

## CHAPTER-1: GENERAL

### 1.1 Introduction

Excise revenue constituted 14.78 *per cent* of the total revenue raised by the State Government in 2017-18. Our audit aimed at assessing whether the State Excise Department was able to safeguard revenue interests of the State.

This Chapter presents an overview of the trend of the excise receipts raised by the Government of Uttar Pradesh, the audit objectives, the audit criteria and the scope and methodology adopted in the present report. Chapter 2 and 3 highlights deficiencies in excise policies and irregular creation of special zone. Chapter 4 deals with Pricing of Liquor, other irregularities in calculations and its impact on receipts. Chapter 5 deals with short realisation of excise revenue on account of Minimum Guaranteed Quantity (MGQ).

### 1.2 Trend of State Excise Receipts

The details of both the State Excise revenue budget estimates and the revenue realised there against during 2008-18 are indicated in **Table - 1.1** below:

Table -1.1

(₹ in crore)				
Year	Budget estimates fixed by the Finance Department	Actual receipts	Percentage of excess (+)/ shortfall (-) between budget estimate and actual receipts	Percentage of variation over actual receipts of previous years (excess)
2008-09	5,040.00	4,720.01	(-) 6.35	16.47
2009-10	5,176.45	5,666.06	(+) 9.46	16.73
2010-11	6,763.23	6,723.49	(-) 0.59	16.26
2011-12	8,124.08	8,139.20	(+) 0.19	15.47
2012-13	10,068.28	9,782.49	(-) 2.84	20.19
2013-14	12,084.00	11,643.84	(-) 3.64	19.03
2014-15	14,500.00	13,482.57	(-) 7.02	15.79
2015-16	17,500.00	14,083.54	(-) 19.52	4.46
2016-17	19,250.00	14,273.49	(-) 25.85	1.35
2017-18	20,593.23	17,320.27	(-) 15.89	21.35

Source: Finance Accounts of the Government of Uttar Pradesh.

The above table indicates that the variation between the actual receipts and the budget estimates ranged between (-) 25.85 *per cent* (in 2016-17) and (+) 9.46 *per cent* (in 2009-10) during the period 2008-18. The State Excise Department stated (September 2018) that the Budget Estimates could not be achieved during 2017-18 due to substantial smuggling from the neighbouring states on account of higher maximum retail price (MRP) of IMFL and Beer in UP in comparison to that in the neighbouring states, and due to non-operation of liquor shops located near the Highways.

The rationale for such inflated projections (revenue estimates) in successive annual Budgets could not be analysed due to non-production of relevant records by the Finance Department, Government of Uttar Pradesh despite repeated requisitions, and a meeting with the Additional Chief Secretary, Finance (July 2018). The matter was also brought to the notice of the Chief Secretary, UP (August 2018). However, audit could not access the relevant records of the Finance Department to ascertain rationale for budget estimates.

### **1.3 Audit objectives**

Audit aimed to ascertain:

1. Whether the State Government was able to safeguard its revenue interest, compared to other states of the country;
2. Whether the existing internal control mechanism in the State Excise Department was effective enough to ensure the genuineness of EDP/ EBP being offered by the distilleries/breweries, and whether the calculations of EDP/ EBP, wholesalers' margins, retailers' margins, and additional excise duty were reasonable; and
3. Whether the Excise Department had adequate and sufficient procedures for allotment of minimum guaranteed quantity (MGQ) of country liquor, IMFL and Beer, and for ensuring correct realisation of the due excise duty.

### **1.4 Audit criteria**

Audit sourced the audit criteria from the UP Excise Act, 1910 and the rules made there under, the State Excise Policy as amended from time to time, notifications, circulars and government orders issued by the State Government and the Excise Department from time to time, the Excise Policies of states such as Rajasthan, Uttarakhand, Delhi, Punjab, Haryana, Madhya Pradesh, Karnataka, Tamil Nadu and Telangana, EDP/ EBP of identical/ similar brands of IMFL and Beer in both Uttar Pradesh and in the neighbouring states<sup>1</sup> during the period 2001-18.

### **1.5 Audit scope and methodology**

- Audit compared the excise policies of UP with those of its neighbouring states (Rajasthan, Uttarakhand, Delhi, Haryana, Punjab and Madhya Pradesh) as well as with those of some southern states (Karnataka, Tamil Nadu and Telangana) to ascertain any revenue loss to the State Government due to formulation of inappropriate policies and presence of systemic deficiencies which were prejudicial to the revenue interest of the State.

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<sup>1</sup> For the purpose of audit examination, the minimum of EDP/EBP of a particular brand in the neighbouring states was used for comparison with the EDP/EBP of the identical/similar brands in Uttar Pradesh.

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- Audit scrutinised the records of the offices of the Principal Secretary, Excise, and of the Excise Commissioner (EC) for 2008-18 and of 13 distilleries/ breweries units<sup>2</sup> and nine bonds<sup>3</sup>.
- Audit also collected the information and records related with the balance sheets of one distillery from the State Excise and the Commercial Tax Departments.
- The objectives, scope and methodology of Audit were discussed with the Principal Secretary, State Excise Department in an entry conference held on 4 April 2018. Audit findings were also discussed with the Principal Secretary, State Excise Department and the Excise Commissioner on 13 July 2018 to ascertain the views of the State Government. However, they have not ratified the minutes of the meetings till date (March 2019). The draft report was forwarded to the State Government and the Commissionerate in June 2018 and March 2019. Their replies have not been received as yet (March 2019).

## 1.6 Acknowledgement

Audit acknowledges the cooperation extended by the State Excise Department in providing necessary information and records.

## 1.7 Coverage of this Report

This Report contains five chapters on “**Pricing of production and sale of liquor**” involving financial effect of ₹ 24,805.96 crore. These are discussed in the succeeding Chapters 2 to 5.

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<sup>2</sup> **Aligarh** (Wave Distillery & Breweries Ltd.-Distillery, Wave Distillery and Brewery Ltd.-Brewery), **Ghaziabad** (Modi Distillery, Modinagar-Distillery; Mohan Meakin Ltd., Mohan Nagar-Distillery; Mohan Meakin Ltd., Mohan Nagar-Brewery, **Gorakhpur** (Saraya-Distillery), **Meerut** (United Sprit Ltd. Unit-Distillery, Daurala Chini Mills-Distillery, Sab Miller-Brewery), **Rampur** (Radico Khaitan Ltd.- Distillery), **Shahjahanpur** (United Sprit Ltd. Unit Roja-Distillery), **Unnao** (Unnao Distillery & Breweries Ltd.-Distillery, Mohan Gold Water-Brewery).

<sup>3</sup> **Ghaziabad** Beam Global Sprints & Wine India Pvt. Ltd. Alwar Rajasthan-BWFL 2A, Bacardi India Pvt. Ltd. Karnataka-BWFL 2A, Bacardi India Pvt. Ltd. Udhm Singh Nagar Uttarakhand-BWFL 2A, United Sprints Ltd. Lessee of Chandigarh distillery and Bottlers Ltd Bannaor, Punjab-BWFL 2A, United Sprints Ltd. Lessee of Moonak distillery and Bottlers Ltd Moonak, Punjab-BWFL 2A **Lucknow** Pernod Ricard India Pvt. Ltd. Gwalior-BWFL 2A, Doon Valley Breweries Ltd. Auranzebpur, Roorkee, Haridwar-BWFL 2B, Basantar Breweries Ltd. Samba Jammu, -BWFL 2B, Deewan Modern Breweries Ltd. Rajasthan-BWFL 2B. **(Bonds are where bottled stocks of IMFL and Beer are kept in the Uttar Pradesh without paying duties).**

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