

CHAPTER IV STATE EXCISE

4.1 Tax administration

State excise revenue mainly comprises the receipts from country spirit, foreign liquor, malt liquor, other spirits, fees and fines. The assessment and collection of excise revenue is governed by the Bengal Excise Act, 1909, the Narcotic Drug and Psychotropic Substances Act, 1985, the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 and the West Bengal Molasses Control Act, 1973. The Excise Department is headed by the Principal Secretary who is assisted by the Excise Commissioner, Additional Excise Commissioner, four Deputy Excise Commissioners, three Special Superintendents of Excise, two Collectors of Excise and 19 Superintendents of Excise.

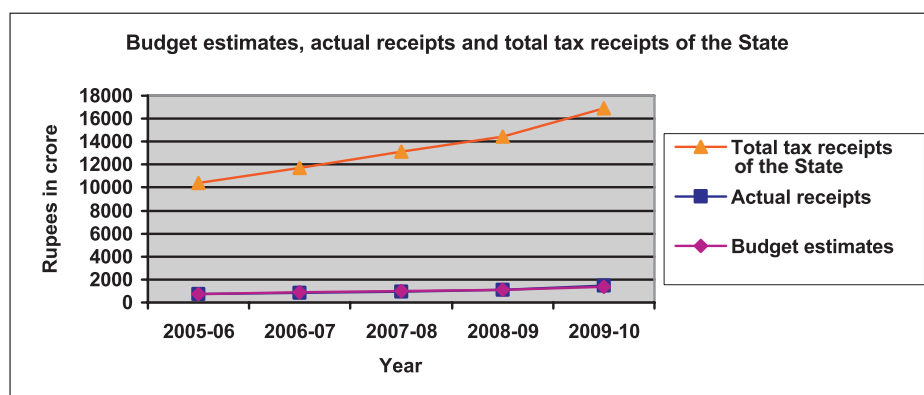
4.2 Trend of receipts

Actual receipts from State Excise during the years 2005-06 to 2009-10 along with the budget estimate and total tax receipts during the period is exhibited in the following table and graph.

(Rupees in crore)

Year	Budget estimates	Actual receipts	Variation excess (+)/ shortfall (-)	Percentage of variation	Total tax receipts of the State	Percentage of actual receipts vis-à-vis total tax receipts
2005-06	750.92	743.46	(-) 7.46	(-) 1.00	10,388.38	7.16
2006-07	869.95	817.36	(-) 52.59	(-) 6.05	11,694.77	6.99
2007-08	1,017.66	935.46	(-) 82.20	(-) 8.08	13,126.33	7.13
2008-09	1,115.42	1,082.94	(-) 32.48	(-) 2.92	14,419.15	7.51
2009-10	1,338.50	1,443.81	(+) 105.31	(+) 7.87	16,899.98	8.55

The percentage of variation between the budget estimates and actual receipts was between (-) 1.00 *per cent* and (+) 7.87 *per cent* during 2005-06 and 2009-10. This shows that the budget preparation was more or less realistic.



4.3 Analysis of arrears of revenue

The arrears of revenue as on 31 March 2010 amounted to ₹ 13.96 crore of which ₹ 5.36 crore were outstanding for more than five years. The following table depicts the position of arrears of revenue during the period 2005-06 to 2009-10.

(Rupees in crore)

Year	Opening balance of arrears	Arrears accumulated during the year	Arrears settled during the year	Closing balance of arrears
2005-06	11.05	1.29	Nil	12.34
2006-07	12.34	3.54	Nil	15.88
2007-08	15.88	Nil	0.81	15.07
2008-09	15.07	Nil	4.57	10.50
2009-10	10.50	3.46	Nil	13.96

In view of the increase in accumulated arrears in 2009-10, the department should adopt proactive steps to collect the arrear revenue.

4.4 Cost of collection

The gross collection of excise revenue and the expenditure incurred on collection during the years 2007-08 to 2009-10 are given in the following table:

(Rupees in crore)

Year	Gross collection	Expenditure on collection	Percentage of expenditure to gross collection	All India average percentage of expenditure to collection
2007-08	935.46	49.59	5.30	3.27
2008-09	1,082.94	65.76	6.07	3.66
2009-10	1,443.81	77.99	5.40	NA

We noticed that the percentage of expenditure to gross collection was higher than the all India average percentage of expenditure.

We recommend that the Government may examine the reasons for such high cost of collection and take appropriate measures to bring down the cost.

4.5 Revenue impact of audit reports

During the last five years (including the current year's report), we pointed out through our audit reports non/short levy, non/short realisation, underassessment/loss of revenue etc., with revenue implication of ₹72.32 crore in 32 paragraphs. Of these, the department/Government had accepted audit observations in 19 paragraphs involving ₹ 29.02 crore and had since recovered ₹ 0.66 crore. The details are shown in the following table:

(Rupees in crore)

Year of Audit Report	Paragraphs included		Paragraphs accepted by the department		Amount recovered	
	Number	Amount	Number	Amount	Number	Amount
2005-06	4	0.35	4 ¹	0.14	1	0.03
2006-07	14	37.69	7 ²	27.02	2	0.06
2007-08	4	11.13	2 ³	0.27	1	0.23
2008-09	6	20.66	3 ⁴	0.73	2	0.32
2009-10	4	2.49	3	0.86	1 ⁵	0.02
Total	32	72.32	19	29.02	7	0.66

Thus, the amount recovered was only 2.27 per cent of the accepted paragraphs which was very low.

We recommend that the Government may revamp the recovery mechanism to ensure that the amount involved in accepted cases is promptly recovered.

4.6 Working of internal audit wing

The internal audit wing (IAW) of an organisation is a vital component of its internal control mechanism and is generally defined as the control of all controls to enable the organisation to assure itself that the prescribed system is functioning reasonably well.

The internal audit wing of Excise department has been established in the year 1983 with the objective of having the accounts audited independently so that errors and frauds could be detected in time and action could be taken promptly and effectively upon such detection. The wing is headed by the Deputy Commissioner of Excise (Audit) who is assisted by three Assistant Commissioner of Excise (Audit) and three Auditors. The wing has not yet prepared an internal audit manual. The Excise department has 23⁶ auditable units but since 2006 the wing has not audited even a single unit. This was attributed to vacancy in the posts of Deputy Commissioner of Excise (Audit) and Assistant Commissioner of Excise (Audit) since May 2001.

¹ Out of four paragraphs two are partly accepted.

² Out of seven paragraphs two are partly accepted.

³ All are partly accepted.

⁴ Out of three one is partly accepted.

⁵ Partly accepted.

⁶ Collector of Excise-2, Superintendent of Excise-19, Directorate of Excise-1, Medicine and toilet preparation-1.

We recommend that the IAW may be made fully operational by filling up the vacant posts.

4.7 Results of audit

In 2009-10 we test checked the records of 12 units relating to excise receipts and found underassessment of tax and other irregularities involving ₹ 59.07 crore in 84 cases which fall under the following categories:

(Rupees in crore)

Sl. no.	Categories	No. of cases	Amount
1.	Non/short levy of excise duty, wastage fee on chargeable wastage of rectified spirit/India made foreign liquor	5	0.38
2.	Non/short realisation of privilege fee, additional fee, pass fee etc.	11	0.90
3.	Non/short realisation of establishment cost	7	0.32
4.	Non/short realisation of excise duty due to short yield of alcohol/beer	1	0.27
5.	Other cases	60	57.20
Total		84	59.07

During the course of the year, the department accepted underassessment and other deficiencies of ₹ 5.59 crore in 45 cases, of which 32 cases involving ₹ 4.90 crore were pointed out in audit during the year 2009-10 and the rest in earlier years. An amount of ₹ 1.20 crore was realised in 26 cases during the year 2009-10.

A few illustrative cases involving ₹ 1.95 crore are mentioned in the following paragraphs.

4.8 Audit observations

Scrutiny of the records in the offices of Superintendents of Excise indicated several cases of non-observance of the provisions of the Acts/Rules resulting in non/short levy of duty, fee etc., as mentioned in the succeeding paragraphs in this chapter. These cases are illustrative and are based on test check carried out in audit. Such omissions are pointed out in audit each year, but not only do the irregularities persist; these remain undetected till an audit is conducted. There is need for the Government to improve the internal control system so that such mistakes can be avoided.

4.9 Non-realisation of excise duty/fee on unsold stock of foreign liquor

Rule 241(2) of the West Bengal Excise (Foreign Liquor) (WBEFL) Rules, 1998 provides that if bottled foreign liquor is lying unsold in the warehouse after the expiry of twelve months from the end of the month of manufacture, the licensee shall forthwith apply to the excise officer in charge for moving the stock to the adjunct trade on payment of duty who will ensure that such stock is transferred to the trade. Failure of the licensee to comply with the provision of the Rule renders him liable for cancellation/suspension of his license.

4.9.1 We found in three District Excise Offices⁷ between August and September 2009 that in five cases 49,656.96 London Proof Litre (LPL) of different brands and measures of foreign liquor were lying unsold in the warehouses of five licensees after expiry of twelve months from the month of their manufacture. The licensees were required to move such stock to the adjunct trade on payment of duty. However, we noticed that one licensee did not apply for removal of the stock

and the district excise authority also did not take any action like suspension/cancellation of the license or recovery of the excise dues. The other four licensees applied between October 2007 and July 2009 for removal of the stock but no action was initiated for its removal resulting in non-realisation of revenue of ₹ 91.54 lakh.

After we pointed this out, the department stated in one case involving ₹ 16.36 lakh that the license of the licensee has been cancelled and action for realisation of the duty is being taken. In three cases against ₹ 9.97 lakh realisable, ₹ 2.17 lakh has been realised at the instance of audit. Report on realisation of the balance amount has not been received while in the remaining case involving ₹ 65.21 lakh the department stated that the provision is not applicable in the instant case without assigning any specific reason. However, the fact remains that the licensee had applied for removal of the liquor on payment of duty on which no action had been taken by the district excise authorities.

⁷ Burdwan (West), Nadia and North 24-Parganas.

We forwarded the cases to the Government between September and October 2009 followed by reminders issued upto July 2010; they did not furnish any reply (October 2010).

The proviso of the Rule provides that for removal of liquor from the warehouse, the licensee shall pay a fee of ₹ 3 per Bulk Litre (BL) per day for such stock for the period from the date of expiry of twelve months from the end of the month of manufacture till the date of application to the excise officer-in-charge.

4.9.2 We found in three excise offices⁸ between November 2008 and December 2009 that foreign liquor of 7901.64 BL was lying unsold in three warehouses after the expiry of twelve months from the end of the month of their manufacture. The licensees applied to the excise officer-in-charge for removal of the said stock

between November 2007 and November 2009 i.e. after expiry of twelve months from the end of the month of their manufacture. However, the district excise authorities debonded the liquor without levy of late fee of ₹ 63.90 lakh resulting in non-realisation of revenue to that extent.

After we pointed this out, all the three district excise officers accepted the audit observations and in one case raised demand of ₹ 50.63 lakh out of ₹ 61.56 lakh. However, the reason for raising less demand has not been intimated. In the remaining cases it was stated that the licensees have been directed to deposit the amount of ₹ 2.34 lakh.

We forwarded the cases to the Government between December 2008 and January 2010 followed by reminders issued upto July 2010; they did not furnish any reply (October 2010).

4.10 Non-realisation of excise duty due to non-destruction of unregistered and unsold stock of foreign liquor

Rule 118 of the WBEFL Rules, 1998 provides that the stock of foreign liquor lying unsold in any bonded warehouse after the expiry of one month from the last day of validity of registration of the brand name and the label shall be destroyed by the Collector with the prior approval of the Excise Commissioner (EC), West Bengal on realisation of excise duty.

We found in three District Offices⁹ between July and September 2009 in the case of five¹⁰ licensees of foreign liquor bonded warehouses that 20,962.44 LPL of different brands and measures whose label registration had expired between April 2001 and April 2008 was lying unsold in the warehouses of the licensees. The district excise authorities

⁸ Kolkata (North), Kolkata (South) and South 24-Parganas.

⁹ Kolkata (North), Paschim Medinipur and South 24-Parganas.

¹⁰ M/s BBM Enterprise, M/s D. P. Shaw and Co., M/s IFB Agro Industries Ltd., M/s S. N. Shaw and M/s VTR Marketing.

(DEAs) did not initiate any action for destruction of the liquor after realisation of excise duty. Failure of the DEAs to comply with the rules resulted in non-realisation of excise duty of ₹ 39.58 lakh.

After we pointed this out, the department in one case involving ₹16.92 lakh stated in August 2010 that the licensee had applied for re-processing of the liquor which was under consideration of the Excise Commissioner. In one case involving ₹ 3.20 lakh it stated that the licensee has applied for destruction of the liquor which was under consideration of the EC while in the remaining cases involving ₹ 19.46 lakh the department did not furnish any reply.

We forwarded the cases to the Government between September and October 2009 followed by reminders issued upto July 2010; they did not furnish any reply (October 2010).

The Government may consider fixing a time limit for destruction of unregistered stock for early realisation of excise duty.