

Chapter 1: Overview

1.1 Introduction

This Report covers matters arising out of the Compliance Audit of Excise, Finance and Revenue & Disaster Management Departments. The primary purpose of this Report is to bring to the notice of the Legislature the important results of audit. The findings of audit are expected to enable the Executive to take corrective action as also to frame policies and directives that will lead to improved financial management of the organisations contributing to better governance.

The Report has been organised in following chapters:

Chapter 1: Significant Audit observations included in this Audit Report.

Chapter 2: Detailed Compliance Audit on “Regulation of Supply Chain Management of liquor products in the State”.

Chapter 3: Compliance Audit on (i) Processing of Refunds under GST and (ii) Transitional Credits under GST

Chapter 4: Draft Paragraphs.

1.2 Significant Audit Observations in this Report

The present Report contains three Detailed Compliance Audit Paragraphs and two Draft Paragraphs arising out of Compliance Audit. The significant observations contained in this Report are discussed in brief in the following paragraphs.

1.2.1 Regulation of Supply Chain Management of liquor products in the State

The administration of State Excise is governed by the Odisha Excise Act, 2008 and the Odisha Excise Rules, 2017 that regulate the sale, production and supply of liquor products. Government of Odisha (GoO) established the Odisha State Beverages Corporation Limited (OSBCL) as a company under the Companies Act, 1956 in November 2000. The objectives of establishing OSBCL was to provide transparency in distribution and supply system of Indian Made Foreign Liquor (IMFL), Foreign Made Foreign Liquor (FMFL), Beer and Country Liquor (CL) in addition to exercising control over quality of the same. Examination of Supply Chain Management of liquor products in the State revealed the following:

- Extra Neutral Alcohol (ENA) is the primary raw material for manufacturing IMFL, which is to be monitored effectively to reduce the scope for excess manufacture of IMFL without declaration of excise. Audit, however, noted that:
 - In respect of 4,52,990.72 London Proof Litre (LPL) ENA procured by two manufacturing units during 2017-21, no reference of the pass issued by the District Excise Officers (DEOs) for such procurement had been recorded in the ENA Stock Registers maintained by the Excise Officers-in-charge of

the liquor manufacturers. Thus, Excise Duty (ED) of ₹ 6.60 crore on the ENA consignments received and utilised for the manufacture of liquor could not be levied.

- In respect of nine passes involving 3,61,280 LPL of ENA, only 3,57,279.45 LPL of ENA were recorded as received and stored at the spirit tanks of the manufacturing units. Thus, 4,000.55 LPL of ENA was recorded as wastage against 2,436.40 LPL, worked out in audit considering the days of transit and the permissible wastage. Thus, the manufacturing units were liable to pay excise duty on balance 1,564.15 LPL amounting to ₹ 6.15 lakh, which had not been imposed.
- Actual quantity of ENA received and transit loss occurred were not being assessed through check and measurements. Physical verification of stock of ENA with M/s United Spirits Limited by the Deputy Superintendent of Excise, Berhampur on 7 January 2020 revealed 34,419.344 LPL ENA against the recorded stock of NIL in the ENA Account of the unit. The Excise Commissioner imposed (March 2020) excise duty and penalty amounting to ₹ 1.80 lakh and ₹ 0.50 lakh respectively.
- In the warehouses of three IMFL and one beer manufacturing units, 69,708.46 LPL IMFL and 62,342.80 BL beer bottled during January 2002 to March 2020 were lying in stock as of March 2021 *i.e.*, beyond the stipulated period of three months. However, ED and fine amounting to ₹ 1.19 crore had been imposed against due of ₹ 6.33 crore.
- Two manufacturing units despatched 85,110.78 LPL beyond the permitted quantity illegally. This also resulted in loss of excise revenue of ₹ 4.02 crore. On being pointed out in audit, ED amounting to ₹ 66.72 lakh was recovered from one manufacturing unit.
- There were lapses in assessing actual quantity of transit loss as well as unaccounted ENA, which are used in production of IMFL and Country Liquor. In addition, there were instances of despatch of IMFL by manufacturers without Permit. Thus, the actual production quantity of IMFL was suspected to be not recorded. However, in all the 11 sample manufacturing units, the concerned Excise OIC certified the production figures as reported by the manufacturing units without verifying the same.
- There were deficiencies in the functionalities of the EALs. EALs do not contain adequate functionality for Excise Department personnel to scan the EAL/ QR Code therein to obtain detailed data on exact routing of the liquor product through the supply chain.
- On comparison of the number of bottles despatched by five manufacturing units with EALs reported to have been utilised by them revealed 27.74 lakh EALs which had not been accounted for.
- EAL balances at the end of each year in respect of 17 operating suppliers had not been declared by the Excise OIC. The other 12

operating suppliers had declared less numbers of EALs with them by 38.59 lakh. Further, 2.70 lakh EALs were lying with nine non-operating suppliers of IMFL since 21 to 45 months.

- Extra-hour operations charges of ₹ 1.61 crore remained unrealised as of January 2022 from one manufacturing unit.
- Establishment charges amounting to ₹ 1.42 crore had not been demanded from 9 sample units.
- Non-availability of Excise Officers in required number contributed to lapses in management of supply chain.
- The job of monitoring procurement and usage of raw material to monitoring production and despatch of IMFL/ beer as well accounting of EALs of more than one manufacturing unit were given to a single Excise Officer. As a result, the nature and extent of vigilance intended to be exercised in the Odisha Excise Rules could not be exercised

1.2.2 Processing of Refunds under GST

Timely refund mechanism constitutes a crucial component of tax administration, as it facilitates trade through release of blocked funds for working capital, expansion and modernization of existing business. The provisions pertaining to refunds contained in the GST laws aim to streamline and standardize the refund procedures under the GST regime. Audit, however, noticed the following deficiencies:

- In 50 out of the test checked 268 refund cases, the delays in issue of acknowledgement ranged from 1 to 333 days. This resulted in non-observance of the provisions of Rule 90 of OGST Rules, 2017.
- In 18 refund cases, there were delays in sanction of refunds ranging from 10 to 115 days. This resulted in non-observance of the provisions of Rule 92 of OGST Rules, 2017.
- No post audit had been conducted in case of test checked 268 refund cases.

1.2.3 Transitional Credits under GST

Allowance of credit of taxes paid on inputs, input services and capital goods for set-off against the output tax liability is one of the key features of GST. Audit, however, noticed the following:

- In 44 CT & GST Circles, transitional credit claims of 2,177 cases (62 *per cent*) had been verified out of the total 3,510 cases identified by the Commissioner of CT & GST. Out of these 2,177 cases which had been verified, recovery measures had been initiated in 171 cases, amounting to ₹ 9.28 crore.
- Although the Central Board of Indirect Taxes and Customs had issued guidance that Officers have to verify the SGST credit of the taxpayers allotted to Central jurisdictions, the Commercial Tax Department, Government of Odisha had not issued any enabling Notification as required under Section 6(1) of the GST Act, specifying the proper

officers to undertake this verification process of transitional credit.

- Audit noticed that in 129 cases across 31 CT & GST Circles, taxpayers had carried forward excess transitional credits of ₹ 86.36 crore under Table-5C/7B of TRAN-1, compared to Nil/lower closing balance in the legacy return.
- In 15 cases across 11 CT & GST Circles, taxpayers had claimed transitional credits of ₹ 8.98 crore even when the returns required under the previously existing laws, had not been filed for the previous six months preceding the appointed day.
- Audit noticed that in 15 cases across five CT & GST Circles, taxpayers had carried forward excess transitional credits of ₹ 4.41 crore in TRAN-1, even though there were no sales transactions and no output tax during the previous nine months.
- In respect of 116 cases in 28 CT & GST Circles involving irregular/excess transitional credit of ₹ 68.28 crore, interest amounting to ₹ 60.69 crore had not been levied on taxpayers, on account of due reversal or due payment of irregular credit claimed by them.