

## CHAPTER-VI: State Excise

### 6.1 Results of audit

Test check of the records of the State Excise Offices, conducted during the year 2005-06, revealed non/short recovery of excise revenue amounting to Rs.46.55 crore in 121 cases, which broadly fall under the following categories:

Sl. No.	Category	Number of cases	Amount (Rs. in crore)
1.	Non/short realisation of excise duty and licence fee	19	0.72
2.	Loss of excise duty on account of excess wastage of liquor	15	0.27
3.	Other irregularities	86	13.94
4.	<b>Review on "Levy and collection of excise revenue"</b>	1	31.62
	<b>Total</b>	<b>121</b>	<b>46.55</b>

During the year 2005-06, the Department accepted short realisation etc. in 66 cases involving Rs.3.58 crore of which 24 cases involving Rs.62.78 lakh were pointed out in audit during 2005-06 and rest in earlier years. The Department recovered Rs.1.26 crore in 61 cases of which 15 cases involving Rs.22.71 lakh had been pointed out in audit during the year 2005-06 and rest in earlier years.

After issue of draft paragraph, the department recovered Rs.12.77 lakh pertaining to a single observation pointed out during 2005-06.

A few illustrative cases and findings of the review on "**Levy and collection of excise revenue**" involving Rs.31.49 crore are given in the following paragraphs:

## **6.2 Review on Levy and Collection of Excise Revenue**

### **6.2.1 Highlights**

**Non-fixation of norms of minimum production of beer from raw material led to short yield of beer involving excise duty of Rs.10.77 crore.**

**(Paragraph 6.2.10.1)**

**Non-fixation of norms of production of spirit from molasses led to short yield of spirit involving excise duty of Rs.41.90 crore.**

**(Paragraph 6.2.10.2)**

**Slackness of department in control of production resulted in short accountal of 82,448.355 quintal LPH involving excise duty of Rs.28.86 crore.**

**(Paragraph 6.2.11)**

**Non realisation of excise duty of Rs.9.74 crore on the undisposed stock of RS and RS based IMFL lying with the distillers.**

**(Paragraph 6.2.12.1)**

**Loss of Rs.8.71 crore due to allowing *benami* persons to participate in the bid for LPH and liquor groups.**

**(Paragraph 6.2.15)**

### **6.2.2 Recommendations**

In order to plug loopholes, Government may consider the following recommendations for better management and collection of Government revenue:

- necessary amendments need be considered in the Acts/Rules to fix norms for minimum yield of spirit and beer from raw material;
- an effective control mechanism may be evolved to control LPH produced in the state;
- effective steps may be considered to make rules to bar participation of *benami* persons in tender process; and
- internal control mechanism may be strengthened to ensure better financial management.

### **6.2.3 Introduction**

Excise revenue comprises receipts derived from any payment, duty, fee, tax, fine or confiscation imposed or ordered under the provision of Rajasthan Excise Act, 1950 and rules made thereunder. It also includes revenue from manufacture, possession and sale of liquor, bhang and lanced poppy heads (LPH).

Rajasthan Excise Act, 1950 (RE Act) empowers Government to frame a periodical excise policy. Excise policy prescribes the procedure for fixation of amount for exclusive privilege (reserve price) for the shop/group of shops selling Indian made foreign liquor (IMFL), country liquor (CL), LPH and bhang. Excise Commissioner (EC) is responsible for formulation and implementation of the excise policy.

The licences for vend by wholesale or by retail of excisable articles are granted through exclusive privilege system (EPS) by inviting sealed tenders or auction or negotiation or any other prescribed procedure. In the case of LPH, licences are issued under Rajasthan Narcotic Drugs and Psychotropic Substances Rules, 1985 (RNDPS Rules).

### **6.2.4 Organisational Set up**

At Government level, the general superintendence of the State Excise Department is vested with the Principal Secretary to Government in the Finance Department. The EC is the head of the State Excise Department. He is assisted by seven Additional Commissioner's (ACE's) – six at zonal headquarter and one holding charge of administration at Udaipur. There are 28 district excise officers (DEOs) for 32 districts and two DEOs (Prosecution) at Jaipur and Jodhpur in connection with matters of recovery pending with Rajasthan High Court. The enforcement wing of the department is headed by Director, who is from Indian Police Service and finance wing by Financial Advisor (FA) who is from Rajasthan Accounts Service.

### **6.2.5 Audit Objectives**

The review was conducted to ascertain :-

- extent of compliance to the provisions of Act/Rules and orders governing collection of excise revenue;
- whether there was any lacunae in the Acts/Rules or absence of any norms that impacted the Government revenue; and
- adequate internal control and monitoring mechanism have been devised in departmental functioning to prevent loss or leakage of revenue.

### 6.2.6 Scope of Audit

With a view to ascertain the adequacy and effectiveness of the system and procedure to realise revenue, records for the year 2000-01 to 2004-05 of 10<sup>1</sup> out of 30 units (DEOs) alongwith those maintained by EC were test checked .

### 6.2.7 Trend of revenue

The variation between budget estimates (BE) and actual receipts from 2000-01 to 2004-05 are given below:-

(Rupees in crore)

Year	Budget Estimate	Actual revenue	Shortfall	
			Amount	percentage
2000-01	1175	1118	57	(-) 5
2001-02	1125	1110	15	(-) 1
2002-03	1240	1142	98	(-) 8
2003-04	1240	1163	77	(-) 6
2004-05	1325	1276	49	(-) 4

As would be seen from above, the BE for the year 2001-02 was fixed below that of 2000-01, while BE for 2002-03 and 2003-04 remained constant. After this was pointed out, the department stated (July 2006) that anticipated short realisation of arrears and reduction in the rate of fees contributed to lowering of BE for the year 2001-02. It was further stated that as against BE of Rs.1240 crore for 2002-03, the actual realisation thereto was Rs.1142 crore and thus based on the said realisation, the BE for 2003-04 was not increased from that of the preceding year. The fact, however remains that the state excise revenue growth showed an almost static trend in the last five years, despite general progress in the overall revenue of the state.

### 6.2.8 Arrears pending collection

As per information furnished by the department, 294 cases involving Rs.213.34 crore were pending collection as on 31 March 2005 as detailed below:

(Rupees in crore)

Year <sup>2</sup>	Opening balance		Addition during the year		Recovery realised		Closing balance	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
2002-03	387	219	18	2	81	12	324	209
2003-04	324	209	13	15	21	13	316	211
2004-05	316	211	6	7	28	5	294	213

<sup>1</sup> Alwar, Baran, Bhilwara, Chittorgarh, Jaipur, Jodhpur, Kota, Sawaimadhopur and Udaipur.

<sup>2</sup> The pendency of arrears upto 2001-02 was already commented in Audit Report 2002-03.

It would be seen from above that though the number of cases pending collection as on 31 March 2005 decreased from 387 to 294 i.e. by 24 *per cent* but the amount of arrears declined insignificantly from Rs.219 crore to Rs.213 crore i.e. by three *per cent*.

## 6.2.9 Internal control

### 6.2.9.1 Lack of monitoring

As per the state excise manual, a register of inspection in the prescribed form was required to be maintained in the EC office showing details of inspection conducted by each officer. The norms for inspection have been fixed for each officer by EC. A separate file was required to be opened for each inspection for watching the compliance of points raised in each inspection report.

During the course of audit it was noticed that no 'register' and 'file of inspection' was maintained in EC office. Besides, details of inspection, if any, conducted by any excise officer were not made available by any officer except Additional Commissioner (Headquarter). However, information furnished by him was also found incomplete. Under these circumstances, efficacy of monitoring at higher level could not be ascertained in audit.

### 6.2.9.2 Working of internal audit

Based on information furnished by the department, the position of number of internal audit reports (IAR) and paragraphs issued and disposed of during the years 2000-01 to 2004-05 is given below:

(Rs. in lakh)

Year	Opening balance paras (IAR) amount	Addition paras (IAR) amount	Total paras (IAR) amount	Clearance paras (IAR) amount	Balance paras (IAR) amount	Percentage of clearance	
						IAR	Paras
2000-01	962 (195) 3.22	854 (11) 13.12	1816 (206) 16.34	541 (28) 0.81	1275(178) 15.53	14	30
2001-02	1275 (178) 15.53	1436 (17) 73.65	2711 (195) 89.18	1173 (22) 6.30	1538 (173) 82.88	11	43
2002-03	1538 (173) 82.88	1454 (25) 101.88	2992 (198) 184.76	1531 (27) 15.21	1461(171) 169.55	14	51
2003-04	1461(171) 169.55	837 (25) 151.37	2298 (196) 320.92	942 (15) 31.07	1356(181) 289.85	8	41
2004-05	1356 (181) 289.85	252 (17) 56.73	1608 (198) 346.58	514 (4) 40.06	1094 (194) 306.52	2	32

The above table reveals that the percentage of clearance of the IAR ranged between two and 14 *per cent* and clearance of paras between 30 and 51 *per cent*. Increasing trend of outstanding objections indicated absence of a proper supportive environment for internal audit in the department. At the end of March 2005, paragraphs worth money value of Rs.3.07 crore were outstanding for want of remedial measures.

## 6.2.10 Absence of norms of minimum yield of beer and spirit from molasses

### 6.2.10.1 Shortfall in production of beer

Manufacture of beer by breweries is regulated under Rajasthan Brewery Rules, 1972 but these rules do not prescribe any norms for minimum yield of beer from the raw material used in the manufacture of beer. According to Technical Excise Manual, 116.36 kg of rice or 101.82 kg of sugar are each equal to 12.73 kg of malt.

As per the information collected, brewery 'A' used malt, sugar and rice in production of beer and the yield of beer per Metric Tonne (MT) from raw material was as under:

Year	Raw material used (Malt and malt equivalent <sup>3</sup> in MT)	Production of beer shown by brewery (BL)	Yield of beer per MT (BL)
2000-01	1,679.388	1,11,34,400	6,630
2001-02	1,455.340	95,21,400	6,542
2002-03	1,810.805	1,18,95,700	6,569
2003-04	2,510.018	1,70,47,000	6,791
2004-05	3,449.853	2,41,23,800	6,992

Based on the minimum yield of 6,542 bulk litre (BL) per MT obtained in 2001-02 from raw material used in brewery 'A', it was noticed that in other two breweries 'B' and 'C', there was short production of beer of 69,41,479 BL involving excise duty of Rs.10.77 crore as detailed below:

(Rupees in crore)

Name of unit	Year	Raw material used (MT)	Production of beer (BL)	Beer to be produced (@ 6542 BL per MT)	Short production of beer (BL)	Excise duty involved in short production
B	2000-01 to 2004-05	16,765.001	10,49,76,966	10,96,76,637	46,99,671	7.18
C	2000-01 to 2004-05	1,895.288	1,01,57,170	1,23,98,974	22,41,804	3.59
<b>Total</b>		<b>18,660.289</b>	<b>11,51,34,136</b>	<b>12,20,75,611</b>	<b>69,41,475</b>	<b>10.77</b>

### 6.2.10.2 Low production of spirit from molasses

According to norms fixed by the Central Board of Molasses, the minimum yield of spirit was 373.5 proof litres from every tonne of molasses used. However, Rajasthan State Excise Rules do not provide for any such norm.

Test check of production records of five distilleries at Udaipur, Alwar Jaipur and Sriganganagar for the years 2000-01 to 2004-05, revealed that as against

<sup>3</sup> The malt equivalent from rice and sugar arrived by applying norms given in technical excise manual.

production of 6.28 crore proof litres of spirit based on the norms fixed by Central Board of Molasses, 5.87 crore proof litres of spirit were produced during the said period from use of 16,80,572.5 quintals of molasses. Thus, a shortfall of spirit to the tune of 41.04 lakh proof litres involving excise duty of Rs.41.90 crore was noticed.

In absence of the norms for minimum yield of beer and spirit correctness of the production of beer, spirit could not be ascertained. Thus there is a need for fixing the norms of minimum yield of beer and spirit from raw material. Besides norms in respect of malt equivalent i.e. rice, sugar and other related material may also be fixed.

After this was pointed out, the department accepted the audit observation in both the cases and stated that a committee comprising of Additional Commissioners, Kota and Jaipur has been constituted to examine the issue of fixation of norms.

#### ***6.2.11 Slackness in control of production of LPH***

Under RNDPS Rules, every cultivator of poppy heads is required to submit to the department by 1 April each year, a declaration in form 'C' in respect of the land in which he cultivated the poppy heads alongwith the stock of the LPH. A similar information in respect of each cultivator shall be collected by Excise Department from Narcotic Department to ensure that stock of LPH has been correctly declared by the cultivators in accordance with the prescribed estimate of 500 kg per hectare envisaged in circular issued in July 1977. Rule ibid further provide that stock of LPH in the possession of cultivators shall either be sold to the bonded licensee or destroyed by burning in the presence of excise authority each year during the period from 1 April to 31 July.

Mention was made in the paragraph 6.2 of the Report of Comptroller and Auditor General of India for the year ended 31 March 1996 (Revenue Receipts) Government of Rajasthan for short accountal in production, procurement and sale of LPH. Public Accounts Committee (PAC) in their Report (March 2003) *inter-alia*, recommended to:

- framing of norms for production to control illegal sale of LPH;
- register offences against cultivators not submitting declarations;
- maintain a cultivator wise register after obtaining list of opium cultivators from Narcotic Department.

It was noticed in audit that no action on PACs recommendation in regard to revising of norms for production of LPH and maintaining cultivator wise register has been taken by the department. As regards registering of offences against cultivators for non submission of declarations; although Government issued directions in August 2004, but these have not been followed and not a single return was received at Commissioner office.

In six DEOs<sup>4</sup>, a cross verification of records of Narcotics Department with Excise Department revealed that cultivation of opium as per records of Narcotics Department was made in 32,166.091 hectares of land by 1,72,033 cultivators during the crop years 2000-01 to 2003-04. However, only 87,783 cultivators filed declaration with State Excise Department and showed production of LPH in 16,752.627 hectares of land. No action was taken by the department to obtain declaration from remaining cultivators and ascertain the production thereof. As per existing norms prescribed by Excise Department, 1,60,830.455 quintals of LPH should have been produced on 32,166.091 hectares but the State Excise Department showed production of 78,382.10 quintals on 16,752.627 hectares of land. Thus there was a short account of 82,448.355 quintals of LPH involving excise duty of Rs.28.86 crore at the rate of Rs.35 per kg.

After this was pointed out, the department accepted the facts. However, it stated that it was difficult to physically control a large number of cultivators by limited staff. However, the fact remains that keeping in view the possibilities of social misuse of production, apart from revenue realisation, a suitable control mechanism is desired to be put in place.

#### **6.2.12 Non disposal of excisable articles**

**6.2.12.1** In the excise policy for the year 2005-06, the production and sale of IMFL from rectified spirit (RS) was discontinued with effect from 1 April 2005. However, the manner of disposal of remaining stock with the distillers as on 31 March 2005 was not prescribed in the policy.

In five DEOs<sup>5</sup> it was noticed that 10 distillers<sup>6</sup> which were producing IMFL from RS during 2004-05 discontinued their production from 1 April 2005. As a result 2,75,795.317 LPL RS and 2,97,427.745 LPL IMFL produced from RS were pending disposal as on 31 March 2005. In the absence of any policy, the produce remained undisposed. The stock was still lying in the possession of distillers. Consequently excise duty of Rs. 9.74 crore remained unrealised.

**6.2.12.2** Rajasthan Distilleries Rules, 1976 provides that on the expiry of licence, if no fresh licence is granted to a distiller, the distiller shall be liable to pay duty on the stock held by him at the time of expiry. He shall also remove all spirit within 10 days from the distillery, failing which, the spirit was liable to be forfeited at the discretion of the EC.

In six<sup>7</sup> DEOs it was noticed that licences of seven distillers and one bonded warehouse<sup>8</sup> expired on 31 March 2005. No fresh licence was granted. Closing stock of 59,267.218 LPL of RS, malt spirit, ENA and 59,533.653 LPL IMFL

<sup>4</sup> Baran, Bhilwara, Chittorgarh, Jhalawar, Kota and Udaipur

<sup>5</sup> Ajmer, Alwar, Jaipur, Jodhpur and Udaipur.

<sup>6</sup> Globus Agronics Distillery, Golden Bottling Plant, Tulsi Bottlers, Rajwada Beverage, Rajasthan liquors, Real Beverage, Shivalik Kinema, R N Products, Shore Products and Vyankatesh Bottling Plant.

<sup>7</sup> Alwar, Jaipur, Jodhpur Kota, Udaipur and Sirohi.

<sup>8</sup> Samart Bottlers, Jaipur Bottling Plant, Sindhu Velly Bottling Plant, Shore Products, K.K. Industries, Inter Link Bottling Plant, RN Products Ltd. and Mcdowell and Company 47(1)(a).



was lying with the units as on 31 March 2005. Though one year elapsed but licensees failed to deposit excise duty on the stock held in hand. The department did not take any action to forfeit the stock and even a notice to deposit the duty for stock in hand was not issued. Inaction on the part of department deprived the exchequer of excise duty of Rs.2.06 crore.

After this was pointed out, the department/Government accepted the audit observations in both the cases. Further action taken was not intimated.

### **6.2.13 Loss of revenue due to wastage**

**6.2.13.1** Rajasthan Molasses Rules, 1985, provide that a producer of molasses shall store molasses in leak proof tanks or pits which shall be kept in good condition. Loss or dryage of molasses in storage which exceeded two *per cent* shall not be admitted without the sanction of EC. There exists no provision in the Act/Rules for levy of penalty in case molasses were found short.

In Sriganaganagar, it was noticed that 18,393.27 quintals of molasses was in stock in a distillery as on 31 March 2001. However, physical verification in June 2001 conducted by a committee framed by the distillery revealed that there was only 4,082 quintals of molasses in stock. The loss exceeded the admissible wastage of two *per cent* by 3515.44 quintals. The licensee admitted the loss without sanction of EC, which was incorrect. The molasses found short could have yielded RS 3,39,318 LPL attracting excise duty of Rs.3.39 crore.

After this was pointed out, the department stated that the rules did not provide for levy of excise duty on loss of molasses, in absence of which duty could not be levied. However, the fact remains that excess loss was admitted without the sanction of EC and therefore, to safeguard the revenue interest of the exchequer, it is recommended that enactment of penal provisions for loss in excess of permissible limit may be considered.

**6.2.13.2** Rajasthan Stock Taking and Wastage of Liquor (At Distilleries and Warehouses) Rules, 1959, provides that loss of rectified, matured and spiced spirit during storage should not exceed 0.4 *per cent* and 0.3 *per cent* respectively. The rules further provide that if the total wastage exceeds three *per cent*, than, duty shall be charged on the entire wastage.

In three DEOs<sup>9</sup> it was noticed that, stock of 1,93,181.965 LPL of RS, malt spirit and ENA was lying as on 31 March 2003 with three distillers. Physical verification conducted between January 2004 to October 2004 by the department revealed a stock of 1,70,404.84 LPL. Shortage of 22,777.125 LPL as noticed was in excess of three *per cent*, hence, no free allowance was allowable. However in disregard of rules, no excise duty was found recovered. This resulted in non realisation of excise duty of Rs.26.96 lakh.

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<sup>9</sup> Alwar, Chittorgarh and Sriganaganagar.

After this was pointed out, department stated that no excise duty was chargeable on the wastage. The reply was not tenable as the rules provides for charging of duty on wastage.

**6.2.13.3** Rajasthan Stock Taking Wastage of Liquor (At Distilleries and Warehouses) Rules, 1959 provide allowance for loss of spirit in transit. The actual loss in transit of spirit, imported or transported under bond, by leakage, evaporation or other unavoidable causes was admissible at the rate prescribed time to time. Loss in excess of the prescribed limits is chargeable to duty.

In six DEOs<sup>10</sup> it was noticed that excess transit wastage of 16,164.796 LPL of spirit was allowed during 2003-04 and 2004-05 in transportation of spirit under bond. The shortfall in revenue was neither detected by the concerned DEOs nor by EC to whom a return indicating wastage was being sent monthly. The omission resulted in short recovery of excise duty amounting to Rs.19.88 lakh as detailed below:

(Rs. in lakh)

S. No.	Year	Name of the office	Transit wastage claimed (LPL)	Maximum allowable wastage (LPL)	Excess transit wastage allowed (LPL)	Excise duty involved	
						Rate per LPL	Amount
1.	2003-04	DEO (P), Jodhpur	894.94	365.41	529.53	100	0.53
2.	2003-04	DEO, Dausa	891.26	122.90	768.36	100	0.77
3.	2004-05	DEO, Alwar	13,104.183	478.312	12,625.871	125	15.78
4.	2004-05	DEO, Dausa	176.10	66.64	109.46	125	0.14
5.	2004-05	DEO, Bikaner	635.936	314.172	321.764	125	0.40
6.	2004-05	DEO, Chittorgarh	1,197.566	554.18	643.386	125	0.80
7.	2004-05	DEO (P), Jaipur	1,644.793	478.368	1,166.425	125	1.46
	<b>Total</b>		<b>18,544.778</b>	<b>2379.982</b>	<b>16,164.796</b>		<b>19.88</b>

After this was pointed out, DEOs Jodhpur, Bikaner and Jaipur stated that notices have been issued for recovery. DEO Alwar stated that Rs.1.13 lakh has been recovered.

#### **6.2.14 Non levy of PP seals and pouch charges**

State Government in March 1995 and April 1998, prescribed that PP seal<sup>11</sup> and poly pouch charges at the rate of Re 1 per bottle and Rs.0.56 per poly pouch were to be recovered from the licensees by Rajasthan State Ganganagar

<sup>10</sup> Alwar, Bikaner, Chittorgarh, Dausa, Jaipur (P) and Jodhpur (P).

<sup>11</sup> Pilfer proof seal.

Sugar Mill Ltd. (RSGSM). RSGSM shall in turn deposit PP seal and poly pouch charges at the rate of Rs.0.25 per bottle and Rs.0.31 per poly pouch to Government account.

In Jaipur, it was noticed that during 2000-01 to 2003-04, 28,533 bottles and 2,32,65,400 poly pouches were issued to the licensee of a tribal area. RSGSM was required to remit PP seals and pouch charges amounting to Rs.72.19 lakh to Government account. However, neither the RSGSM deposited the same nor was it asked by DEO to do the same. It resulted in non realisation of Rs.72.19 lakh.

After this was pointed out, the department stated that matter has been referred to Government for recovery.

#### ***6.2.15 Participation of benami persons in the bid for LPH and liquor groups***

Prior to 2002, every bidder was required to be registered with Excise Department on the production of a solvency certificate, duly certified by revenue officer. It contained all bonafide details regarding proof of residence etc. However, from 1 April 2002, this provision was dispensed with. A test check of records in light of the dispensed provision revealed as under:

**6.2.15.1** In Chittorgarh, it was noticed that two LPH groups viz Pratapgarh and Begu-Rawat Bhata were allotted on 7 March 2003 to two persons for sale of LPH during 2003-04 on the basis of highest bid offered by them. Another group viz Chhotisadri was also allotted on 27 February 2004 to a highest bidder for 2004-05. Accordingly, these three groups were allotted on annual licence fees of Rs.7.79 crore. Sanctioned letters asking the licensees to deposit cash security of 33.33 *per cent* for issue of licence were issued by EC. However, the same could not be delivered as the addresses furnished by the bidders in tender forms were found wrong. Thereafter, the sanction orders were also pasted on the noticed board of EC office. The EC cancelled the sanctions on 21 March 2003 and 11 March 2004 and resanctioned the bids to the next higher bidder at the risk and cost of the defaulted licensees for Rs.3.76 crore. Demand notices amounting to Rs.4.03 crore (Rs.7.79 crore – Rs.3.76 crore) were issued by DEO to defaulter but the same were returned to the department due to wrong address viz. non existence of the village mentioned therein. Thus, not ascertaining the correctness of the address at the time of receipt of the tender resulted in loss of revenue to the tune of Rs.4.03 crore.

**6.2.15.2** In Churu, it was noticed that a licence for retail sale of CL, IMFL and beer in Churu group for the year 2003-04 was sanctioned on 12 March 2003 at Rs.17.08 crore in favour of highest bidder, a resident of Ratlam in Madhya Pradesh (MP). The licensee was allowed to run the group with effect from 1 April 2003 to 26 June 2003, though bank guarantee (BG) amounting to Rs.1.71 crore was not furnished by him as provided in the licence condition. The licensee also failed to deposit monthly guarantee amounting to Rs.188.12 lakh and interest leviable thereon. The licence was cancelled on 26 June 2003

at the risk and cost of the licensee and resanctioned on 28 June 2003 for Rs.10.58 crore for the remaining period. Revenue realisation certificate (RRC) for Rs. 4.59 crore was issued to Collector Ratlam (MP). It was however, noticed in audit that demand raised was exclusive of Rs.8.54 lakh chargeable on account of interest on non furnished BG. The department while accepting audit observation revised RRC issued to Rs.4.68 crore. But RRC was returned back with the remarks that no such person existed at that given address.

After these cases were pointed out, the department accepted that licences were issued to *benami* persons.

It is recommended that necessary provisions be made in Act/Rules to prevent participation of *benami* persons.

#### 6.2.16 Short levy of excise duty

As per excise policy for 2004-05, rate of excise duty on IMFL was to be charged on basis of quality and selling price. Government notified the rates of excise duty as under:

S.No.	Maximum selling price per carton of quart bottles as declared by manufacturer	Excise duty (Rupees per LPL)
(a)	Upto Rs.300	125
(b)	Above Rs.300 but upto Rs.1500	150
(c)	Above Rs.1500 but upto Rs.3000	200
(d)	Above Rs.3000	300

The Government did not notified the excise duty leviable on maximum selling price of pints and nips. Accordingly, the department obtained the declaration of selling price of quart bottles only.

Verification of details of duty paid on liquor vis-à-vis invoices issued by manufacturers revealed that 18,452 cartons of pints and 82,315 cartons of nips were sold at the rates higher than the declared price. Due to non inclusion of rates of excise duty on pints and nips in the notification, the department charged excise duty on pints and nips also on the basis of declared price of quart bottles, which resulted in evasion of excise duty amounting to Rs.1.66 crore as detailed below:

No. of carton sold		Cost charged by manufacturer (per carton Rs.)		Total LPL involved	Excise duty charged by department (Rs.)	Excise duty payable (Rs.)	Difference of excise duty (Rs. in crore)
Pints	Nips	Pints	Nips				
18,307	82,195	305 to 320	320 to 339	6,56,195.85	8,20,24,481 (@ 125 per LPL)	9,84,29,377 (@ 150 per LPL)	1.64
145	120	3100	3200	1,756.35	3,51,270 (@ 200 per LPL)	5,26,905 (@ 300 per LPL)	0.02
<b>Total</b>					<b>8,23,75,751</b>	<b>9,89,56,282</b>	<b>1.66</b>

After this was pointed out, the department stated it was the decision of Government as different rate of duty can not be levied on same brand. The reply was not tenable as the excise policy provided for charging excise duty on quality and selling price of liquor.

#### ***6.2.17 Non levy of interest***

RE Act provides that if the amount of any duty, fee or other demand, due against any person is not paid within the due date, simple interest at the rate of two *per cent* per month upto 2002-03 and 1.5 *per cent* thereafter was chargeable on the amount due.

The permits for import and transport of RS are issued by DEO, Jaipur. He watches the receipt of permit fee payable by RSGSM. In Jaipur, it was noticed that permits were issued to RSGSM for import/transport of 1,543.01 lakh BL RS. The permit fee of Rs.46.02 crore payable before issue of permit was however deposited by RSGSM with a delay which ranged between 9 to 144 days. However, interest amounting to Rs.1.04 crore chargeable thereon was neither levied nor paid.

After this was pointed out, the department while accepting the facts stated that matter was referred to Government for recovery.

#### ***6.2.18 Short recovery of exclusive privilege amount***

As per condition of licence for retail sale of CL, IMFL and beer for the year 2003-04, the rebate<sup>12</sup> allowed to the licensee of a group in fulfilment of exclusive privilege amount (EPA)<sup>13</sup> shall be withdrawn in respect of quantity of liquor which remained undisposed at the end of licence period.

In four DEOs<sup>14</sup> it was noticed that 14,500 BL CL, 10,248.84 BL IMFL and 936 BL beer of licensees were confiscated and excise offences were registered against them. Due to confiscation of liquor, the same remained undisposed at the end of licence period. However, rebate of Rs.10.18 lakh allowed to the licensees was not withdrawn. Grant of rebate to the licensee was thus, irregular and in contradiction of conditions of tender. It resulted in short recovery of EPA amounting to Rs.10.18 lakh.

After this was pointed out, the department stated that recovery is under process.

#### ***6.2.19 Short levy of penalty***

RE Act read with terms and conditions of a retail licence of IMFL/beer/CL stipulate that if a licensee or his representative was found unauthorisedly transporting liquor, a minimum penalty of Rs.5 lakh was to be imposed separately for each offence committed.

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<sup>12</sup> Credit given in respect of EPA

<sup>13</sup> EPA is the amount on which a licence to sell liquor for a year is sanctioned in favour of licensee which is divided in 12 monthly instalments.

<sup>14</sup> Ajmer, Bharatpur, Bhilwara and Sikar.

In Jaipur, Jhalawar and Churu, it was noticed that 13 offence cases were committed by three individuals during 2004-05. The department levied the penalty only once on each individual without considering the number of offences committed by him. Accordingly, the department levied penalty of Rs.15 lakh on three individuals instead of Rs.65 lakh based on the number of offences committed by them which resulted in short levy of penalty Rs.50 lakh.

After this was pointed out, the department accepted the facts. Action taken for recovery was not furnished.

#### **6.2.20 Conclusion**

The monitoring mechanism to watch and control collection of state excise revenue was found to be ineffective and needs to be strengthened to ensure proper and timely realisation of excise receipts.

The pendency of arrears in terms of monetary value for collection of revenue showed an upward trend.

The Act/Rules were found to be silent on fixation of norms for production, disposal of excisable articles, wastage and penalty for excess limits.

The administrative department failed to implement PAC recommendations to control the production, procurement and sale of LPH and prevent misuse thereto. Thus, to safeguard the government revenue, necessary changes/amendments in the Act and Rules need to be enacted.

#### **6.2.21 Acknowledgement**

The audit findings were reported to the Government/department in May 2006. Meeting of Audit Review Committee to discuss findings in the review was held on 6 July 2006 so that view point of the Government/Department could be taken into account before finalising the review. Government was represented by the Secretary (Finance) and the State Excise department represented by the Excise Commissioner, Financial Advisor. The view point of Government/Department has been considered while finalising the review.

## **6.3 Computerisation in 'Rajasthan State Excise Revenue System'**

### *Underutilisation of system*

**6.3.1** In June 2002, Rajasthan State Excise Department (department), with a view to computerise its main revenue generating activities, outsourced its IT services, including server administration and management to Tayal Software Consultancy Services, Udaipur (vendor) for implementation of IT Policy 2000 of the State Government. The department incurred an expenditure of Rs.71.02 lakh on its computerisation efforts which including Rs.21.50 lakh towards software development and its implementation.

An IT audit of the system including analysis of data for the period from 1 April 2005 to September 2005 through IDEA<sup>15</sup> was conducted during June 2005 to September 2005. The results of the analysis were verified through test check of three district excise offices (DEOs), viz. Jaipur, Alwar and Sikar. It was found during test check that Jaipur DEO had computerised its operations only in respect of Indian made foreign liquor (IMFL), and continued to rely on manual operations/records keeping for other excisable goods. The other two DEOs had also computerised their operations but were relying on manual operations/records keeping for all their excisable goods. The results of audit revealed the following.

### *Lack of change management*

**6.3.2** The rate of permit fee for country liquor was revised from Rs.6 per BL to Rs.8 per BL vide a notification dated 5 August 2004. Similarly, the rate of permit fee for IMFL was also simultaneously revised from Re. 1 per BL to Rs.4 per BL from the same date.

An analysis of database of the entire State revealed that permit fee in 26 cases of country liquor of six DEOs and 51 cases of IMFL in six DEOs was not charged as per the rate notified during 2004-05 resulting in short levy of Rs.6.36 lakh.

Test check of one computerised unit of DEO Alwar revealed that in eight cases the department had recovered the differential amount manually. The database was, however, not updated in these eight cases.

### *Lack of referential integrity*

**6.3.3** It was found that 63 permits involving Rs.64.54 lakh towards excise duty and 70 permits covering Rs.12.16 lakh towards permit fee were issued by 10 offices<sup>16</sup> without actually charging the said duty/fees. Test check of one unit (DEO Alwar) revealed that the DEO issued 42 permits to licensees by charging manually excise duty amounting to Rs.45.72 lakh and permit fee of Rs.7.62 lakh without updating the database.

<sup>15</sup> Interactive Data Extraction and Analysis

<sup>16</sup> Alwar, Barmer, Bundi, Hanumangarh, Jhalawar, Jhunjhunu, Nagure, Pali, Sikar and Sawai madhopur.

**6.3.4** Three<sup>17</sup> permits of IMFL involving permit fee of Rs.0.63 lakh were issued without charging due permit fee.

After this was pointed out, the department replied in July 2006 that the system had not charged permit fee in case of two permits issued by Jaipur DEO. Hence, the same was deleted from the database. The reply was not tenable as on test check of Jaipur DEO, it was found that these permits were issued and utilised without charging the requisite fee.

**6.3.5** An analysis of database of the state revealed that in 57 cases permits were issued without indicating quantity issued therein. This indicate that there was lack of referential integrity in the database and also absence of adequate control mechanism for error handling.

#### *Irregularities in the database*

**6.3.6** A proper database system should necessarily observe the correct procedure for maintenance of accounts

Data analysis of Jaipur DEO office revealed that in four out of eight cases, permits were issued to the consignee without requisite challans involving revenue of Rs.72.50 lakh. Test check of these cases revealed that the entries for the amount deposited for issue of permits had RCR number in four cases and no RCR number in other four cases although the date an amounts were the same.

It was further found that in two cases permits were issued to the consignee without requisite challans involving revenue of Rs.7.31 lakh though it was entered into database.

After this was pointed out, the department replied in July 2006 that these challans were not available with them.

**6.3.7** Nine transactions of country liquor involving Rs.5.45 lakh towards excise duty were charged less than the prescribed excise duty. Short duty though has been recovered manually but the database has not been updated.

Thus the irregularities indicate that the database lacked integrity.

#### *Lack of reliability of the database*

**6.3.8** There were gaps in challan reference number, permit reference number and permit number (all automatically generated) in respect of data entered at all the DEOs. This indicated that the transactions were being deleted altogether. Since the application permitted such deletion, it was a serious threat to the security of data and enhanced the risk of fraud.

As on 31 March 2005, in two DEOs (Jaipur and Sikar) database of country liquor showed credit balance of excise duty against two consignees whereas

<sup>17</sup> Two cases of Jaipur and one case of Bikaner.



the manual records of these DEOs depicted NIL balance against these consignees. This indicated that the department, through the system, can issue permits to consignees having NIL balance.

Audit found that in the year 2004-05 there was difference of Rs.76 crore between revenue generated through the system (Rs.1,200.20 crore) and revenue data compiled manually by accounts wing (Rs.1,276.06 crore).

After this was pointed out, the department stated in September 2005 that in 2004-05 the system was in its initial stages. The reply was not tenable as the system was operative since October 2002 and its input and output reports were duly tested and verified by the technical consultant (RAJCOM) as well as by end users.

### ***6.3.9 Conclusion***

The deficiencies observed in the system rendered it unreliable and lacking in referential integrity, data integrity, change management procedure and control mechanism. Thus the DEOs relied mainly on manual operations and record keeping leading to non attainment of objectives of computerisation as per IT Policy of the State Government and underutilisation of expenditure of Rs.71.02 lakh on computerisation.