (August 2017) against defaulting licensees and the same were under judicial custody. The Department had requested to the Court to provide the xerox copies of the same and they would be provided to audit as and when received. Further, regarding monthly differences in revenue receipts of Departmental figures and Treasury figures

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<sup>21</sup> Abhishek Sharma, Aspreet Singh Lubana, Avinash Singh Mandloi, Balram Mali, Bhartidev Build., Deepak Jaiswal, Jitendra Shivrame, Lav Kush Pandey, Million Traders, Pradeep Jaiswal, Rahul Chouksey, Rakesh Jaiswal, Vijay Kumar Shrivastava, Virendra Singh Thakur and Yogendra Jaiswal.

during period from April 2015 to June 2017, Department stated that there were three Treasuries - District Treasury, City Treasury and Cyber Treasury - in the district and that audit had only taken into account District Treasury receipts.

In view of the reply of the Department, audit added the receipts from City Treasury and Cyber Treasury as suggested by the Department and found that monthly differences between Departmental figures and Treasury figures reduced but still existed, varying between ₹ 100 to ₹ 23.58 crore during different months, as shown in **Appendix II**.

Out of total 87,000 challans remitted, audit has test-checked only 47,792 challans. The remaining challans may be internally verified by the Department at its own level to derive the exact amount of loss of revenue in this case.

In light of the above irregularities observed in the AEC, Indore, audit further scrutinised (between April 2019 to May 2019), the records of the seven offices<sup>22</sup> to analyse whether such and other irregularities were existing in other offices in the Department. The findings are as below:

- The monthly Reconciliation Statements were sent to Treasury by five AECs<sup>23</sup> with a delay of 1 to 569 days. It was also observed that AECs of Dewas, Dhar and Ujjain had sent Monthly Reconciliation Statement to the EC with delays ranging between 2 to 621 days. The ranges of delays are depicted in the **Table 2.3** below:

**Table 2.3**  
**Details showing period of delay for sending Monthly Reconciliation Statements to Treasury and EC**

Name of the AEC office	To Treasury					To EC				
	No. of times delayed (range in days)					No. of times delayed (range in days)				
	<30	≥30<90	≥90<180	≥180<365	≥365	<30	≥30<90	≥90<180	≥180<365	≥365
<b>Dewas</b> (April 2017 to December 2017)	7	0	0	0	0	5	4	0	0	0
<b>Dhar</b> (April 2016 to March 2018)	5	3	3	9	2	2	3	3	0	0
<b>Ujjain</b> (April 2017 to March 2018)	7	3	1	0	0	0	2	0	1	9
<b>Sagar</b> (December 2016 to March 2018)	1	2	0	0	0	0	0	0	0	0
<b>Gwalior</b> (April 2017 to July 2017)	0	2	2	0	0	0	0	0	0	0

In view of the aforesaid illustration of AEC, Indore where lack of monitoring and absence of reconciliation between Department and Treasury led to outright fraud on the State Exchequer, such continued

<sup>22</sup> Dewas, Dhar, Gwalior, Raisen, Sagar, Sehore and Ujjain.

<sup>23</sup> Dewas, Dhar, Gwalior, Sagar and Ujjain.

delay in reconciliation, sometimes stretching beyond 3,6, or even 12 months, is a cause for grave concern;

- Though Monthly Reconciliation Statements were prepared by the AECs of Sagar certain columns, like annual demand and month-wise differences between Departmental figures and Treasury were not filled. As regard to AEC, Gwalior, the annual demand and month-wise difference between Departmental and Treasury figures column have not been found in *Tauzi*. The reasons for such difference were also not recorded;
- The AECs of Gwalior failed to provide Departmental copies of 131 challans amounting to ₹ 2.70 lakh deposited as per Treasury records. Audit is unable to vouchsafe the genuineness of these transactions. As already pointed out earlier, by committing fraud on 1,061 challans in Indore, licensees could deprive the State Exchequer of ₹ 36.22 crore of revenue after depositing only ₹ 1.20 crore as revenue. Where 131 challans cannot even be produced to audit, it is not only extremely suspicious as to what has happened to those challans, but chances of fraud or embezzlement on the scale as at AEC, Indore cannot be ruled out by Audit;
- Audit observed that between 2013-14 and 2017-18, there was a shortfall ranging between 42 per cent to 86 per cent in internal audit conducted by the Department. Details are as under:

**Table 2.4**  
**Units planned and audited by Internal Audit Wing**

Year	No. of units as per roster	No. of units audited	Shortfall with reference to roster	Percentage of shortfall
2013-14	35	05	30	85.71
2014-15	25	14	11	44.00
2015-16	37	15	22	59.46
2016-17	24	11	13	54.17
2017-18	43	25	18	41.86

The Department failed to strengthen internal control by not conducting internal audit periodically. Out of test-checked seven AECs, in two AECs, Sagar and Ujjain, internal audit was not conducted since 2014 and in one AEC, Raisen it was not conducted since 2015. As in the case of Indore, where internal audit was not conducted during the objected period, it might be a red flag for potential fraud due to not conducting internal audit of above units.

The Department intimated that-

- In AEC, Dewas, there were delays in sending of Monthly Reconciliation Statements to Treasury in three months due to official engagements. However, no reasons were provided regarding delays in other cases. As for delay in sending statements to EC, no specific reason was given and it was stated that they were sent immediately after their receipt from the Treasury.
- In AEC, Dhar, delay in sending the statement to Treasury was attributed to settlement of liquor shops and other engagements and consequently they were sent to EC with delay.



- In AEC, Ujjain, the delays in sending to Treasury between December 2017 and March 2018 were due to engagement in annual auction process. However, no reasons were provided for delays in remaining cases. Further, reasons for delays in sending to EC were attributed to receipts of verified statements of July 2017 to March 2018 from Treasury in one batch in March 2018.
- In AEC, Sagar, delays in sending statements to Treasury were attributed to engagement in the auction process of liquor shops.
- With regard to non-production of 131 challans by AEC, Gwalior, the AEC stated that these challans were deposited by the licensees that are outside Gwalior District and the copies of same had not been received. However, they were taken into receipts due to their being reflected in the Treasury sheet of the District. Reply of the AEC, Gwalior is not acceptable as receipts were accounted for without verifying the original challans, type of receipts and remarks regarding whether they were found in *Tauzi* also.

It is evident from the above that there are lacunae in verification of challans with the treasury records. Non-reconciliation of challans with the treasury records and lack of monitoring by the Commissioner Excise and Deputy Commissioner, Excise resulted in loss of revenue to the Government. Further, despite clear instructions of Finance Department, requisite actions were not taken by the Treasury Officer of the AECs concerned to comply with codal provisions with respect to reconciliation of receipts between Treasury and the Department. The above irregularities could have been prevented had the Internal Audit Wing been active and conducted audit periodically.

Audit reported the matter (between January 2019 and March 2019) to the Excise Commissioner and the Government. Reply from the Government was not received (September 2019).

Most of the audit observations are of a nature that may reflect similar errors/omissions in other units of the concerned State Government Department, but were not covered in the test check conducted during the year. The Department/Government may therefore like to internally examine all other units with a view to ensuring that they are functioning as per requirement and rules.

