

## **Preface**

This Report for the year ended 31 March 2011 containing the results of the Report on Working of State Excise Department of Government of Punjab has been prepared for submission to the Governor under Article 151(2) of the Constitution of India.

The Audit of receipts of the State Government is conducted under Section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971.

The cases mentioned in this Report are among those which came to our notice during course of test-check of records of selected units for the Performance Audit, during the year 2010-11.

## Executive Summary

The levy and collection of State Excise Duty is sole responsibility of the State Government in terms of entry 52 of List II of the Seventh Schedule of the Constitution of India. The State Excise Duty is one of the important sources of tax receipts of the State Government and it constituted 11.87 *per cent* of the total revenue collections of the State of Punjab

Receipts from State Excise mainly consist of duty which is levied on production and sale of liquor. Licence fee is levied and collected on grant of different type of licences for manufacture and sale of liquor. Other receipts of Excise Department are application fees, permit fees, development cess, penalty and interest for delayed/belated payments of dues etc. Rates of Excise Duty, licence, permit and application fees are determined by the State Government and their collection is made by the Excise and Taxation Department.

The revenue from State Excise duty increased from ₹ 1568.16 crore to ₹ 2373.07 crore during the period 2005-06 to 2010-11. We saw that the increase in State excise revenues was not commensurate to the increase in consumption of liquor in the State. In this context we considered it necessary to examine whether the policy measures taken by the Government for increasing the Excise Revenues were adequate and whether the Department was discharging its functions effectively and efficiently, in the overall performance of levy and collection of the State Excise duty.

We conducted a Performance Audit on Working of State Excise Department for the period 2005-06 to 2009-10 in order to ascertain whether the provisions of various Acts and Rules made thereunder were enforced effectively by the Excise and Taxation Department. We ascertained whether there existed an effective system for levy and realisation of excise duty on production of liquor, licence fees on sale of liquor and levy of interest/penalty etc. in the cases of default was effective. We also analysed internal controls and monitoring mechanism for their effectiveness. Further, we tried to assess whether the environmental and ecological concerns had been taken care of by the distilleries in the process of manufacture of liquor and also whether the Department had discharged its social functions of preventing the production/sale of spurious and illicit liquor.

We found that the liquor was produced previously only from molasses for which there existed norms of production of liquor and the permissible losses. We saw that production of liquor in the State during the last decade was from grains too for which no norms were fixed to ensure that wastages were kept in check, in the interests of revenue. We also found that procedures for implementation for the revised norms for production of alcohol from molasses had yet to be implemented.

We found that allowing wastage/breakage in excess of the prescribed percentages to wholesale vendors of country liquor (L-13 licensees) resulted in loss of excise duty of ₹ 1.39 crore.

We observed that additional quota of PML/IMFL allowed by the Department to the licensees at concessional rates resulted in loss of revenue of ₹ 22.61 crore.

We observed that due to absence of provisions for levy of interest on delayed payment of fees for renewal of licenses by the Distilleries and Bonded Warehouses resulted in loss of ₹ 41.49 lakh to the revenue.

We found that non payment of assessed fee on the opening stock of liquor and beer for the year 2008-09 by L-1 licensee of CSD Depot had resulted in loss of excise duty of ₹ 6.27 crore.

We found that ₹ 13.81 crore of fees were collected on locally printed receipt books instead of Government printed receipt books and the amount was not entered in the Cash Book. Non-adherence to the prescribed procedure is fraught with the potential risk of misappropriation of government money and sign of weak internal controls in the Department.

We found that Department Development funds of ₹ 31.49 crore were collected against which only ₹ 5.63 crore were spent and ₹ 25.86 crore remained unspent thereby defeating/objectives for its levy/collection. We found that ₹ 199.78 crore was collected during the period 2005-06 to 2009-10 as Education cess, against which, only a sum of ₹ 32.99 crore was transferred during April 2008 to January 2009 to the Education Development Fund and the balance funds of ₹ 166.79 crore, which had been credited to the Consolidated Fund of the State, had not been transferred to the Fund /spent for the stated objectives.

### Summary of recommendations

For augmentation of the excise receipts, efficient revenue collection and effective check on the production and sale of liquor in order to ensure proper working of the State Excise Department, we recommend the following:

❖ **Non-fixation of norms for production of spirit from grains**

The Government may consider to specify the norms for production of alcohol from grains and expedite devising the procedure to ensure production of alcohol from molasses vis-a-vis the revised norms.

(Para 3.2)

❖ **Injudicious allotment additional quota at concessional rates**

The Government may review the matter of allotment of additional quota of liquor at concessional rates so as to either dispense with it or to revise the rate commensurate with the benefits derived from such concessions.

(Para 4.1)

❖ **Absence of provisions for levy of interest against delayed payments of fees**

The Government may issue instructions to collect the license fee etc in time and incorporate a provision in the relevant rules for charging interest and penalty in case of delayed payments of all forms of fee/revenue.

❖ **Non-utilisation of Development Cess**

The Government may ensure timely utilisation of the funds collected, for the stated objectives of improving the Departmental Infrastructure.

(Para 2.6)

❖ **Non-transfer of Education Cess to the Education Development Fund**

A suitable mechanism should be developed to ensure timely transfer of the Education development cess to the Education development fund to ensure that the funds are utilised for the stated objectives.

(Para 2.7)

❖ **Shortage of manpower**

The Government may consider strengthening the human resources of the Department, if necessary by setting up a separate dedicated wing/Department for the State excise so as to have focused attention to improve the earnings from State Excise.

**Weak Internal Controls**

The Department may strengthen internal controls relating to the receipt and accountal of government money, reconciliation of the receipts with treasury records and by strengthening the Internal Audit functions.

**(Para 5.1)**

## Performance Audit of State Excise Duty

### CHAPTER-I General

#### 1.1 Introduction

The State Excise duty is one of the important sources of tax revenue, which is levied and collected as duty and fee on manufacture, storage, sale, import and export of liquor. The levy and collection of excise duty in the State is governed by the Punjab Excise Act 1914 and the Rules framed thereunder and the Punjab Excise Fiscal Orders, 1932.

The State of Punjab has 10 distilleries, two breweries, 19 bottling plants and warehouses. During 2009-10, there were 4553 vends for sale of Punjab Medium Liquor (PML)<sup>1</sup> and 2144 vends for sale of Indian Made Foreign Liquor (IMFL)<sup>2</sup>, besides the bars and beer shops. For sale of PML licence in the form of L-13 and for sale of IMFL licence in the form of L-1 are issued to the wholesalers on payment of licence fee. For sale of PML and IMFL in retail, vends were auctioned upto 2005-06 and since 2006-07 the retail vends were being allotted by annual drawl of lots. For the retail vend of PML, licence in the form of L-14A and for the retail vend of IMFL, licence in form L-2 are issued. Licence in the form D-2 for production of liquor is issued to a distillery which works under the supervision of the Staff of Excise Department. A licence in the form of B-2 is issued to a brewery which produces beer under the supervision of the Staff of Excise Department. Similarly licence in the form of BWH-2 is issued to a bottling plant.

#### Why we conducted the Performance Audit

Though the Revenue from State Excise duty increased from ₹ 1568.16 crore in 2005-06 to ₹ 2373.07 crore in 2010-11, it did not keep pace with the increasing trend of consumption of liquor in the State. We therefore decided to ascertain whether the Excise Policy was revenue friendly and examine whether the Department was discharging its functions effectively and efficiently in the performance of levy and collection of the State Excise duty.

#### 1.2 Organisational set-up

The Department of Excise and Taxation looks after the activities of both excise and other commercial taxes in the State. The Financial Commissioner (Taxation) is the Secretary to Government of Punjab, Department of Excise and Taxation. The Excise and Taxation Commissioner (ETC) is the head of the Department and is vested with powers under different Excise and Taxation

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<sup>1</sup> PML denotes country liquor manufactured from spirit and de-mineralised water with added spices and essences.

<sup>2</sup> IMFL means all liquor manufactured in India other than country liquor made in imitation of 'imported foreign liquors' with or without any blend of such liquors.

Acts. The ETC is assisted by two Additional Excise and Taxation Commissioners—one for Value Added Tax and the other for Excise. Besides one Deputy Excise and Taxation Commissioner (Distilleries) at the State headquarter for supervision and control of the Distilleries, Breweries and Bottling plants, there are six other Deputy Excise and Taxation Commissioners (DETCs) posted at Amritsar, Faridkot, Ferozepur, Jalandhar, Ludhiana and Patiala divisions. These officers are in-charge of the divisions and act as Collectors for the purpose of excise administration. Twenty four Assistant Excise and Taxation Commissioners (AETCs) monitor the work at the district level. They are assisted by the Excise and Taxation Officers (ETOs) and other allied staff. The DETCs posted at the divisions and the AETCs posted at the district level look after the works related to both excise and commercial taxes. For the excise related activities, each AETC is assisted by the ETO (excise) and the Excise Inspectors (EI).

As far as excise is concerned, the main objective of the Department is to provide genuine liquor at reasonable rates so that public health is not jeopardised by taking unhygienic intoxicants and at the same time Government also earns revenue for the welfare of the state.

### **1.3 Audit objectives**

The Performance Audit was conducted to ascertain:-

- whether provisions of the Acts and Rules framed thereunder and the prescribed procedure were enforced scrupulously to realise the fee and duties on manufacture and sale of liquor;
- the lacunae, if any, in the Acts, Rules and instructions for the purpose of prompt and effective realisation of the excise duty;
- whether adequate norms existed to govern the production and sale of liquor and they were enforced effectively;
- whether provisions relating to illicit liquor, prohibition, licensing etc. were effective and implemented by the Department and
- whether the internal control mechanism in the Department was adequate and effective to safeguard collection and account of excise receipts and for functions relating to prohibition etc.

### **1.4 Scope and methodology of audit**

With a view to evaluate implementation of the excise policies, Punjab Excise Act, and the Rules and instructions issued by the Government from time to time, the records for the period 2005-06 to 2009-10 in the offices of ETC, Patiala, three<sup>3</sup> out of six DETCs in the divisions, 12<sup>4</sup> out of 24 AETCs, Five<sup>5</sup> out of 10 distilleries, one<sup>6</sup> out of the two breweries

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<sup>3</sup> Faridkot, Jalandhar and Patiala.

<sup>4</sup> Barnala, Bathinda, Faridkot, Hoshiarpur, Jalandhar, Kapurthala, Mansa, Mohali, Nawanshahar, Patiala, Ropar and Sangrur.

<sup>5</sup> AB Sugars Limited, Dasuya; Chandigarh Distillers and Bottlers Ltd, Banur; Jagatjit Industries Ltd., Hamira; Patiala Distillery Village Main, Patiala and Picadilly Sugar & Allied Industries Ltd., Patran.

<sup>6</sup> M/s Mount Shivalik Breweries Limited, Bhankarpur; Derabassi.

and 7<sup>7</sup> out of 19 bottling plants in the State were test checked between November 2010 and April 2011. Two divisions i.e. Faridkot and Jalandhar were selected on the basis of Probability Proportion to Size Selection System and the division at Patiala was selected on the basis of revenue potentiality and presence of large number of distilleries there. All the AETCs in the selected divisions were covered in audit.

### **1.5 Acknowledgement**

The Indian Audit and Accounts Department acknowledges the cooperation of the Excise and Taxation Department and their field staff in providing necessary information and records for audit.

The Entry Conference was held with the Financial Commissioner, Taxation, and Government of Punjab on 15 November 2010 and with the Excise and Taxation Commissioner and his officers on 30<sup>th</sup> November 2010. During these meetings, the purpose of Performance Audit, issues for examination, sample selection etc. were discussed, besides seeking concerns, if any, of the Department requiring examination by Audit. An exit conference was held with the Excise and Taxation Commissioner on 14 July 2011 when the audit findings were discussed. Replies of the Department and views expressed during the meeting were kept in mind while finalising this report.

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<sup>7</sup> Avneet Distillers Pvt Ltd, Dera Bassi; Batra Breweries & Distillers Ltd, Dera Bassi; Mohan Meakin Ltd, Dera Bassi; National Industrial Corporation Ltd, Dera Bassi; NV Distillers, Dera Bassi; Punjab Expo Pvt Ltd, Jeoli, Dera Bassi and Rajasthan Liquors Pvt Ltd, Dera Bassi.

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## CHAPTER-II

### Financial Management and Budgetary Control

#### 2.1 Trend of Revenue

The budget estimates and actual collection of the State Excise duty during the period 2005-06 to 2010-11 were as under:

(₹ in crore)

Year	Budget estimates	Actuals receipts	Variations excess (+) shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts of excise duty vis-à-vis total tax receipts
2005-06	1525.00	1568.16	(+) 43.16	(+) 2.83	13525.71	11.59
2006-07	1628.44	1367.79	(-) 260.65	(-) 16.01	16761.74	8.16
2007-08	1726.00	1861.52	(+) 135.52	(+) 7.85	15153.14	12.28
2008-09	1830.01	1809.95	(-) 20.06	(-) 1.10	16934.10	10.69
2009-10	2000.83	2100.92	(+) 100.09	(+) 5.00	17692.18	11.87
2010-11	2520.20	2373.07	(-) 147.13	(-) 5.83	22158.35	10.71

The actual receipts during 2005-06, 2007-08 and 2009-10 were more than the budget estimates, whereas during 2006-07, 2008-09 and 2010-11, they were less than the budgeted receipts. The Receipts during 2006-07 were less by ₹ 200.37 crore as compared to the Receipts of 2005-06 mainly due to the reason that the Department had changed its practice of auctioning the retail vends of liquor to the system of allotment by lottery. As the Excise Policy for the year 2006-07 had been extended by one month upto April 2007, the application money and security deposit of the vends receivable in the month of March 2007 (2006-07) were received in the month of April 2007 (2007-08) and hence the actual receipt of revenue during the year 2007-08 was more than the budget estimates.

We reported the matter regarding variation between budget estimates and actual receipt to the Department (May 2011), the reply is awaited (September 2011).

The incremental revenue earned from the State Excise from time to time was marginal and the proportion of the State Excise duty to the total tax receipts in the State remained stagnant around 11 *per cent* over the years.

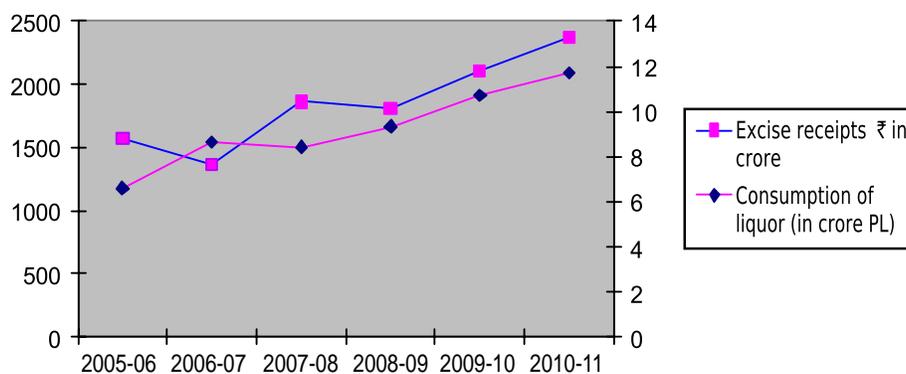
#### 2.1.1 Consumption of liquor

The position of consumption of liquor in the State during the period 2005-06 to 2010-11 is given in the table below. Consumption vis-a-vis revenue from excise duty is depicted in the graph.

Year	Excise receipts ₹ in crore	Consumption of liquor (in lakh PL)	Projected Population (in lakh)	Per capita consumption of liquor (proof litre)
2005-06	1568.16	660.00	262.11	2.518
2006-07	1367.79	862.00	266.95	3.229
2007-08	1861.52	843.00	271.89	3.100
2008-09	1809.95	933.00	276.91	3.369
2009-10	2100.92	1069.00	282.03	3.790
2010-11	2373.07	1173.00	292.56	4.009

It can be seen that whereas the per capita consumption of liquor increased from 2.518 PL in 2005-06 to 3.790 PL in 2009-10, an increase of 59.2 per cent, the Excise receipts increased by 51.3 per cent. As can be seen from the graph below, the earnings from excise duty did not keep pace with the steady increase in consumption of liquor.

### Consumption of liquor vis a vis receipts from excise duty



## 2.2 Trend of Revenue under Minor Heads

The minor headwise details of excise collection under Major head 0039-State Excise are given in table below:

Description of the Minor Head	(₹ in lakh)				
	2005-06	2006-07	2007-08	2008-09	2009-10
101-Country Spirits	134485.06	111911.79	163997.36	159826.28	189640.17
102-Country Fermented Liquors	3363.70	4759.77	8561.13	9624.30	5643.72
103-Malt Liquor	621.80	671.34	254.10	361.98	247.64
104-Liquor	121.53	92.08	74.75	1.04	0.12
105-Foreign Liquor and Spirits	15890.35	11070.93	9648.18	5668.17	9756.10

106-Commercial & Denatured Spirits & Medicated wines	1144.03	7424.74	2080.33	2965.62	2815.98
108-Opium, hemp and other drugs	133.17	122.41	1.59	4.11	0.05
150-Fines and Confiscations	45.88	19.82	20.55	27.89	16.96
800-Other Receipts	709.51	705.40	1514.06	2515.46	1971.02

(Note: Under Minor Head 107-Medical and Toilet Preparations receipts were zero since 2006-07)

Though there was an overall increase in Excise Duty collections especially under Minor Head 101-Country spirits, it was seen that under the four minor heads i.e. 103-Malt Liquor, 104-Liquor, 105-Foreign Liquor and Spirits i.e. on imported on foreign liquor, 108-Opium, hemp and other drugs of the State Excise, the revenue was on a downward trend during the period 2005-06 to 2009-10.

### 2.3 Cost of collection

The gross collection of the State Excise receipts, expenditure incurred on its collection and the percentage of expenditure to the gross collection during the years 2005-06 to 2010-11 are given below:

(₹ in crore)

Year	Collection	Expenditure on Collection	Percentage of expenditure to gross collection	All-India percentage rate of cost of collection
2005-06	1568.16	11.90	0.76	3.40
2006-07	1367.79	12.26	0.90	3.30
2007-08	1861.52	13.27	0.71	3.27
2008-09	1809.95	14.57	0.80	2.77
2009-10	2100.92	17.23	0.82	3.64
2010-11	2373.07	20.55	0.86	

The Department replied that the very nominal increase in the percentage of expenditure to the gross collection was due to new appointments made in 2008-09 and payment of revised pay scales to the staff.

### 2.4 Outstanding Arrears of Revenue

The arrears of revenue as on 31 March 2010 was ₹ 11.50 crore, which were outstanding for more than five years. We did not come across any significant progress in their recovery.

## 2.5 Non-adherence to the prescribed procedure in respect of receipt of Government money

As per the Codal provisions, an acknowledgement on account of receipt of Government money should be issued by the Government official on a proper government receipt book. Further, all money collected on behalf of Government should be recorded and accounted for in the office cash book.

We saw during test check of records in three<sup>8</sup> offices of AETC that ₹ 13.81 crore was collected during the year 2009-10 against sale of application forms for allotment of the liquor vends, for which locally printed receipt books were used instead of issuing the acknowledgement on proper Government Receipt Books. Though the amount collected was deposited in the Government

Account, it was not recorded in the main Cash Book. Failure to use the prescribed receipt books and non-accountal of the money in the Cash book was not only irregular but is fraught with the risk of misappropriation and discrepancies between the Treasury and Departmental figures of receipts.

The Department replied that the procedure pointed out by Audit had been noted for compliance in future.

## 2.6 Development Cess

### 2.6.1 Non-utilisation of the Development Cess

The Government vide its notification dated 10/3/99 authorised levy of Development Cess at the rate of ₹ 0.75 per proof litre with effect from April, 1999 and vide Excise policy 2005-06 it revised the rate to ₹ 1.00 per proof litre of IMFL, imported foreign liquor and PML with effect from April, 2005. The cess was to be deposited under the Major Receipt Head '0039 - State Excise'. The expenditure out of this Fund was to be incurred for improvement of the infrastructure of the Department on appropriation made by the Finance Department under the Major Expenditure Head '2039-State Excise'. As per the notifications dated 8 April 2005 and 11 April 2008, the cess so collected were to be utilised for the purposes such as:

- Improvement of the communication facilities in the Departmental offices;
- Purchase of equipment/machinery including computerisation and other infrastructure facilities of information collection centers;
- Distribution of rewards to the informers and the officials of the Police and Excise & Taxation Department;
- Purchase or hiring of vehicles by the Department;
- Construction/Repair of buildings such as Record Rooms, Front Windows, Kar seva centres etc;
- Renovation of all offices of the Department specifically with regard to I.T. implementation.

<sup>8</sup> AETC, Barnala, Bathinda & Sangrur.

The year wise position of funds collected, allotted, utilised and balances are tabulated below:

(₹ in lakh)

Closing balance as on 31 <sup>st</sup> March 2005				₹ 1404.98
Year	Budget provision	Cess collected	Expenditure	Balance
2005-06	200.00	176.04	56.93	119.11
2006-07	200.00	354.71	51.67	303.04
2007-08	200.00	418.06	108.45	309.61
2008-09	200.00	419.36	132.24	287.12
2009-10	300.00	375.37	213.53	161.84
<b>Total</b>	<b>1100.00</b>	<b>1743.54</b>	<b>562.82</b>	<b>1180.72</b>
<b>Closing balance 1404.98+1180.72 = 2585.70</b>				

We saw that funds of ₹ 31.49 crore collected upto 31<sup>st</sup> March 2010, however the Department had utilised funds of only ₹ 5.63 crore for the purpose as against a budget provision of ₹ 11 crore, leaving an unutilised balance of ₹ 25.86 crore. Non-utilisation of the Development Cess to the extent of ₹ 25.86 crore defeated the purpose of its collection from the general public.

When we pointed (March 2011) out the above, the Department (July 2011) accepted that there was short provisioning of the budget. They informed that under the sub head “04-Improvement of infrastructure of the Department” under the major head “2039-State Excise”, the funds of Excise and Taxation Technical Services Agency (ETTSA) had to be utilised for purchase of land at Mohali to the tune of ₹ 4.35 crore and for construction of the building of the Department at Ludhiana, funds had been raised from Punjab Infrastructure Development Board to the extent of ₹ 6.42 crore. Similarly, building of the Department at Patiala and Jalandhar is being constructed under Optimum Utilisation of Vacant Government Lands (OUVGL) scheme of Government. The reply is silent regarding reasons for non utilization of the collected funds.

### 2.6.2 Discrepancy in figures of expenditure of Development Cess Fund

The committee formed under the Chairmanship of ETC was responsible for utilisation and maintenance of separate accounts of the Departmental expenditure incurred out of the Cess collected and these accounts were to be audited by the Accountant General, Punjab and the Internal Audit Organisation (Revenue) of the Department of Finance.

The review of records in the office of ETC revealed that the accounts of expenditure incurred out of the Development Cess were not audited by the IAO. The figures of expenditure furnished by the Department differed from that booked in the office of the Accountant General (A&E), Punjab as detailed below:-

(₹ in lakh)

Year	Expenditure as per A.G.(A&E)	Expenditure as furnished by the Department	Difference
2005-06	56.93	59.12	(+) 2.19
2006-07	51.67	57.06	(+) 5.39
2007-08	108.45	102.98	(-) 5.47
2008-09	132.24	109.57	(-) 22.67
2009-10	213.53	134.80	(-) 78.73
<b>Total</b>	<b>562.82</b>	<b>463.53</b>	<b>(-) 99.29</b>

When we pointed out (March 2011), the Department replied (July 2011) that the discrepancy in the figures of expenditure was due to the fact that expenditure shown to have been booked in the Department was based on the sanctions issued by the Department, but the expenditure booked in the office of the A.G. Punjab was the amount actually drawn. Thus it is evident that the Department had not reconciled the actual expenditure with the Accountant General, as required to be done under the Rules.

### **2.7 Non-transfer of Education Cess to the Education Development Fund**

Under Section 6 of the Punjab Education Development Act, 1998, a cess at a rate not exceeding ten rupees per proof litre (P.L) to be notified by the Government from time to time on the sale of Punjab Medium Liquor, Indian Made Foreign Liquor and beer in the State of Punjab shall be levied and collected by the Department of Excise and Taxation in the prescribed manner. The proceeds of the cess so collected was to be transferred by the Department directly to the Punjab Education Development Fund through bank draft or cheques within a period of first ten days of the month or the quarter of the financial year. Section 8 of the Act provides that the Education Cess credited to the Fund shall be utilised for educational development in the State. As per the Excise policy 2005-06 and 2009-10, additional excise duty (effective from May 2007) now known as additional license fee/additional assessed fee for mobilising additional funds for educational development was leviable at the rates tabulated below:

Type of liquor	With effect from April 2005	With effect from April 2009
1.PML	₹ 3 per P.L.	₹ 5 per P.L.
2.IMFL/Liquor	₹ 4 Per P.L.	₹ 6 per P.L.
3.Beer and ready to drink beverages.	₹ 2 per B.L.	₹ 2 per B.L.

We found (March 2011) from the records that a sum of ₹ 199.78 crore was collected during the period 2005-06 to 2009-10 as education cess, against which, only a sum of ₹ 32.99 crore was transferred during April 2008 to January 2009 to the Education Development Fund and the balance funds of ₹ 166.79 crore, which had been credited to the Consolidated Fund of the State, had not been transferred/spent for the stated objectives.

We reported the matter to the Government (March 2011), their reply has not been received (September 2011).

### 2.8 Non-maintenance of expenditure control register

As per the Budget Manual, the Controlling officer is responsible for maintaining a minor/sub head-wise register (Form BM-28) for watching the expenditure incurred by all the drawing and disbursing officers under his control in the State against the funds allotted to them.

The review of records for the period 2005-06 to 2009-10 revealed that no such register was being maintained by the Department and the figures received in Form-29 from the field offices remained un-compiled. Even Form-26 and Form-29 were not being prepared in respect of the Head office and the Department failed to furnish

the figures of expenditure in respect of the Head Office as well as field offices for the period 2005-06 to 2009-10.

We reported the matter to the Department (March 2011) to which it was replied that directions to the field offices had been issued for sending the statement of expenditure in the prescribed form and proper record would be maintained at the Head Office level in future.

### 2.9 Non-reconciliation of withdrawals (expenditure)

Rule 2.31 (a) of the Punjab Financial Rules Volume-I provides that each Drawing and Disbursing Officer (DDO) should reconcile every month all the withdrawals made from the treasury with the figures appearing in the books of DDO.

Non-reconciliation of withdrawals was fraught with the risk of embezzlements and frauds etc. which might remain undetected.

Test check of the records of 13 DDOs<sup>9</sup> revealed that reconciliation of withdrawals of ₹ 29.92 crore had not been carried out by them with the treasuries during the period 2005-06 to 2009-10.

When we pointed out (March 2011), the Department accepted the issue and replied that directions had been issued for reconciliation of expenditure with the treasury and to submit a certificate

after reconciliation for the period 2005-06 to 2009-10.

<sup>9</sup> AETC, Barnala, Bathinda, Faridkot, Hoshiarpur, Jalandhar I and II, Kapurthala, Mansa, Nawanshahar, Patiala, Sangrur, DETC Jalandhar and Patiala.

## **2.10 Non-reconciliation of receipts with Treasury Records**

Punjab Financial Rules Vol. I provide that Departmental receipts collected and remitted into treasury during the month be reconciled by officer in charge with the figures appearing in the treasury records by 15<sup>th</sup> of the next month and discrepancy, if any, reconciled.

We found during the Review that the revenue receipts to the extent of ₹ 949.67 crore for the period from April, 2005 to March, 2010 were deposited into the treasury by 10 DDOs<sup>10</sup>, but these were not reconciled with the Treasury officers concerned. Non-reconciliation is fraught with the risk of embezzlement, fraud and misappropriation of the Government money.

When we pointed out (March 2011), the Department accepted the issue and replied that directions had been issued for reconciliation of the receipts with the treasury and to submit a certificate for the period 2005-06 to 2009-10.

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<sup>10</sup> AETC, Barnala, Hoshiarpur, Mohali, Mansa, Ropar, Sagrur, M/s Mohan Meakin Ltd. Bhankarpur Dera Bassi, M/s Batra Breweries Distillery Dera Bassi, M/s National Industrial Corporation Ltd. Dera Bassi and M/s Punjab Expo (P) Ltd. Dera Bassi

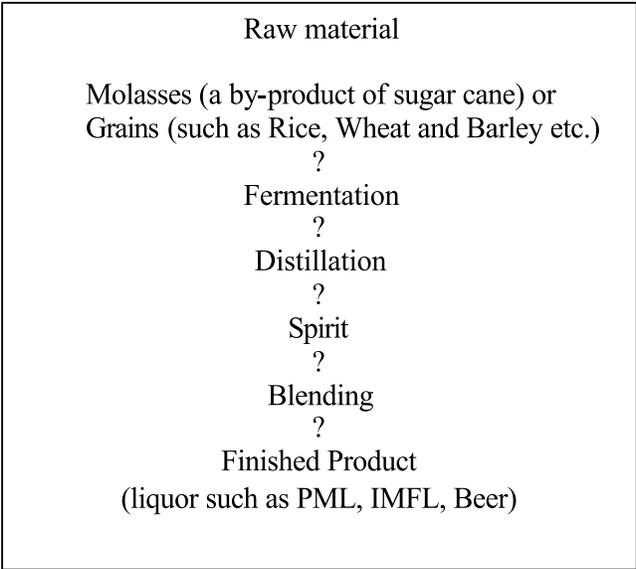


Outer view of Distilleries for grains spirit

**CHAPTER-III**  
**Production of Liquor**

**3.1 Production Process**

A flow chart showing the process involved in production of liquor is given below:



**3.2 Non-fixation of norms for production of spirit from grains**

The Punjab Distillery Rules, 1962 had fixed the minimum norm of 36.61 Proof litres (PL) of spirit to be extracted from one quintal of molasses. However, no norms have been fixed under the rules for production of spirit from grains. The Technical Excise Manual stipulates that 7.7 gallons of alcohol is to be obtained from 220 pounds (one quintal) of rice which is equivalent to 61.2 P L per quintal of rice.

During test check of records in three<sup>11</sup> distilleries for the period 2005-06 to 2008-09, we noticed that all the Distilleries, in addition to molasses, were using rice grain as raw material for production of spirit. It was observed that the yield of spirit from grains varied from month to month and from distillery to distillery. In the case of M/s Piccadily Sugar and Allied Industries Limited, Patran, there was a minimum yield of 38 P.L. per quintal of grains in the month

<sup>11</sup> M/s Chandigarh Distillers and Bottlers Ltd. Banur, M/s Jagatjit Industries Ltd. Hamira; and M/s A..B Sugar Ltd., Dasuya.

of October 2009 and maximum yield of 72.42 P.L. in the month of September 2009 was observed in the case of M/s. Chandigarh Distillers and Bottlers Limited, Banur.

We further noticed during the review of records for the period 2005-06 to 2008-09 of three distilleries, that the yield of spirit was less than the above mentioned minimum benchmark of 61.2 P.L. of spirit from one quintal of grains as 4,482.48 lakh P.L. of spirit was produced from 78.00 lakh quintals of grains against the normative yield of 4,774.51 lakh P.L. Had the norms been adopted/fixed by the Government, the Department could have gained additional revenue of ₹ 73.01 crore from these three Distilleries.

The Department agreed in principle to fix the norms for production of spirit from grains.

### 3.3 Excess allowance of wastage/breakage

As per Rule 38(15J) of the Punjab Liquor License Rules 1956, a licensee holding a license in form L-13 for the wholesale vend of country spirit (PML) of any kind shall be allowed wastage allowance due to breakage or leakage in transit of bottles and pouches upto 0.25 *per cent* of the quantity dispatched from the distillery to the premises of the Licensee. The breakage shall be allowed automatically without applying for the same.

Test check of records for the years 2006-07 to 2009-10 in eight out of 12 selected offices of the AETCs<sup>12</sup> revealed that the L-13 licensees were allowed 2.04 lakh P.L. of wastage on 417.14 lakh P.L. of liquor **at the rate of 0.5 *per cent*** towards the breakage and leakage in transit of bottles and pouches against the **permissible wastage of 1.04 lakh P.L. at the rate of 0.25 *per cent***. Thus, there was excess allowance of wastage of one lakh P.L. of PML resulting in loss of excise duty of ₹ 1.39 crore.

We reported the matter to which the Department replied (March 2011) that the concerned quarter had been asked to expedite the reply. Final reply is awaited (September 2011).

### 3.4 Sub normal yield of spirit from Molasses

The Punjab Distillery Rules 1932 envisage that one quintal of molasses should yield 36.61 proof litre of spirit.

We found (between November 2010 and March 2011) from the records of five<sup>13</sup> distilleries that 130.40 lakh proof litres of spirit was produced during 2009-2010 from 3.70 lakh quintal of molasses as against the envisaged yield of 135.33 lakh proof litres of spirit. Had the

<sup>12</sup> Faridkot, Nawanshahar, Kapurthala, Mansa, Bathinda, Barnala, Patiala, Ferozepur.

<sup>13</sup> Chandigarh Distillers and Bottlers Ltd Banur, Piccadilly Sugar and Allied Industries Ltd, Patran, Jagtjit Industries Ltd., Hamira, A.B Sugar Ltd. Dasuya, Patiala Distillers and Manufactures Ltd. Patiala.



### **Overview of Distilleries for molasses spirit**

prescribed norms for yield of spirit been achieved, the Government would have earned additional excise duty of ₹ 2.07 crore. Similar deficiency of less yield of spirit from molasses had been pointed out in the previous Audit Reports.

The Department replied that the issue was discussed by the Public Accounts Committee on 11 November 2010. On the basis of reply of the Department, the PAC had directed that the Government should issue a notification fixing the revised norms for yield of spirit from molasses. The Department stated that the same has been notified (18 March 2011). According to the new notified norms the output of spirit would depend upon the fermentable sugar present in molasses. Therefore, samples need to be drawn from each distillery to arrive at the fermentable sugar content. The Department further stated that procedure for ensuring the norms of yield of spirit from molasses was under consideration of the Department.

### 3.5 Deficient excise control mechanism

#### 3.5.1 Issue of No Objection Certificates for import of molasses

The ETC is empowered to issue ‘no objection certificate’ for import of molasses. The excess issue of no objection certificates is fraught with the risk of manufacturing of more liquor than the allotted quota.

During test check of records in the office of the ETO, incharge of Patiala Distillers and Manufacturers Limited. Patiala for the period 2005-06 to 2009-10, it was noticed that against the total production

capacity of 438.00 lakh PL of spirit (requiring 11.96 lakh quintals of molasses calculated at the rate of 36.61 PL spirit per quintal) per year, the ETC issued No Objection Certificate for import of molasses far in excess of the actual requirement by not comparing the actual quantity lifted by the licensee from time to time, as detailed below:-

(Quantity in lakh quintals)

Year	Total capacity of Plant (In lakh Proof Litres)	Quantity of molasses required	NOC granted by the ETC	Quantity lifted by the distillery	Excess issue of NOC	Percentage of excess issue of NOC
2005-06	438.00	11.96	25.00	3.80	21.20	558
2006-07	438.00	11.96	25.00	11.22	13.73	122
2007-08	438.00	11.96	38.50	12.66	25.84	204
2008-09	438.00	11.96	30.50	6.85	23.65	345
2009-10	438.00	11.96	25.50	1.65	23.85	1445

The Department agreed, in the Exit Conference, to keep in view the actual import of molasses made by the distillery during the previous year, while deciding the NOC for the subsequent year.

## CHAPTER-IV Licensing

### 4.1 Injudicious allotment of additional quota of liquor for sale at concessional rates

The Department has the practice of allotting quota of liquor to the licencees. Once the allotted quota is lifted and the fee is paid in full, it allots additional and further quotas of liquor.

As per the Excise policy for the year 2006-07, no additional quota of PML/IMFL was fixed. However, if after the sale of allotted quota, a licensee wanted to have further quota, the same was allotted against payment of

license fee of ₹ 142 per PL. In the Excise policy for the year 2007-08, it was provided that if the licensee had lifted the entire allotted quota and paid the full licence fee for the year, then the licensee would be allowed to lift upto 10 *per cent* of the PML quota as additional quota at the concessional rate of ₹ 29 per P.L. In the year 2008-09, it was provided that if after the sale of both the allotted quota and 10 *per cent* additional allotted quota, a licensee wanted to have further additional quota of PML, the same would be allotted against payment of regular licence fee of ₹ 139 per P.L fixed for that relevant year. From the year 2009-10, in case the licensee lifted the entire allotted quota and paid the full licence fee for the year, then the licensee shall be allowed to lift 10 *per cent* of the PML and IMFL quota as additional quota at a concessional rate of ₹ 35 per P.L and further quota at ₹ 135 per P.L. The summarised position of the rates for the different kind of quota is given below:

(Amount in ₹)

Year	Type of liquor	Rate for the regular allotted quota	Rate for 10 <i>per cent</i> additional quota	Rate for further additional quota
2006-07	PML & IMFL	142	No additional quota	142
2007-08	PML	139	29	No further quota
2008-09	PML	139	29	139
2009-10	PML/IMFL	135	35	135

We are of the opinion that the Department by not following a consistent policy, has not acted in the revenue interest. In 2006-07, rightly it did not issue any additional quota at concessional rate. In 2007-08, there was no allotment of further quota after the issue of the 10 *per cent* additional quota. The reasons for allotment of the additional quota at concessional rate were not on record. Presuming that the concessional 10 *per cent* additional quota was allowed as incentive for lifting of further additional quota, there was no rationale for allowing the 10 *per cent* concessional quota in 2007-08, when there was no lifting of further quota by the licensees in that year. The Department also accepted, during the Exit conference that no further additional quota was lifted by the licensees in any of the year.

In all the 12 offices of the AETCs test checked, it was found that during the years from 2007-08 to 2009-10, a total of 20.65 lakh PL of additional quota was issued at the concessional rates of ₹ 29/35 per PL to the licensees, which

when compared with the regular rates of ₹ 139/135 per P.L resulted in loss of revenue to the tune of ₹ 22.61 crore.

We reported the matter to the Department (March 2011) to which it was replied that the quota and additional quota was allowed in accordance with the approved Excise policy and the reason behind allowing the additional quota at very concessional rate was to keep a check on the *uchanti* sale of liquor.

The reply of the Department is not convincing as more production should result in more revenue. The Excise Policy is not revenue friendly to the State receipts and we feel that this more excise revenue would have accrued to the State with the increase in consumption of liquor.

#### 4.2 Short recovery of the licence fee from the vend licensees

As per the Punjab Excise Policy for the year 2009-10, a successful applicant was required to deposit 15 per cent of the license fee fixed for a licensing unit as security deposit. The licensee was required to pay the remaining license fee in nine equal monthly installments commencing from the month of April. Each monthly installment was payable by the close of the last working day of each month. In case of late deposit of any installment, interest at the rate of 1.50 per cent per month, shall be charged in addition to the amount of penalty. The license shall be deemed to have been suspended and the vend(s) closed if the entire license fee of the month is not paid by the 15<sup>th</sup> day of the next months.

During test check of records of the licensees for the year 2009-10 in the office of the AETC, Jalandhar-II, we observed that seventeen licensees had operated the vends for full term of the year upto the end of March 2010, but had not paid the full license fee along with interest for the late payments. There was short recovery of license fee of ₹ 2.87 crore and interest of ₹ 51.04 lakh for the delayed payment of fee.

On this being pointed out by us, the AETC, Jalandhar II stated that sincere efforts were being made to recover the balance amount from the concerned licensees. An amount of ₹ 14.48 lakh in four cases was stated to have been recovered in the year 2010-11. Consequent upon this recovery in four cases, an amount of ₹ 3.24

crore along-with interest was still recoverable. The Department had not taken any action to suspend the licenses of the defaulters.

The Department replied that proceeding under the Punjab Land Revenue Act, 1887 for short recovery of license fee had been started. The reply is not tenable as the Rules do not provide for such an action. The licenses should have been suspended as per the Rules.

**The Department may consider putting in place a system of recovery of licence fee in lump-sum in advance like similar system prevailing in other States e.g. in Maharashtra.**



Different kinds of liquor in vends



**Innerview of Bottling Plant**

### 4.3 Short realisation of renewal fee for bonded warehouses

Under the Punjab Excise Bonded Warehouse Rules, 1957 the licence for a bonded warehouse is granted for a year and be renewed on or before 31 March of each year. The rate of renewal of license fee prescribed by the Government vide Notification dated 28.3.2003 was ₹ one lakh upto 28 March 2003 and ₹ two lakh thereafter. However, the excise policy for the years 2003-04 to 2007-08 provided the renewal fee as ₹ one lakh only. The renewal fee was again enhanced from ₹ one lakh to two lakh in the excise policies from 2008-09 to 2009-10.

It was noticed that licences of three bonded ware houses were renewed between April 2005 and March 2009 at the rate of ₹ one lakh instead of ₹ two lakh each. This resulted in short realisation of Rupees four lakh from three bonded warehouses as detailed below:

(Amount in ₹)

Sr.No.	Name of the Unit	Year	License fees due	License fees collected	License fees short collected
1.	M/s Rajasthan Liquor Pvt. Ltd. Dera Bassi	2008-09	200000	100000	100000
2.	M/s Batra Breweries & Distilleries Limited, Dera Bassi	2005-06	200000	100000	100000
3.	CSD, Bathinda	2006-07 2007-08	200000 200000	100000 100000	100000 100000
		<b>Total</b>	<b>800000</b>	<b>400000</b>	<b>400000</b>

We reported the matter to the Department (March 2011) to which it was replied that efforts were being made to recover the renewal fee from the concerned bottling plants but final reply was not furnished (July 2011). It is clear that the Department officials have not implemented the revenue aspects of the Excise policy with due care expected. The Department may verify for similar lapses in other cases.

#### 4.4 Lack of provisions for levy of interest against delayed payments of fees

##### (a) Delayed payment of license fees by the bonded warehouses

As per the Punjab Excise Bonded Warehouse Rules, 1957, the licence may be granted or renewed on payment of ₹ two lakh for a period not exceeding one year and by 31<sup>st</sup> March following the date of grant of earlier licence.

During test check of records of six<sup>14</sup> bonded warehouses, it was noticed that the licence fee of ₹ 17 lakh was deposited late by 22 to 57 months resulting in loss of interest of ₹ 8.42 lakh, calculated at the rate of one and half *per cent* per month.

The Department replied that there is no provision for recovery of interest for the late payment of renewal fee under the Bonded Warehouse Rules. However, during the Exit conference the Department agreed to examine the issues for incorporation of provisions in the Rules for charging interest on the delayed payment of license fee/renewal fee.

##### (b) Non-levy of Interest on belated payment of license fees by the distillery.

As per Rule 7(2) of Punjab Distillery Rules, 1932, an application for renewal of licence shall be made by the licensee to the Excise Commissioner at least 90 days before expiry of the existing licence. If such application is not made within such period, the Excise Commissioner, with the prior approval of the Financial Commissioner, may renew the licence on payment of the fee chargeable for a new licence.

Test check of records in the office of the E.T.O. (in-charge excise), M/s Jagatjit Industries Ltd., Hamira revealed that licence for the distillery (D-2 Licence) was not obtained by the Distillery since its inception. Non-recovery of the distillery licence fee had been pointed out by Audit in various previous Local Audit Reports. Therefore, taking cognizance of the matter, the Excise Department filed a case against the Distillery in the court for recovery of the licence fee from the year 1966-67. The

Distillery lost the case in the Punjab and Haryana High Court and consequently it deposited the licence fee of ₹ 1.27 crore for the year 1966-67 to 2009-10. The Distillery, however, did not pay any interest for the belated depositing of the licence fee.

The penal interest against the delayed payment of licence fee by the Distillery for the period covered under the review (2005-06 to 2009-10) alone worked to ₹ 33.07 lakh, at the rate of 1.50 *per cent* per month.

We reported the matter to the Department (March 2011) to which it was replied that there is no provision for levying interest under the Punjab

<sup>14</sup> Batra Breweries & Distilleries Limited, Dera Bassi; National Industrial Corporation Ltd.; N.V Distilleries Breweries (P) Ltd, Dera Bassi; Rajasthan Liquor Pvt. Ltd. Dera Bassi; Mohan Meakin Ltd. Dera Bassi; Punjab Expo. Pvt. Ltd. Dera Bassi.

Distillery Rules 1932, for renewal of license. The provisions of the Punjab Liquor License Rules 1956 are not applicable in this case. However, the Department agreed to examine the issue for incorporation of provisions in the relevant rules for charging interest on the delayed payment of license fee/renewal fee.

#### 4.5 Short realisation of license fees from the L-4A/5A licensees

As per the Punjab Excise policy for the years 2007-08 to 2009-10, license in form L-4A for the retail vend of beer, wine and ready to drink beverages for consumption only in a restaurant and L-5A for the retail vend of beer, wine and ready to drink beverages in a bar are to be issued on collecting the licence fee. For the cities having population of more than one lakh, the fee is fixed as ₹ 1,00,000 and for other cities having population of less than one lakh as ₹ 60,000 per year.

During scrutiny of records in the office of the AETC, Barnala, it was noticed that as per report of the Censes Department, Government of India, the population of Barnala city was 96400 in 2001. As per information collected from the Nagar Council, Barnala, the population of the city in 2007-08 had crossed 1,00,000 and the license fees from three beer bars was required to be recovered at ₹ 1,00,000 instead of the actual collection of ₹ 60,000 per year.

We reported to matter to the Department (March 2011) to which the Department did not accept the audit contention. However in the exit conference it was agreed by the Department to consider the projected population for fixing the license fee for L-4A/L-5A licensees.

#### 4.6 Non-Payment of Assessed Fee on CSD stock

As per the Excise Policy for the year 2008-09 framed by the Punjab Government, the assessed fee at the rate as may be prescribed was leviable on the supply of difference kind of liquor and beer made to the Canteen Store Departments of Army located in the State of Punjab. There was no assessed fee during 2007-08. As such, the assessed fee was leviable on the closing stock for the year 2007-08, which was carried over to the stock of the next year i.e. 2008-09 by the CSD Depot.

Test check of records maintained in the office of the Area Manager, Canteen Stores Department (Liquor Section) Depot, Jalandhar and Pathankot revealed that the closing stock of 12.99 lakh B.L. of different kind of liquor and beer from the year 2007-08 was carried over to the year 2008-09 as opening stock, but the assessed fee of ₹ 6.27 crore payable during the year 2008-09 was not paid by CSD Depots. This resulted in non-payment of assessed fee of ₹ 6.27 crore.

We reported the matter to the Department (March 2011) to which it was replied that recovery of ₹ 4.47 crore was effected out of the total recoverable amount of ₹ 6.27 crore. The recovery of balance amount was awaited (September 2011).

## CHAPTER-V Human Resource Development

### 5.1 Shortage of manpower

Human Resource is a key factor for smooth and efficient working of a Department. Shortage of staff affects the revenue collection, inspection and enforcement of the mandatory requirements.

The overall position of sanctioned strength vis-a-vis men in position in the cadres of Group A to Group C as furnished by the Department revealed that the shortage of staff during the period under review remained between 26 and 34 *per cent*, specifically, in the cadres of

Excise and Taxation Officers (ETOs) and Excise and Taxation Inspectors (ETIs). It was observed that no separate sanctioned strength for the Excise wing existed in the Department.

The Position of sanctioned strength and men in position in the Department for the year 2009-10 is given below:-

Year	Cadre	Sanctioned strength	Men in position	Vacant posts	Percentage of vacant posts
2009-10	A	412	274	138	33.49
	B	75	52	23	30.66
	C	660	527	133	20.15
	<b>Total</b>	<b>1147</b>	<b>853</b>	<b>294</b>	<b>25.63</b>

The Department replied that the sanctioned strength and staff in position under the head 2039-State excise duties and 2040-taxes on sales trade etc. is combined. However, it was noticed that separate budget proposals for these heads were prepared and accordingly separate budgets under the major heads 2039-State Excise and 2040-taxes on sales trade etc. were allotted by the Government of Punjab. It is not clear as to how the budget proposals under the sub head 'Salaries' are prepared in the absence of details of staff actually deployed as well as sanctioned posts under the major head 2039-State Excise. The Department needs to identify and deploy the staff required exclusively for the Excise wing so as to have focused attention and accountability.

### 5.2 Training of Staff of the Excise Wing

For imparting training to the staff of Excise and Taxation Department, a staff training school was established at Patiala in May 1968.

We found from the records and data supplied by the Department regarding training of the staff that though 543 officers of the Department were trained during 2005-06 to 2009-10, details of

officers of Excise wing who had been imparted training in Excise Act and related laws were not known. Perusal of schedule of training examined in the ETC office revealed that most of the topics covered by the training school pertained to VAT. It was further observed that the Department had not fixed

any target for imparting training relating to the Excise Act, related laws, rules and excise policies etc.

The Department replied that comprehensive training was conducted for the excise, sales and other and no separate training was conducted for excise purposes.

## **CHAPTER-VI**

### **Internal Control and Monitoring**

Internal control system is a process meant to ensure that the Departmental operations are carried out according to the applicable laws, regulations and approved procedure/manner. Some of the deficiencies in internal control are mentioned below:-

#### **6.1 Inadequate provision of Revenue locks**

As per Rule 56 of the Punjab distillery Rules 1932, the charging and discharging pipes of storage vats, all buildings and rooms used for the storage of spirit etc. shall be closed with two locks, of which one shall be a revenue lock controlled by the inspector of the excise and the other a distillery lock controlled by the licensee.

During scrutiny of records in two distilleries (Jagatjit Industries Limited, Hamira and Patiala Distillers & Manufactures Ltd., Patiala), it was noticed that out of 660 locks to be provided in the distilleries at various check points, 478 revenue locks were not installed. In the absence of revenue locks, misuse or leakage of spirit and consequent loss of excise duty can not be ruled out.

When we reported, the Department replied that procurement of revenue lock for supply to different distilleries is under process.

#### **6.2 Shortfall in inspection of the vends**

The Excise and Taxation Commissioner, Punjab, had directed (July 2006) the field officers to conduct inspection of the liquor vends in the State in order to check the sale of adulterated/spurious liquor or other irregularities.

It was noticed in seven offices of the AETCs (Nawan Shahar, Jalandhar II, Patiala, Mohali, Sangrur, Barnala & Ropar) test checked that the prescribed number of inspections of vends were not conducted by the Excise officers.

As against 5819 required inspections by the AETCs, only 4494 inspections were conducted. Against 12061 inspections by ETOs 10752 inspections were conducted and against 50213 inspections by the ETIs 41305 inspections were conducted during the years 2005-06 to 2009-10.

When we reported, the Department replied that due to shortage of staff the inspection as prescribed by the ETC could not be completed. The reply of the Department is not acceptable as it needs to strengthen the staff requirement and carry out the required number of inspections, as shortfall is fraught with the risk of non-detection of illicit production of liquor, pilferage and other offences.

### 6.3 Internal Audit

Internal Audit is a vital component of the internal control mechanism and is generally defined as the control of all controls to enable an organisation to ensure itself that the prescribed systems are functioning reasonably well. An Internal Audit Organisation (IAO) was set up in October 1981 as an independent organisation under the Finance Department and was entrusted, inter alia, with the internal audit of revenue receipts including State excise duty. In 1991, the focus of audit was shifted from revenue to expenditure audit. However, Government in December 2004 again introduced internal audit of excise duty.

During the review of records for the years 2005-06 to 2009-10, we noticed that in seven <sup>15</sup>AETC offices internal audit was not being carried out at all by the Internal Audit Organisation and in four<sup>16</sup> other offices it was not conducted for the last two to three years.

The information regarding units planned for audit and actually audited and number of paras outstanding against Excise offices of the Department was called for from the Internal Audit Organisation, but the same was not furnished.

### 6.4 Excise Intelligence Bureau (EIB)

The main function of the Excise Intelligence Bureau located at Patiala is to collect intelligence in respect of smuggling and bootlegging of liquor both from within and outside the state and to control illicit distillation and allied crimes. Police force carries raids on the basis of information collected on adulteration at the liquor vends, illicit distillation and smuggling of liquor etc.

When we enquired whether the EIB has any details of the raids carried out on the basis of information or not, the Department intimated that no such record was maintained by the EIB and further stated that the requisite information was available only with the district offices. The information regarding the cases of smuggling of import, export, transport or possession of liquor in contravention of any provision of this act and rules framed there under detected and cases finalised and penalty recovered in respect of sample test check district is as under:-

Name of the divisions	Period	No. of cases detected	No. of cases finalised	Penalty imposed and recovered
Patiala	2008-09 & 2009-10	208	208	26,95,000
Faridkot	2008-09 & 2009-10	66	66	4,65,000
<b>Total</b>				<b>31,60,000</b>

### 6.5 Investigation and Research Unit (IRU)

The Investigation and Research Unit was functioning in the Head office with one post of Research Officer who was appointed from the cadre of

<sup>15</sup> A.E.T.C., Barnala, Bathinda, Hoshiarpur, Kapurthala, Patiala and Ropar.

<sup>16</sup> A.E.T.C., Jalandhar-II, Mohali, Nawanshahar and Sangrur

Economical and Statistical Organisation, Punjab. Earlier this Unit had a sanctioned strength of two Excise and Taxation Officer, one Senior Assistant and one clerk. At present, only one Excise and Taxation Inspector and one Junior Assistant were working in the Investigation and Research Unit. Since no data had been collected by the Investigation and Research Unit for the years 2005-06 to 2009-10 relating to excise, no ways and means had been suggested by this unit to improve the excise policy in these years. As the primary function of this unit was to collect information from the field offices and other States and use the same for formulating its policies, the inadequacy and ineffectiveness of IRU was a failure of the internal control mechanism.

#### **6.6 Departmental manual not updated**

The Departmental manuals contain rules, regulations, procedures and instructions and periodicity of reports/returns to be submitted to the appropriate authorities etc. It is an essential tool for exercising proper internal control over the activities of an organisation.

It was noticed that though the Excise Manual was prepared by the Department, yet it had not been updated since April 1984. With the passage of time and changes in the excise policy/rules/procedures, the Departmental manual needs updating.

## **CHAPTER-VII**

### **Conclusion and Recommendation**

#### **7.1 Conclusion**

Excise revenue is an important source of revenue of the State Government. We saw that the Excise receipts did not keep pace with the increase in consumption of liquor and the State could have benefitted by adequate and timely policy measures to boost revenues in the area of sale/vending of liquor. The State Government has not specified norms for the production of alcohol and beer from grains due to which potential revenue loss is possible on excessive wastages in production. Procedure for implementation of revised norms for production of alcohol from molasses had not been put in place. Allotment of additional quota for sale of liquor at concessional rates to the licensees was injudicious and it resulted in loss of revenue to the Government. We came across some instances of non-recovery of licence fee, interest etc. and want of enabling Rules for recovery of interest on belated deposit of fees by Bonded Warehouses and Distilleries. The Department had significant vacant posts and did not have manpower identified exclusively for the excise related functions.

We saw that the levy and collection of Development and Education Cess on sale of liquor, did not serve the intended objectives as large sums of funds collected as cess were not utilised for the stated purposes. Internal controls relating to collection and remittance of government money were weak, as we came across instances of non-utilisation of prescribed receipt books, non-entry of receipts in Cash Book and non-reconciliation of receipts with Treasury records. Internal audit in the Department was inadequate as many offices had not been audited at all and the results of internal audit wherever conducted were also not available.

#### **7.2 Recommendations**

The Government may consider taking the following actions for improving the excise functions

- specify the norms for production of alcohol from grains and expedite devising the procedure to ensure production of alcohol from molasses, by distilleries vis-a-vis the revised norms;
- review the matter of allotment of additional quota of liquor at concessional rates in the interest of revenue;
- issue instructions to collect the license fee etc in time and ensure levy of interest and penalty in case of delayed payments of all forms of fee/revenue;
- the Department may consider putting in place a system of recovery of licence fee in lump-sum in advance like similar system prevailing in other States e.g. in Maharashtra;

- strengthen the human resources of the Department this Unit had a setting up a separate dedicated Wing/Department for the State Excise;
- so as to have focused attention to improve the earnings from State Excise;
- ensure timely transfer of the Education development Cess on sale of liquor to the Education Development fund and utilisation of the Department Development Fund and the Education Development Fund for the stated objectives; and
- strengthen the internal controls for collection and remittance of Government money to Treasury and ensure timeliness and adequacy of the internal audit functions.



**(MOHINDER SINGH)**

**Chandigarh:**

**The**

**Principal Accountant General (Audit), Punjab**

**Countersigned**



**(VINOD RAI)**

**New Delhi:**

**The**

**Comptroller and Auditor General of India**