

## CHAPTER-IV: RISK ASSESSMENT

It is the responsibility of the management of the Department to clearly define strategic objectives and identify the major risks in achieving such objectives of the Department. Our findings on the risk assessment practices adopted in the Department are detailed below:

### 4.1 Did the department define its strategic objectives and targets?

We noticed that the Department has not so far set forth mission and vision statements and the main objectives of the Department. We consider that in the absence of such strategic guidelines, the Department faces a risk of functioning without a clear and consistent purpose. For instance, the employees may not be sure as to whether to focus on collection of revenue or on prevention of consumption of illicit liquor.

**Recommendation 1:** The Department may consider preparing a strategic plan covering mission, vision and objectives. Further, such a plan may be published widely amongst employees and the public.

### 4.2 Did the Department assess risks to achieving its objectives?

We noticed that the Department has not carried out risk assessment to identify the significant risks to achieving its objectives. We consider that identification of key risks will enable the Department to focus its efforts towards mitigating risks.

### 4.3 What were the significant strategic risks identified by audit?

It is the responsibility of the Department to identify risks and initiate measures to counter the risks. As the Department has not identified risks, we made an attempt to identify a few significant strategic risks that we consider could affect the functioning of the Department adversely. In addition to the strategic risks that are described below, various operational risks are covered in later chapters.

#### 4.3.1 Is there a conflict of interest between a major licensee for liquor trade and the Excise Department?

The Excise Department is entrusted with the supervision and control over the production, distribution and sale of spirit/IMFL within the State and the Department acts as a regulatory authority. Kerala State Beverages (Manufacturing and Marketing) Corporation (KSBC), a Government Company, has sole rights over the procurement, distribution and sale of IMFL within the state. KSBC is a major licensee for liquor trade.

The Excise Department is one of the promoters of KSBC and the Excise Commissioner is the Chairman of KSBC. As both agencies are headed by the same person, we consider that there is a conflict of interest, as KSBC as a licensee is engaged in promotion of liquor trade and the Department as a regulatory authority, is responsible for regulating liquor trade. We feel that the present arrangement may adversely impact the Excise Department from functioning as an effective regulator.

After we pointed out the matter the Government stated (November 2011) that the Excise Commissioner only acts as Chairman of KSBC in order to exercise control on the decision taken by the Board of Directors and that for more than 25 years the Excise Commissioner is the Chairman and that there was no conflict of interest.

The remarks furnished by the Government are not acceptable since there is conflict of interest as one entity is the licensing authority and the other is the licensee.

#### **4.3.2 Is the present system of printing and custody of permit books prone to misuse?**

Transportation of spirituous preparations/IMFL is controlled by issuing permits. Permits are issued for transportation of IMFL from distilleries to FL9 godowns<sup>1</sup>, and from FL9 to various retail outlets, etc. These permits were being printed at the Government press in book form, each containing 25 permits and stocked at the Commissionerate and issued from there as per requirement of the field units.

We noticed that the serial numbers to the permits are assigned by the press and the numbers are not continuous. Our verification of the stock register at the Commissionerate revealed several sets of numbers to be missing. Further, the register was not closed regularly. As the numbers were assigned by the press and the numbering was not continuous, we are unable to conclude whether the permit books with the missing numbers were actually printed or not.

We consider that the various weaknesses described above relating to the printing of permits and its custody poses a serious strategic risk. We are of the opinion that the weaknesses could be misused to facilitate transportation of illicit liquor by printing permits with the missing numbers. Responding to an audit enquiry on irregular maintenance of stock register of permits, the Commissionerate stated that it was a usual practice and the weaknesses pointed out by audit would be noted for future guidance. However, the fact remains that it was an important control which was not implemented effectively.

#### **4.3.3 How effective was the role of the Department over printing, supply and affixing of security labels?**

In order to avoid the risk of production and sale of duplicate/ spurious liquor in the State, the Department introduced (June 2003) a system of affixing a security hologram label in all IMFL bottles sold in the State. As directed by Government (September 2001) KSBC entered into an agreement with the Centre for Development of Imaging Technology (C-DIT), a State Government autonomous body, in November 2001 for printing and supply of holographic security labels at the rate of 13.86 paise per label. The agreement was for 10 years and C-DIT has been supplying the necessary security labels to KSBC. When the liquor reaches the KSBC godown from the distilleries it is unloaded at the FL-9 warehouses and the casual labourers employed by the KSBC affix

**Misuse of permit books for liquor transport in the State cannot be ruled out in the present system of printing and distribution of the permits**

**The Licensee itself was printing the security labels through a private party and affixing it on the IMFL bottles. At no stage the Licensing Authority, the Excise Department has control over it**

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<sup>1</sup> Licensee for possession and supply of foreign liquor in wholesale for sale to other retail licence holders like FL1, FL3, FL4 club licenses, etc.

the security labels supplied from KSBC before despatch to liquor outlets like FL1, FL3 and FL4 licensees in the State.

Our examination of the records revealed the following:

- Though KSBC entrusted the printing and supply of security labels to C-DIT, C-DIT in turn entrusted the work to a private agency<sup>2</sup>, vide agreement dated 17 April 2002 violating the agreement conditions relating to non-transfer of work and maintaining secrecy.
- In April 2009 a section of C-DIT employees submitted a memorandum to the Director General of Police alleging that the private party was printing the labels at two places, near the Walayar Check post and at Ernakulam. The memorandum was forwarded to the Excise Commissioner by the DGP. The Intelligence wing of the Department investigated the issue and reported (December 2009) that entrusting the printing of security labels to a private agency by C-DIT was in violation of the agreement between C-DIT and KSBC relating to secrecy, non-transfer of work, printing labels only at C-DIT, Thiruvananthapuram. However, no further action was taken on the issue.
- The Assistant Excise Commissioner, KSBC (HQ), Thiruvananthapuram wrote (June 2010) to the Excise Commissioner that at present the security labels which are affixed on liquor bottles bearing the signature of the Excise Commissioner are fully handled by KSBC and in the current scenario even on booking a case of 'seconds'<sup>3</sup> it cannot be effectively prosecuted as the excise officials are not the competent authority to affirm whether the stickers affixed are genuine or not. The officials of C-DIT/KSBC have to be cited as private witness for proving that the labels are counterfeited. They can act only as private witness, as they are not declared as competent authority in Abkari Act. Hence effective prosecution is a remote possibility. He also submitted (June 2010) a proposal to the Excise Commissioner for bringing the printing and custody of security label under the direct supervision of the Excise Department citing that the Excise Department of Tamil Nadu owns a press to print the security labels. No action was taken on this proposal.
- We observed that thousands of bottles of IMFL are affixed with security labels at the FL9 godowns everyday. We are of the opinion that the Department is unable to exercise effective supervision as only four to eight employees of the Department were working in these godowns and the employees were only entering the serial numbers of the labels supplied by KSBC in the registers.

**The Excise officials, the designated authority for supervision of production and distribution of IMFL, cannot authenticate the genuineness of a hologram as they were not aware of the hologram details**

We are of the opinion that as the security labels are being printed by a private agency and as the Department is exercising minimal supervision over the production, supply and affixing of the labels, there is a risk of supply of security labels to illicit liquor producers/sellers.

**Recommendation 2:** The Department must ensure that security labels are printed under the direct supervision of the Department.

<sup>2</sup> the 'Process colour', Ernakulam

<sup>3</sup> Low Quality/unaccounted liquor sold in the market