

CHAPTER - III: STATE EXCISE

3.1 Results of audit

Test check of the records of State excise conducted during 2007-08 revealed non-assessment, underassessment, loss of revenue and non-levy of penalty amounting to Rs. 18.74 crore in 1,143 cases:

(Rupees in crore)

Sl. No.	Category	Number of cases	Amount
1.	Levy and collection of excise revenue – (A review)	1	14.95
2.	Non/short levy of excise duty	644	2.43
3.	Non-levy/recovery of duty on excess wastage	454	0.41
4.	Others	44	0.95
Total		1,143	18.74

During the year 2007-08, the department accepted underassessment of Rs. 53.78 lakh in 912 cases.

The results of a review of “levy and collection of excise revenue” with monetary implication of Rs. 14.95 crore are mentioned in the following paragraphs.

3.2 Levy and collection of excise revenue

Highlights

- Absence of norms for yield of alcohol from grain deprived the Government of revenue of Rs. 117.07 crore.
(Paragraph 3.2.7)
- Deficiencies in fixation of revenue targets for groups of liquor shops.
(Paragraph 3.2.8)
- Revenue loss of Rs. 8.68 crore due to non-establishment of departmental laboratory in the State.
(Paragraph 3.2.9)
- Non-levy of penalty of Rs. 5.49 crore for failure to maintain minimum stock.
(Paragraph 3.2.12)
- Non-levy of duty of Rs. 78.33 lakh on excess wastage in transportation of bottled country spirit.
(Paragraph 3.2.13)

3.2.1 Introduction

Excise revenue comprises receipts derived from any payment i.e. duty, fee or confiscation, imposed or ordered under the provisions of Chhattisgarh Excise Act, 1915 and rules and notifications issued thereunder. It also includes revenue from manufacture, possession and sale of liquor, *bhang* and poppy heads. The department maintains a set of liquor shops and gives annual licences to private contractors to sell country spirits, foreign liquor, *bhang* and poppy from these shops. Licences for manufacture of liquor are granted and renewed every year by the Excise Commissioner on payment of a prescribed fee subject to prior approval of the State Government.

3.2.2 Organisational set up

The Principal 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, one Deputy Commissioner (DC) and four Assistant Commissioners (AC) assist him at the headquarters. The department has three divisions each headed by a DC who supervises district offices, distilleries and bottling plants in the division. The Collector is the head of excise administration in all 16 district headquarters and is assisted by Excise Department Officers i.e. AC/District Excise Officer (DEO) at district headquarters/distilleries.

Chhattisgarh has three distilleries which have five bottling plants and another six bottling plants with franchise for foreign liquor. There are 27 warehouses in the State. The functioning of distilleries/bottling plants/warehouses is controlled and supervised by DEO/Assistant DEO/Excise Inspector etc.

The marketing of Indian made foreign liquor (IMFL) and imported liquor is done by the Chhattisgarh State Beverages Corporation Limited.

3.2.3 Audit scope and methodology

Audit conducted the test check of the records of Excise Commissioner, Chhattisgarh, four¹ out of the 16 district offices, all the three distilleries, five out of 11 bottling plants and 10 out of 27 warehouses. The units were selected by applying the method of simple random sampling without replacement. Records for the period from 2003-04 to 2007-08 were test checked between February 2008 and May 2008.

3.2.4 Audit objectives

The review was conducted with a view to ascertain

- whether adequate norms exist to govern the production of alcohol from different raw materials and are being adhered to;
- adequacy of the revised process of allotment of wine shops introduced under the State Excise Policy, 2001;
- whether wastages during manufacture, transit and storage of alcohol and liquor are monitored in accordance with the rules; and
- adequacy and effectiveness of internal control mechanism.

3.2.5 Acknowledgment

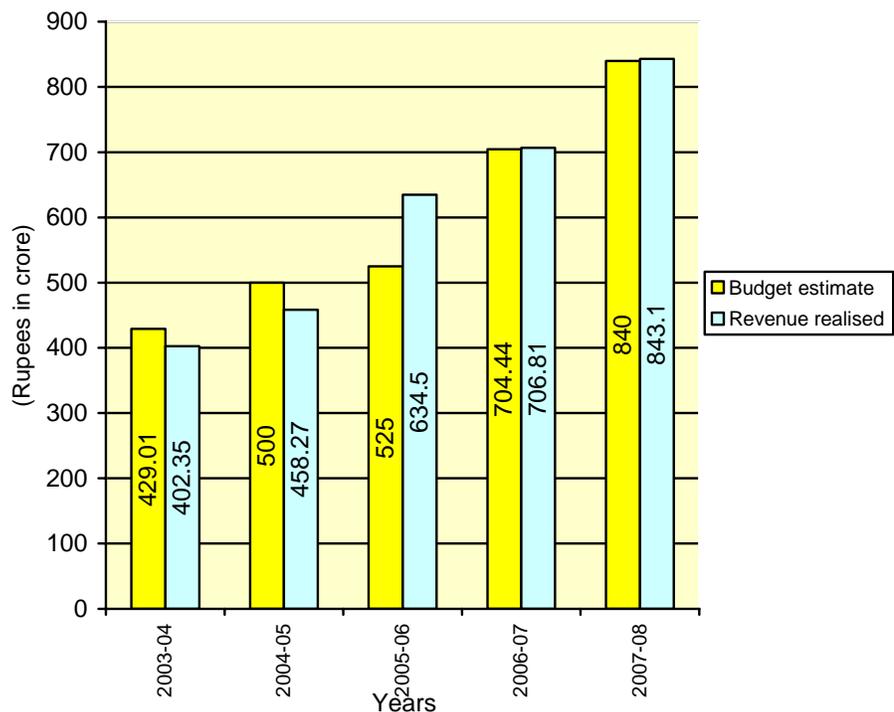
Indian Audit and Accounts Department acknowledges the co-operation of the State Excise Department in providing necessary information and records for audit. The audit methodology and scope of audit scrutiny was discussed with the Excise Commissioner, Chhattisgarh in an entry conference held in February 2008. The review was forwarded to the State Government on 6 October 2008 and discussed in the audit review committee meeting (exit conference) held on 27 November 2008. The department gave their responses and assured to further examine the audit observations and recommendations. The replies of the department have been appropriately incorporated in the respective paragraphs.

3.2.6 Trend of excise revenue

The preparation of the annual budget estimate of excise revenue is the responsibility of each DEO/AC. This estimation is based on the revenue expected to be collected in a year in the shape of licence fee, duty, permit fee, bottling fee, application fee, labeling fee etc. Details of budget estimates and actual revenue realised from 2003-04 to 2007-08, as reported in the Finance Accounts are depicted below:

¹ Bilaspur, Durg, Jagdalpur and Raipur.

Comparison between budget estimates and revenue realised



Audit findings

System deficiencies

3.2.7 Norms for yield of alcohol from grain

The Chhattisgarh Distillery Rules, 1995 prescribe controls and norms for production of alcohol from molasses such as permits for purchase of molasses, drawal of samples, analysis of samples to ascertain fermentable sugar, content of the wash of each set up, estimation of the production of alcohol from each set up etc. Rules provide for minimum yield of 91.8 proof litres (PL) of alcohol per quintal of fermentable sugar. The rules however do not prescribe any such norms or benchmarks for alcohol production from grain.

Audit scrutiny revealed that in addition to using molasses, all the three test checked distilleries were also producing alcohol from grain i.e. rice. The alcohol obtained per quintal of grain (rice) ranged from 43.44 PL to 61 PL and in one set up for the month of June 2007 in Welcome Distillery, Bilaspur it was as high as 105.36 PL.

The Technical Excise Manual² stipulates that 7.7 gallons of alcohol is to be obtained from 220 pounds (one quintal) of rice which converts to 61.2 PL per quintal of rice. This was neither followed by the department nor was any other norm inserted in the Chhattisgarh Distillery Rules after due analysis. Using it

² Paragraph 39 of the Technical Excise Manual edition of 1997.

as a benchmark, it would translate to short production of 243.90 lakh PL in the distilleries as mentioned in the table below:

Name of the distillery	Year	Grain used (lakh quintals)	Actual Yield obtained (in lakh PL)	Actual Yield obtained per quintal (in PL) (col. 4 ÷ 3)	Yield as per the bench mark (in lakh PL) (col. 3 x 61.2)	Short production (in lakh PL) (col. 6 - 4)
1	2	3	4	5	6	7
Kedia Distillery (CG Distilleries) Durg	2003-04	0.01	0.61	61.00	0.61	0.00
	2004-05	5.52	239.81	43.44	337.82	98.01
	2005-06	4.94	222.32	45.00	302.33	80.01
	2006-07	4.49	222.43	49.54	274.79	52.36
Welcome Distillery, Bilaspur	2006-07	0.49	25.04	51.10	29.99	4.95
	2007-08	0.49	26.09	53.24	29.99	3.90
Bhatia Distillery, Bilaspur	2007-08	0.93	52.25	56.18	56.92	4.67
Total		16.87	788.55		1032.45	243.90

Had the minimum recovery been fixed at 61.2 PL per quintal of grain in these distilleries, Government could have earned additional revenue of Rs. 117.07 crore (calculated at Rs. 48 per PL) as excise duty.

This indicates that the Government may evolve provisions for recovery of alcohol from grain as in the case of molasses to avoid revenue leakage. In the exit conference, the Government intimated that in view of the audit recommendation, it would start the process of framing provisions for production from grain, by collecting and examining the prevailing Rules in other States.

3.2.8 Deficiencies in fixation of revenue targets for groups of liquor shops

With effect from financial year 2002-2003, the Government of Chhattisgarh introduced a new system³ of annual allotment of liquor shops by lottery. Every year, the District Collectors with the assistance of DEOs divide the shops into groups and propose the excise revenue target for each group of shops to the EC who approves the targets with modifications, if any. This approved target for the district is then apportioned among the groups of shops in the district. The Collector notifies these approved targets while calling for applications every year.

Scrutiny of the records of DEOs in Bilaspur, Durg, Jagdalpur and Raipur revealed that the targets were proposed by increasing the target of the previous year by a certain percentage. The increases were not uniform in different districts.

The excise revenue comprises two parts, i.e. licence fee and excise duty. The licence fee is 60 per cent of the target fixed which has to be compulsorily paid regardless of the actual sale of liquor and is, therefore, fixed. The second part

³ In the old system, allotment was done on the basis of public auctions.

is the excise duty on actual sales subject to minimum of 40 *per cent* of the target fixed and is, therefore, the variable component of the excise revenue. It is observed from the tabulation of four districts (Appendix 1.1) that targets fixed were always less than the actual revenue realisation for year 2003-04 to 2007-08. As the licence fee component is fixed, the variation between target and actual revenue realisation was only due to the variable excise duty component. Consequently, in the four districts test checked, the excise duty component of the targets was substantially lower than the actual excise duty realised in all five years.

The process of fixing targets for a financial year takes place in the month of December preceding that financial year. Thus, when the department fixed the targets in December 2007 for the year 2008-09, the department had district wise time series data on actual excise duty realised during the years 2003-04 to 2006-07. Line graphs were plotted by audit for each district (Appendix 1.2) using the available data in December 2007 i.e. the actual excise duty realised from 2003-04 to 2006-07. The plotted line was extended to obtain the projected excise duty realisation for 2007-08 based on the trend of actual realisation from 2003-04 to 2006-07. The projected realisation from the line graph is very close to the actual excise duty realised in 2007-08 as tabulated below and therefore the line graphs are giving an accurate projection of the duty realisation.

Year 2007-08		(Rupees in crore)			
District	Raipur	Bilaspur	Durg	Jagdalpur	
Projected duty realisation from line graph	85.00	34.00	52.00	2.90	
Actual excise duty realised in 2007-08	87.20	37.87	53.64	3.49	

Therefore, the projected excise duty for 2008-09 was ascertained from the line graphs and the actual targets fixed for the year 2008-09 were found to be substantially lower as depicted in Appendix 1.3.

While a lower target will not affect excise duty collection which is realised on actual sales, there will be a short realisation of licence fee as it is a fixed component of the target i.e. 60 *per cent*. Consequently, the Government will have a short realisation on account of licence fee which could be in the range of Rs. 49.57 crore in the four test checked districts as detailed in Appendix 1.3.

It is recommended that the Government should re-examine the methodology for fixing targets using prescribed parameters such as time series data of actual revenue collection to do a trend analysis to fix targets for the districts.

In the exit conference, the Government intimated that while fixing the targets for 2009-10, every effort would be made to do a trend analysis of the past targets and actual revenue realisation. It was also informed that there were wide variations between districts and a common criteria was not feasible. It was suggested by audit that a mathematical trend analysis could be used to start the process and all other factors could be applied thereafter to fix the final target.

3.2.9 Loss of revenue due to delay in testing samples

The Chhattisgarh Distillery Rules prescribe that the distillers are required to obtain a yield of 52.5 alcohol litres or 91.8 PL of alcohol per quintal of fermentable sugar present in molasses. A fine at the rate of Rs. 30 per PL is leviable on the distiller on the volume of short production. For this purpose, the officer-in-charge of distillery draws three samples at the time of preparation of wash from molasses to ascertain the amount of fermentable sugar in the sample. He retains one sample, sends the second sample to the Government laboratory and gives the third sample to the distiller for analysis in his own laboratory. The department determines the anticipated yield of alcohol based on the report of the fermentable sugar content from the departmental laboratory.

The State does not have any departmental/Government laboratory even after more than seven years of the formation of the State. The samples drawn in distilleries are sent to the departmental laboratory of the Government of Madhya Pradesh, located at Gwalior. During test check of the records of three distilleries, it was observed that there were delays ranging from seven days to five months between the date of drawal of sample and date of analysis in the department laboratory. Due to the delays, the amount of fermentable sugar in the sample was getting reduced by the natural process of fermentation. For example, in Chhattisgarh Distilleries (formerly known as Kedia Distillery), a sample was drawn on 7 March 2007 and the analysis report in distiller's laboratory showed the fermentable sugar content as 49.9 *per cent* whereas the analysis conducted on 5 April 2007 by departmental laboratory showed it as 41.84 *per cent*. Therefore, after one month the sample showed much lower fermentable sugar as compared to the initial sample.

Based on the sample analysis reports of two distillers⁴, during the period 2003-04 to 2007-08, against 2.11 lakh quintals of the molasses used, 187.85 lakh PL of alcohol should have been produced, against which actual production was only 169.77 lakh PL. This resulted in shortfall of 18.08 lakh PL of alcohol which translates to a loss of revenue of Rs. 8.68 crore.

During the exit conference it was intimated that a laboratory has been sanctioned by Government and it will be established expeditiously.

It is recommended that in the interim, the Government should calculate the anticipated yield from the higher of the two reports, from the distiller and departmental laboratory.

3.2.10 Inadequate control over bottling in distilleries

3.2.10.1 Non-maintenance of records of receipt and consumption of empty bottles etc.

According to Rule 6(1) of the Chhattisgarh Distillery Rules, an account will be taken of the stocks of distillery at such interval and in such manner as the EC may direct, and a statement in the prescribed form shall be submitted by the excise officer posted in the distillery.

⁴ Chhattisgarh Distilleries, Durg and Welcome Distillery, Bilaspur.

Scrutiny of records of the bottling units and distilleries selected for the review revealed that the officers-in-charge posted there were maintaining detailed records of receipt and consumption of empty bottles and corks/caps for country liquor as per provisions of Chhattisgarh Country Spirit Rules, 1995. These records were, however, not being maintained for IMFL as there were no such provisions in Chhattisgarh Foreign Liquor Rules, 1996 for bottling of IMFL.

The Government may therefore consider introducing similar provisions for IMFL. In the exit conference, it was intimated that the recommendation of audit would be examined.

3.2.10.2 Actual loss in transit not recorded

According to Rule 6(4) of Chhattisgarh Distillery Rules, an allowance shall be made for the actual loss in transit by leakage or evaporation of spirit transported from distillery to distillery, distillery to warehouse and from one warehouse to another warehouse when transported in drums/ tankers at the rates indicated below:

Distance	Maximum rate of wastage allowance
In drums	
Upto 250 Kms	0.3 per cent
Above 250 Kms but not exceeding 500 Kms	0.4 per cent
Above 500 Kms	0.5 per cent
In tankers	
Upto 250 Kms	0.1 per cent
Above 250 Kms	0.2 per cent

Scrutiny of the records maintained at distilleries and warehouses showed that the receiving warehouses in every case had recorded a wastage equal to the maximum permissible wastage allowance without measuring the actual loss.

After this was pointed out, the officers-in-charge of the warehouses/distilleries concerned intimated that sometimes breakage etc. is very high so in order to adjust the loss, it is being recorded at maximum permissible limit. The reply is misleading as transportation in drums and tankers does not involve any breakage. The rule envisages measuring of volume at the receiving end and recording actual loss which is not being done.

In the exit conference, the Government agreed to issue directions to distilleries and warehouses to measure and record actual loss.

3.2.11 Working of Internal Audit Wing

Internal audit wing is a vital component of the internal control mechanism which enables an organisation to assure itself that the prescribed systems are functioning reasonably well.

The internal audit wing of the Excise Department comprises one Joint Director (Finance) in the office of the Excise Commissioner, under whom only one Accounts Officer is posted. During scrutiny it was ascertained that no programme for internal audit was made and only 15 general inspections had been conducted during the period of review.

Due to non-conducting of internal audit, the department is not in a position to ensure that the various activities were being carried out as per the provisions prescribed in the Act, rules and manuals and to plug leakages of revenue.

In the exit conference, the Government intimated that action would be taken to strengthen the internal audit wing.

Compliance deficiencies

3.2.12 Non-levy of penalty for failure to maintain minimum stock of spirit in warehouses

According to Rule 4(4) of Chhattisgarh Country Spirit Rules, a licensee shall maintain at each storage warehouse, a minimum stock of bottled liquor equivalent to average issue of five days of the preceding month. In the event of failure to maintain the minimum stock of spirit in warehouse, the Collector may impose a penalty not exceeding Rs. 2 per litre on the licensee, for the quantity found short of the prescribed minimum stock. This penalty shall be payable by the licensee irrespective of whether any loss has actually been caused to the Government or not.

Scrutiny of the records of 12 DEOs revealed that there were 1,113 occasions when the licensees did not maintain the minimum stock. However, only in a few cases in Jagdalpur district, action was initiated to levy penalty. In the remaining cases, no action was taken by the DEOs to levy penalty after scrutinising the returns of the licensees. Consequently, penalty upto Rs. 5.49 crore was not levied on 274.65 lakh PL of spirit found short. Since, minimum stock was not maintained in the warehouses, the cases should have been scrutinised and depending on the merits in each instance the penalty should have been imposed, as was done in Jagdalpur.

In the exit conference, the Government agreed that the cases must be scrutinised and decided on merit and informed that instructions would be issued to all districts.

3.2.13 Non-levy of duty on excess wastage in transportation of bottled country liquor

Rule 10(A) (1) of Chhattisgarh Country Spirit Rules, lays down the maximum permissible limits of wastage for transport of bottled country liquor. It is 0.1 *per cent* of the transported quantity if the manufacturing warehouse and the storage warehouse are located in the same district and 0.25 *per cent* if they are located in different districts. Further as per Rule 10(A)(3), if wastage is more than the permissible limit, the prescribed duty on that excess wastage shall be recovered from the licensee.

During test check of the records of 10 warehouses⁵ and two distilleries⁶ it was observed that the warehouse officers accounted for losses by preparing a ‘*panchnama*’⁷ and forwarded to DEO/AC Excise of the district concerned. From these ‘*panchnamas*,’ it was found that during the period 2003-04 to

⁵ Baloda Bazaar, Balod, Bemetara, Bhilai, Durg, Gatauri, Gariyaband, Jagdalpur, Mungeli and Raipur.

⁶ Chhattisgarh Distilleries, Durg and Welcome Distilleries, Bilaspur.

⁷ Declaration prepared by warehouse officer and verified by the witnesses.

2007-08, though transit wastage of bottled country liquor in excess of minimum permissible limit amounted to 1.63 lakh PL involving duty of Rs. 78.33 lakh, no action was taken at any level to levy and realise the duty. This resulted in non-levy of duty of Rs. 78.33 lakh.

3.2.14 Conclusion

Excise revenue is an important source of revenue of the State Government. The Government has not yet specified norms for the production of alcohol from grain due to which there is chance of potential revenue loss. There were deficiencies in fixations of annual excise revenue targets for group of shops. The State has not set up a sample testing laboratory even after seven years of State formation resulting in revenue loss. The department is not exercising control as envisaged in rules over the working of distillery/warehouses with respect to non-maintenance of minimum stock, wastage in transit and bottling of IMFL.

3.2.15 Summary of recommendations

The Government may consider taking the following action for rectifying the system deficiencies:

- introduce requisite provisions for production of alcohol from grains;
- re-examine the methodology for fixing targets using available trend of revenue realisation;
- start the departmental laboratory in State for testing of molasses samples and in the meantime, the department should calculate the anticipated yield from the higher of the two reports, from the distillery and the departmental laboratory;
- examine Rule 4(4) of Chhattisgarh Country Spirit Rules, 1995 and clarify how it is to be applied in cases of non-maintenance of minimum stock;
- issue instructions to record actual loss in transit by leakage or evaporation of transported spirit; and
- strengthen the internal audit wing and its functioning to ensure adherence to the provisions of the Acts/rules by departmental officers and to plug leakage of revenue.