



The Implementation of Audits on Tobacco Excise by The Directorate General of Customs and Excise

Febrianti Nur Alfina¹, Refi Pratiwi², Mulyanah³, Selly Anggraeni Haryono^{4*}

^{1,2,3,4} Faculty of Economics and Business, Universitas Sultan Ageng Tirtayasa, Indonesia

*Corresponding author: selly.baryono@untirta.ac.id

Article Info

ABSTRACT

Purpose: This study aims to evaluate the effectiveness of excise audits in enhancing tobacco excise revenue over the past five years. In Indonesia, the tobacco products sector particularly the cigarette industry has long constituted the primary source of national excise revenue. The Directorate General of Customs and Excise (DGCE) holds a strategic mandate in safeguarding state revenue through the supervision of excisable goods, particularly tobacco products.

Methodology/approach: This study used a descriptive qualitative approach with data collection techniques through interviews, questionnaire responses to identify operational challenges in audit practices and supporting documentation.

Findings: This study finds excise audits contribute to enhancing business compliance and reducing the potential for violations or excise-related smuggling. However, the audit process continues to face several challenges, particularly the limited access to internal company data and regulatory constraints that do not yet fully support audit effectiveness.

Practical implications: The results suggest that regulatory refinement and strengthened coordination between the DGCE and business stakeholders are required to support the sustainable optimization of excise revenue.

Originality/value: This study contributes to the evaluation and refinement of excise audit policies and further enriches the tax literature, particularly regarding the implementation of excise audits.

Keywords: *Excise Audit, Fiscal Policy, Implementation, Tobacco Excise Revenue*

Accounting, Organization, and Information System

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1. Introduction

The tobacco products sector, particularly the cigarette industry has long constituted a dominant source of Indonesia's national excise revenue. Data from the [Ministry of Finance \(2023\)](#) indicate that more than 90% of total excise collections originate from this sector, underscoring its critical fiscal importance. Despite this substantial contribution, Indonesia's persistently high level of cigarette consumption presents a major public health concern. Consequently, the government faces a structural policy dilemma: maintaining stable excise revenue while mitigating the consumption of products that pose significant health risks. To address this dual challenge, periodic

adjustments to excise tax rates are implemented as instruments for both revenue enhancement and consumption control, accompanied by increasingly stringent oversight of the cigarette industry.

Within this regulatory framework, the Directorate General of Customs and Excise (DGCE) plays a central role in enforcing compliance through excise audits of businesses engaged in the production of excisable goods. These audits extend beyond the verification of formal compliance—such as the accuracy of reporting and payment obligations—to encompass substantive assessments of adherence to statutory provisions. Excise audits thus represent a critical mechanism for preventing revenue leakage and curbing illicit practices, including the counterfeiting of excise bands, inaccurate reporting, and smuggling. Prior studies highlight the broader implications of these audit functions: [Nurkartikasari \(2017\)](#) notes that DGCE's audit practices reflect the state's commitment to fiscal transparency and accountability, while [Rahmawati \(2019\)](#) emphasizes their role in strengthening public trust in taxation and oversight systems.

Nevertheless, the implementation of excise supervision continues to encounter significant challenges. One pressing issue is the proliferation of illegal cigarettes within the domestic market. In 2022, DGCE reported that approximately 4.9% of national cigarette consumption consisted of illegal products, either bearing no excise bands or using counterfeit ones. The complexity of this issue intensified in early 2025, when DGCE recorded a 2.7% decline in excise revenue compared with the previous year, driven by a contraction in legal cigarette production and an expanding distribution of illicit products. These developments highlight the need for more effective supervisory mechanisms, particularly in the context of excise audit implementation, to safeguard revenue sustainability and ensure regulatory compliance.

The introduction explains the research background and phenomenon, research objectives and contribution (theoretical and practical), summary of methodology and results as well as the implications, and the systematic structure. The Introduction has a maximum length of 1500 words with no subtitles and no sub-section.

Nevertheless, the implementation of excise supervision continues to face significant challenges, one of which is the increasing circulation of illegal cigarettes in the domestic market. DGCE reported that in 2022, approximately 4.9% of total cigarette consumption in Indonesia consisted of illegal products, either without excise bands or bearing counterfeit ones. This problem became more complex in early 2025, when DGCE recorded a 2.7% decline in excise revenue compared with the previous year, driven by a decrease in legal cigarette production and the growing distribution of illegal cigarettes. As of March 2025, DGCE had conducted more than 2,900 enforcement actions related to violations in the excise sector, with substantial potential losses to the state. The rise in illegal cigarette circulation has also been fueled by fiscal policies, specifically excise tax increases that were not accompanied by sufficiently stringent oversight. In 2024, the government raised excise tax rates by an average of 10% for conventional cigarettes and 15% for electronic cigarettes as part of its strategy to curb consumption and protect younger generations from the dangers of smoking. However, a side effect of this policy has been the growing prevalence of down-trading, namely the shift in consumption toward cheaper, often illegal, cigarette products.

In response to these developments, DGCE strengthened its audit and supervisory strategies targeting major cigarette manufacturers. The audits carried out include evaluations of internal reporting systems, distribution mechanisms, and verification of excise payments. According to [Yuliana and Prasetyo \(2022\)](#), audits of large-scale producers are crucial to ensuring that major entities comply with the national fiscal system and do not become contributors to revenue leakage. Moreover, these audits play an important role in fostering fiscal accountability and enhancing public trust in the state's supervisory institutions.

Given the complexity and urgency of the issues described above, examining the implementation of excise audits by DGCE has become increasingly important. This study aims to



assess the effectiveness of audit practices in maintaining compliance within the tobacco products industry and their contribution to minimizing potential state losses arising from illegal activities and excise violations. It is expected that the findings of this research will provide constructive input for strengthening Indonesia's excise supervision system and offer policy recommendations that are more responsive to ongoing field dynamics.

Based on the background outlined above, the author has chosen the title: "The Implementation of Audits on Tobacco Excise by the Directorate General of Customs and Excise."

2. Literature Review

2.1 Definition of Excise

In the Indonesian regulatory framework, the concept of excise is grounded in Law Number 39 of 2007, which amends Law Number 11 of 1995 on Excise. The law defines excise as a state levy imposed on specific goods that possess of particular characteristic requiring regulatory intervention. These characteristics include goods whose consumption must be controlled, whose circulation requires strict supervision, whose use may generate negative externalities for society or the environment, or whose consumption necessitates the imposition of a levy to promote equity and socio-economic balance. This legal definition underscores the dual fiscal and regulatory functions of excise, positioning it not only as a revenue-generating instrument but also as a policy tool for mitigating harmful consumption and managing public welfare impacts.

[Siahaan \(2021\)](#) explains in his book that excise is a levy imposed by the government on specific goods with the dual purpose of controlling their consumption and increasing state revenue. In Indonesia, excise is applied to goods considered to have potentially negative impacts on public health and society, such as tobacco and alcohol products.

Recent regulatory developments further reinforce the strategic role of excise within Indonesia's fiscal framework. Minister of Finance Regulation (PMK) Number 114 of 2024 explicitly identifies excise as a fiscal policy instrument designed to advance sustainable development objectives. The regulation underscores that the function of excise extends beyond revenue generation; it also serves as a mechanism for controlling the consumption of high-risk goods, safeguarding public health, and promoting a more responsible and sustainability-oriented industrial transformation. This regulatory perspective aligns with the government's broader policy agenda, which seeks to balance economic growth with the protection and enhancement of societal well-being. Literature on excise governance similarly highlights the dual fiscal-regulatory nature of excise policy, emphasizing its capacity to influence behavior while contributing to long-term development outcomes.

2.2 Excise Audit

An excise audit refers to a systematic examination conducted to assess the accuracy, completeness, and compliance of an entity's obligations related to excise duties, including the assessment, collection, payment, reporting, and administrative processes associated with excisable goods.

In the context of regulatory provisions, Minister of Finance Regulation (PMK) Number 114 of 2024 on Customs and Excise Audits defines excise audits as a series of examination activities conducted by the Directorate General of Customs and Excise (DGCE) to assess compliance with tax obligations related to excisable goods. These audits encompass the inspection of documents, transactions, and activities associated with the fulfillment of excise obligations by taxpayers or audited entities. Complementing this regulatory perspective, [Prasetyo and Hapsari \(2022\)](#) describe excise audits as a systematic process for verifying the accuracy of production and distribution reports



for excisable goods (BKC), emphasizing their importance as a key mechanism for optimizing state revenue.

2.3 Types of Excise Audit

Based on Minister of Finance Regulation (PMK) Number 114 of 2024 on Customs and Excise Audits article 2, the customs and/or excise audits aim to assess the level of compliance of the persons that being the excise audit objects with the implementation of the provisions stipulated in customs and/or excise legislation. In practice, excise audits may take several forms, including compliance audits, special-purpose audits, investigative audits, and risk-based excise audits, each designed to address specific regulatory objectives and risk profiles.

2.4 Excise Audit Objects

The objects of an excise audit encompass all activities, documents, transactions, excisable goods, production processes, distribution flows, and administrative systems that serve as the basis for determining and monitoring excise liability.

Based on Minister of Finance Regulation (PMK) Number 114 of 2024 on Customs and Excise Audits article 2 paragraph 2, the excise audit objects individuals or entities engaged in activities such as operating manufacturing facilities, managing storage warehouses, importing excisable goods, distributing excisable products, or utilizing excisable goods under approved excise-exemption facilities. These audits are conducted in accordance with the obligations and provisions stipulated in national excise legislation.

2.5 Stages of Excise Audit

In practice, excise audits may take several forms, including compliance audits, special-purpose audits, investigative audits, and risk-based excise audits, each designed to address specific regulatory objectives and risk profiles. The implementation of an excise audit generally follows a structured sequence of stages, beginning with audit planning which includes risk analysis and determination of audit scope followed by evidence collection and testing through document examination, observation, and analytical procedures. The process continues with the evaluation of audit findings to assess the level of compliance and identify potential irregularities, culminating in the preparation of an audit report and the subsequent discussion of results with the audited entity. Collectively, these elements ensure that excise audits function as an effective mechanism for promoting regulatory compliance and strengthening the integrity of excise administration.

3. Method

This study employs a descriptive qualitative design to examine the implementation of excise audits conducted by the Directorate of Customs and Excise Audit on the production and distribution of tobacco products. The approach is suited to exploring institutional practices, audit procedures, and contextual challenges that influence the effectiveness of excise oversight. The study aims to (1) assess the contribution of excise audits to tobacco excise revenue performance in Indonesia, and (2) identify the operational constraints encountered during audit execution.

Data were obtained from both primary and secondary sources. Primary data were collected through interviews with audit personnel at the Directorate General of Customs and Excise (DGCE) to capture in-depth perspectives on audit processes, internal systems, and challenges encountered in the field. Questionnaires distributed by sampling to auditors in Directorate General of Customs and Excise (DGCE) Head office Rawamangun that involved in excise audit activities to identify technical and administrative constraints affecting audit implementation.

Secondary data were gathered to complement and validate primary findings, including audit implementation documents DGCE supervisory policies and regulatory guidelines and also other



resources from the official website Public Information Disclosure (PPID) of the Ministry of Finance, archival records and supporting documents from DGCE

The study applies a qualitative descriptive analysis, involving thematic classification and interpretation of the collected data. This analytical approach enables the identification of patterns related to audit procedures, compliance monitoring, and factors influencing the effectiveness of excise audits.

4. Results and Discussion

Based on observations, interviews, document review, and the results of questionnaire distribution, this study identifies the role of excise audits conducted by the Directorate General of Customs and Excise in enhancing the effectiveness of tobacco excise revenue in Indonesia, as well as the challenges faced by DGCE in carrying out excise audit activities, as follows:

4.1 Role of Excise Audits in Enhancing Tobacco Excise Revenue

The findings indicate that excise audits play a critical role in strengthening the effectiveness of tobacco excise revenue collection. According data from DGCE for the period 2019 to 2024 below, the increase in the number of audits from year to year has contributed to the rise in national excise revenue:

Table. 1
Data on Tobacco Excise Revenue and Number of DGCE Audits

Year	Target & Realization of Tobacco Excise Revenue (IDR Trillion)	Target & Realization Excise Audit (Cases)	Realization of Tobacco Excise Revenue Growth (%)
2019	Target : 160,00 Realization: 164,87	Target : 1.800 Realization:1.870	7,8%
2020	Target : 165,00 Realization: 170,24	Target : 1.900 Realization:1.950	3,3%
2021	Target : 180,00 Realization: 188,81	Target : 2.000 Realization:2.100	10,9%
2022	Target : 190,00 Realization: 193,53	Target : 2.500 Realization:2.550	2,5%
2023	Target : 232,50 Realization: 213,48	Target : 2.800 Realization:2.900	10,2%
2024	Target : 226,4 Realization: 216,90	Target : 3.200 Realization:3.200	1,6%

Sources: Directorate General of Customs and Excise, Ministry of Finance (2019–2024)

Based on data realization above, the realization of tobacco excise revenue from 2019-2024 increased. This increase can be attributed to multiple reinforcing factors such as the gradual adjustment of excise tariffs has systematically expanded the revenue base in line with fiscal and public health objectives, the digitalization of administrative processes and the implementation of more rigorous monitoring systems have strengthened the government's capacity to detect irregularities and ensure accurate reporting, the enhancement in quality of excise audits conducted by the Directorate General of Customs and Excise (DGCE) has contributed to improved compliance and reduced revenue leakage and intensified law enforcement actions targeting illegal cigarettes have curtailed illicit trade, thereby safeguarding and enhancing legitimate excise revenue streams.

The excise audits contribute directly to minimizing potential revenue leakage and enhancing the reliability of tobacco excise revenue. The audit activities conducted by the Directorate General

of Customs and Excise (DGCE) help verify the accuracy of production reports, assess the consistency of distribution data, and ensure that excise payments align with actual production volumes. Through these verification processes, excise audits significantly improve taxpayer compliance by encouraging producers and distributors to adhere to reporting requirements and payment obligations. The audits also serve as an early detection mechanism for irregularities, such as under-reporting production, misclassification of products, or discrepancies between physical stock and administrative records.

4.2 The Challenges Encountered by DGCE Auditors in Excise Audit Implementation

Based on the questionnaires distributed to a sample of auditors, several key challenges were consistently identified as being encountered in the field. First, frequent regulatory changes auditors and auditors also noted regulatory constraints, such as unclear provisions or insufficient authority to access certain types of corporate information, which limit the scope and depth of audit procedures. Second, auditors highlighted resource and capacity limitations within DGCE itself, such as insufficient personnel and the need for enhanced technical competencies to address increasingly complex production processes and illicit trade patterns. Third, auditor reported limited access to internal company data, particularly related to production capacity, inventory movements, and distribution records, which often hampers the ability to conduct comprehensive examinations. Fourth, administrative inconsistencies that including incomplete documentation, discrepancies between physical stock and recorded quantities, and inaccuracies in excise reporting forms—were frequently cited as barriers that increase verification workloads. Lastly, technological and system limitations within companies, including outdated or non-integrated information systems, create additional challenges in validating data accuracy.

In addressing these challenges and also to enhance the effectiveness of excise audit implementation, several strategic measures are recommended. First, the Directorate General of Customs and Excise (DGCE) should strengthen human resource capacity through continuous technical training, particularly in areas related to digital systems, data analytics, and modern reporting technologies. Second, the digitalization of audit processes must be accelerated to enable faster and more accurate data verification. Third, regulatory frameworks require refinement and more intensive dissemination to ensure that industry actors fully understand and comply with updated requirements. Fourth, strengthening inter-unit coordination and improving data integration within DGCE are essential to enhancing audit efficiency and targeting accuracy. Collectively, these measures are expected to reinforce the role of excise audits as an effective oversight instrument, thereby supporting national revenue performance and promoting higher levels of compliance within the tobacco industry.

5. Conclusions

This study finds that excise audits play a vital role in enhancing the effectiveness and reliability of tobacco excise revenue collection in Indonesia. The analysis of DGCE data from 2019 to 2024 shows that the increasing number of audits conducted each year has directly contributed to the growth in tobacco excise revenue. This improvement is reinforced by several complementary factors, including gradual adjustments to excise tariffs, ongoing digitalization of administrative processes, improvements in audit quality, and stronger enforcement measures against illicit cigarettes. Excise audits help minimize revenue leakage by ensuring that production, distribution, and reporting data are accurate and aligned with actual production volumes. They also function as an early detection mechanism for irregularities such as under-reporting, product misclassification, and discrepancies between physical stock and administrative records. These results highlight the central role of excise audits in strengthening taxpayer compliance and safeguarding state revenue.

The implications of these findings underscore the importance of continuously strengthening excise audit mechanisms, particularly in high-risk industries such as tobacco. Effective audit



implementation requires not only increased audit frequency but also improvements in human resource capabilities, digital tools, and integrated information systems. The results also emphasize the need for regulatory clarity and stability, as frequent changes or ambiguous provisions limit the depth and accuracy of audit procedures. Furthermore, persistent illicit trade activities indicate that enhanced inter-agency coordination and stronger collaboration with industry stakeholders are essential for protecting legitimate revenue streams and ensuring compliance across the supply chain.

Despite its contributions, this study has several limitations. The analysis relies heavily on secondary DGCE data and questionnaire responses from auditors, which may contain biases or incomplete information. The research is also limited to the tobacco sector and therefore may not fully reflect audit dynamics in other excisable product categories. Additionally, with no direct field observations or case studies, the study may not capture all operational challenges or behavioral factors influencing compliance. The five-year observation period from 2019 to 2024 may also be insufficient to fully assess the long-term effects of policy changes, digitalization initiatives, or shifts in enforcement strategies.

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