

CHAPTER-V
STATE EXCISE

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5.1 Tax administration

The Secretary, Finance (Revenue) is the administrative head of the State Excise Department (Department) at Government level. The Department is headed by the Excise Commissioner (EC). The Department has been divided into seven zones each of which is headed by Additional Excise Commissioner (AEC). District Excise Officers (DEOs) and Excise Inspectors working under the AECs of the respective zones are deputed to monitor and regulate levy/collection of excise duties and other levies.

5.2 Internal audit

The Department has an Internal Audit Wing under the charge of Financial Advisor. This wing has to conduct test check of cases of assessment as per the approved action plan and in accordance with the defined criteria to ensure adherence to the provisions of the Act and Rules as well as Departmental instructions issued from time to time.

The position of last five years of internal audit is given in **Table 5.1** below:

Table 5.1

Year	Units pending	Units added during the year	Total units	Units audited during the year		Units remaining unaudited	Percentage of units remaining unaudited
				Pertaining to previous year	Pertaining to current year		
2016-17	5	41	46	4	40	2	4
2017-18	2	44	46	5	28	13	28
2018-19	13	44	57	13	19	25	44
2019-20	25	44	69	9	18	42	61
2020-21	42	44	86	9	15	62	72

Source: Information provided by State Excise Department.

Thus, it can be seen that the units audited during the year has decreased steadily during the last five years resulting in increase in unaudited units both in absolute and percentage terms. The Department replied that the shortfall in the audit has been due to shortage of manpower and the Covid-19 pandemic situation in the state. Audit is of the view that the Department must take steps to augment manpower so that the number of unaudited units could be brought down.

Year-wise break up of outstanding paragraphs of internal audit reports is given in **Table 5.2** below:

Table 5.2

Year	Up to 2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Outstanding paragraphs of the audit conducted during the year	154	87	95	141	196	262	935

Source: Information provided by the State Excise Department.

Thus, 935 paragraphs were outstanding at the end of 2020-21 of which 154 paragraphs were outstanding for more than five years. Lack of action by the Department and large pendency of paragraphs during the last five years erodes the effectiveness of internal audit.

The Government may consider strengthening the functioning of Internal Audit wing by making efforts to complete the audit of pending units and take appropriate measures to reduce outstanding paragraphs for plugging the revenue leakage as well as ensuring compliance with the provisions of the Act/Rules.

5.3 Results of audit

There are 108 auditable units (including 54 implementing units) in the State Excise Department, out of which audit selected 41 units (including 32 implementing units) for audit. The records of these units including 2,623 retail licensees (out of total 3,591 licensees) were analysed along with scrutiny of 6,159 cases. Audit noticed 4,529 cases (approximate 74 per cent of sampled cases) of non/short realization of excise duty, license fee, additional amount, interest/penalty on delayed payment, loss of excise duty on account of excess wastage of spirit/liquor/beer and other irregularities involving ₹ 51.37 crore. These cases are illustrative only, based on audit of the records of these selected units. Audit had pointed out similar omissions in previous years. However, not only did these irregularities persist but some of the issues also remained undetected till the conduct of the subsequent Audit.

Irregularities noticed broadly fall under the following categories given in **Table 5.3** below:

Table 5.3

Sl. No.	Category	(₹ in crore)	
		Number of cases	Amount
1	Non/short realization of excise duty and license fees	1,160	33.56
2	Non/short realization of additional amount on IMFL/Beer	1,157	9.78
3	Loss of excise duty on account of excess wastage of spirit/liquor/beer	31	0.67
4	Non-recovery of interest/penalty on delayed payment	232	7.30
5	Other irregularities:		
	(i) Revenue	117	0.06
	(ii) Expenditure	1,832	0.00
	Total	4,529	51.37

The Department accepted deficiencies in 4,170 cases involving ₹18.81 crore, of which 3,417 cases involving ₹17.08 crore had been pointed out in audit during 2020-21 and the rest in earlier years. The Department recovered ₹2.70 crore in 764 cases of which 11 cases involving ₹0.97 crore had been pointed out in audit during the year 2020-21 and the rest in earlier years.

Few illustrative cases involving ₹40.67 crore in the audited units of the Department are discussed in the succeeding paragraphs. It is pertinent to mention that most of these issues have been raised earlier and published in the CAG's Audit Report of previous years wherein the Government accepted the

observations and initiated action/recoveries. However, it is seen that the Department took action only in cases which were pointed out by audit and failed to strengthen the internal control system which has led to recurrence of similar issues in subsequent years.

5.4 Short realisation of composite fees

Incorrect calculation of composite fee for shops of peripheral area resulted in short realisation of revenue

According to the Rajasthan Excise and Temperance Policy (Policy) 2016-17, 2017-18, 2018-19 and 2019-20 and Rule 67-I and 67-kkk of the Rajasthan Excise (RE) Rules 1956, settlement of country liquor (CL) shops/groups is done on the basis of Exclusive Privilege Amount (EPA). A notice for invitation of applications for grant of CL licenses is issued by the Excise Commissioner (EC) prescribing the number of proposed country liquor shops/groups in the district with its EPA, composite fees, earnest money and application fees.

According to the policy *ibid*, CL shops of villages located within five kilometers radius from the municipal area are categorised as '*composite shops of peripheral area*'. The villages of such peripheral area are further categorised as category 'A' and 'B' and the composite fee is prescribed accordingly for each respective category. The composite fee for shops of category 'B' for the year 2016-17 to 2018-19 and for the year 2019-20 was fixed at six and eight *per cent* respectively. This was equivalent to annualised billing amount of Rajasthan State Beverage Corporation Limited (RSBCL) during previous year of that particular group/shop or 50 *per cent* of annual license fee prescribed for IMFL/Beer shop of concerned municipal area or ₹50,000 for the years 2016-17, 2017-18 and 2018-19 and ₹75,000 for the year 2019-20, whichever was higher.

During test check (December 2020) of records of two¹ offices of the District Excise Officer (DEO) for the years 2016-17 to 2019-20, it was noticed that three CL shops/groups were categorised as 'B' category shops of peripheral area. Scrutiny of the relevant records disclosed that composite fees prescribed in the notices for invitation of applications by DEOs for such groups/shops was less than the amount stipulated for their respective categories as per the policy. Therefore, incorrect application of the policy provisions led to short realisation of revenue amounting to ₹16.62 lakh.

The matter was reported to the Department and the State Government (May 2021). The Government stated (September 2021) that recovery is under process. Further progress was awaited (December 2021).

¹ DEOs: Tonk (two groups/shops), Udaipur (one group/shop).

5.5 Short realisation of monthly guarantee amount

District Excise Officers failed to collect the prescribed Monthly Guarantee Amount from country liquor licensees which led to loss of revenue

According to the Rajasthan Excise and Temperance Policy (Policy) for 2017-19 and 2019-20, settlement of CL shops/groups was done on the basis of EPA. The licensees of CL retail off shop/group were liable to pay the EPA prescribed for the license period in the form of excise duty on CL. Further, as per the conditions of the license, the licensee was to pay the annual EPA fixed for the prescribed group/shop for the concerned year in 12 equal monthly installments. The monthly installment is to be paid by the last date of that month. If a licensee failed to lift the minimum monthly quota of CL, he was liable to pay the difference of excise duty in cash.

Scrutiny of the records of offices of six DEOs² revealed (between June 2020 and February 2021) that during 2019-20, 410 out of 1,246 licensees, lifted CL worth ₹242.14 crore against the quota of ₹250.44 crore fixed for the concerned months. Similarly, during 2018-19, in case of two DEOs³, 28 out of 351 licensees, lifted CL worth ₹11.19 crore against the quota of ₹12.03 crore fixed for the concerned months.

The concerned DEOs, however, failed to recover the differential amount of the monthly guarantee amount. Therefore, lack of action on part of the DEOs resulted in violation of the policy provisions and led to loss of revenue amounting to ₹9.14 crore.

This issue has been raised regularly in the CAG's Audit Reports of previous years, wherein the Department accepted the observations and initiated action/recoveries in the cases pointed out by audit. Further, the Government had also stated (December 2020) that suitable provision to facilitate the recovery of shortfall of monthly guarantee amount has been introduced in the Integrated Excise Management System (IEMS). However, audit scrutiny revealed that such a provision had not been introduced as of March 2021.

The matter was reported to the Department and the State Government (May 2021). The Government replied (July 2021) that ₹7.93 crore has been recovered. Further progress was awaited (December 2021).

5.6 Non-recovery of additional amount

District Excise Officers failed to recover the prescribed additional amount on short lifted quantity of IMFL and Beer which led to loss of revenue

According to Para 3.20 (ii) and 4.6 (ii) of the Rajasthan State Excise and Temperance Policy (Policy) 2017-19 and para 3.18 (i) and 4.6 of the Policy 2019-20, an additional amount was to be charged quarterly at the rate of ₹20 per bulk litre (BL) on short lifted quantity of Indian Made Foreign Liquor

2 DEOs Ajmer, Jaipur (Rural), Jaipur (Urban), Jodhpur, Tonk and Udaipur.

3 DEOs Jaipur (Rural) and Tonk.

(IMFL) and ₹10 per BL on short lifted quantity of Beer during 2018-19 and 2019-20 from retail licensees who did not increase lifting of IMFL and Beer upto minimum 10 *per cent* during each quarter of current year in comparison to the quantity lifted in the corresponding quarter of the previous year. Shop-wise calculation of such short-lifted quantity was to be done at the end of each quarter.

Further, as per directions issued (June 2017 and July 2019) by the Excise Commissioner (EC), recovery of additional amount, as per prescribed rates on short lifted quantity, was to be ensured at the level of the concerned DEO.

During test check (between June 2020 and February 2021) of the records of six⁴ offices of DEOs, it was noticed that during 2019-20, 1113 licensees did not enhance lifting of IMFL and Beer upto minimum of 10 *per cent* in comparison to the corresponding quarter of the previous year and were thus liable to pay the additional amount of ₹ 9.59 crore. Similarly, during 2018-19, in case of one⁵ DEO, 37 licensees did not enhance lifting of IMFL and Beer upto minimum of 10 *per cent* compared to previous year's corresponding quarters and were thus liable to pay the additional amount of ₹ 0.16 crore. The concerned DEOs, however, failed to recover the prescribed additional amount on the short-lifted quantities. Therefore, failure of the DEOs to enforce policy provisions resulted in loss of revenue amounting to ₹ 9.75 crore.

The matter was reported to the Department and the State Government (May 2021). The Government replied (July 2021) that ₹4.92 crore has been recovered. Further progress was awaited (December 2021).

5.7 Non-recovery of difference amount of Excise Duty

District Excise Officers failed to recover the difference amount of Excise Duty on short lifted quantity from country liquor licensees which led to loss of revenue

According to the Rajasthan Excise and Temperance Policy (Policy) for 2016-17 to 2019-20, settlement of CL shops/groups was done on the basis of EPA. The licensee of CL shop/group was liable to pay the EPA prescribed for the license period in the form of excise duty on the CL. Further, as per the conditions of the license, the licensee was to pay the annual EPA fixed for the prescribed shop/group for the concerned year in 12 equal monthly installments.

Further, para 3.7.6 of the policies *ibid* and condition number 2.3.1 of retail sale licence of CL provided that licensees of CL groups had to fulfil 40 *per cent* of monthly EPA with lifted quantity of 50/60 UP⁶ CL. If the licensee failed to fulfill the prescribed guarantee ratio of 50/60 UP CL in a particular month, he

4 DEOs: Ajmer, Jaipur Urban, Jaipur Rural, Jodhpur, Sikar and Udaipur.

5 DEO, Jaipur (Rural).

6 UP refers to 'Under Proof'. It reflects the content of alcohol in an alcoholic beverage. For example, 50 Degree Proof can be denoted as 50 UP and 40 Degree proof can be denoted as 60 UP.

had to ensure lifting of 50/60 UP CL in other months of concerned quarter in a manner that 40 *per cent* guarantee of total quarterly EPA was fulfilled from excise duty of 50/60 UP CL and remaining 60 *per cent* guarantee from 40 UP CL. In case of short lifting of 50/60 UP CL w.r.t. prescribed 40 *per cent* in a quarter, the licensee was liable to pay the difference of excise duty payable on required quota and actual lifting of 50/60 UP CL in cash.

Scrutiny of records of offices of seven DEOs⁷ (between June 2020 and March 2021) revealed that during 2019-20, 520 licensees lifted 50/60 UP CL worth ₹100.97 crore against the prescribed quota of ₹ 104.94 crore for the concerned quarters and were thus liable to pay the difference amount of ₹ 3.97 crore. Similarly, during 2016-19, in case of the office of DEO Tonk, 132 licensees lifted 50/60 UP CL worth ₹13.30 crore against the prescribed quota of ₹ 14.87 crore for the concerned quarters and were thus liable to pay the difference amount of ₹1.57 crore. The concerned DEOs, however, failed to recover the difference amount. Therefore, lack of action on part of the DEOs to enforce the provisions of the policy led to loss of revenue amounting to ₹ 5.54 crore.

Further, audit noticed that the Integrated Excise Management System lacks a separate module which could tag the details of the short-lifted quantity of 50/60 UP CL against each CL licensee each quarter, so that recovery process could be facilitated and loss of revenue could be prevented.

The matter was reported to the Department and the State Government (May 2021). The Government replied (July 2021) that ₹1.69 crore has been recovered. Further progress was awaited (December 2021).

5.8 Loss of Revenue due to short levy of permit fees

Failure to notify the increase in the rate of permit fees on transportation of Country Liquor in line with the policy provision led to loss of revenue.

According to the section 14 of the Rajasthan Excise Act 1950 (Act), no excisable article shall be imported, exported or transported except under a pass (or permit) issued under section 15 of the Act which provides that passes for the import, export or transport of excisable article may be granted by the Excise Commissioner (EC) or by an Excise Officer duly empowered in this behalf subject to such restrictions as the State Government may impose from time to time.

As per Rule 69 (B) of the Rajasthan Excise Rules 1956 (Rules)⁸, permit fees of ₹ 50 per permit was prescribed for transport of CL within the State of Rajasthan. This rule was in addition to existing provision that every retail licensee of CL should pay ₹50 for every permit irrespective of the quantity involved. Accordingly, permit fees of ₹50 per permit was being charged by the Department upto 2018-19 on the permits issued to manufacturers for transport of CL from manufacturing unit to the depots of Rajasthan State Ganganagar Sugar Mills Limited (RSGSM) and on the permits issued to retail

⁷ DEOs: Ajmer, Alwar, Jaipur (Rural), Jaipur (Urban), Jodhpur, Sikar and Tonk.

⁸ inserted *vide* notification dated 1 April 2012.

licensees for transport of CL from the depots of RSGSM to their retail vend place.

The Excise and Temperance Policy (Policy) 2019-20 increased⁹ the rate of permit fees from ₹50 per permit to ₹ one per bulk litre (BL). However, the government notification (April 2019) amended the Rajasthan Excise Rules, 1956 to effect this increase only for the permits issued to retail licensees for transport of CL from the depots of RSGSM to their retail vend place and did not cover the permit fees leviable for the permits issued to manufacturers for transport of CL from manufacturing units to the depots of RSGSM.

Scrutiny of the records of the production and dispatch of 15 manufacturing units of CL under seven DEOs¹⁰ for the period 2019-20 revealed (between June 2020 and February 2021) that 16.18 crore BL of CL was transported through 22,944 permits from manufacturing units to the depots of RSGSM. In the absence of increase in permit fees for transportation of CL from manufacturing units to the depots of RSGSM, the permit fee was levied at the rate of ₹50 per permit instead of ₹ one per BL. Therefore, failure of the Government to notify the increase in the rate of permit fees in line with the Policy provision led to loss of revenue amounting to ₹ 16.07 crore.

The matter was reported to the Department and the State Government (June 2021). The State Government replied (December 2021) that the intent of the policy was to increase the permit fees only for the category of retail licensees, due to which no loss of revenue has occurred.

The reply of the Government is not acceptable as it was not specifically stated in the policy that the increase in permit fees on CL was applicable on any special category of licensees. However, unlike the policy, the notification *ibid* limited the scope of the enhancement of permit fees only to transportation of CL from the depot to retail vend place. Therefore, the Government failed to amend the rules in line with the policy provision resulting in loss of revenue.

⁹ *vide* para 4.9.3 of the Policy.

¹⁰ DEOs Ajmer, Alwar, Behror (Production units), Jaipur Rural, Jaipur Urban, Jodhpur and Sikar.

