

Chapter I
Introduction

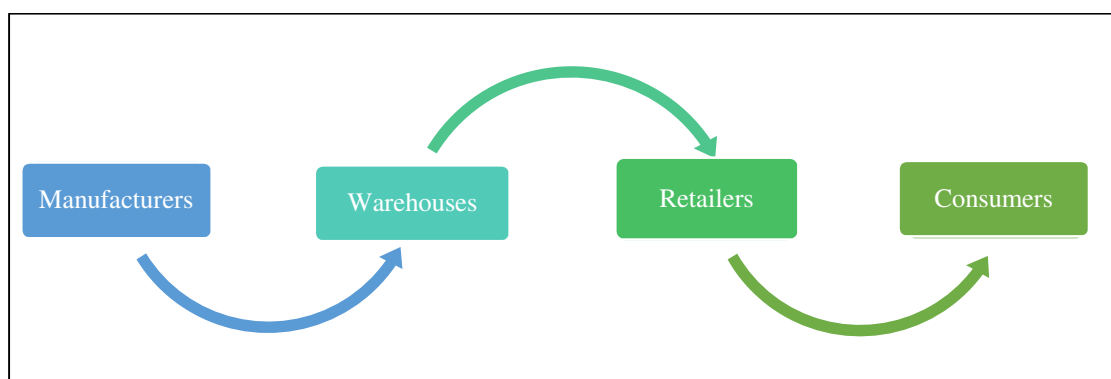
Chapter I: Introduction

1.1 Introduction

As per the List-II of the Seventh Schedule of the Constitution of India, production, manufacture, possession, transport, purchase, and sale of 'Liquors' is in the exclusive domain of the State Government. Accordingly, the Department of Excise, Entertainment and Luxury Tax (Excise Department), Government of National Capital Territory of Delhi (GNCTD) has the responsibility to regulate the supply of liquor in Delhi. The statutory powers for discharging the responsibilities of regulation of liquor supply chain are taken from Delhi Excise Act, 2009 and Rules made thereunder.

The Excise Department regulates the entire supply chain of liquor from manufacturers to consumers. This supply chain involves multiple stakeholders i.e., manufacturers (distilleries and breweries), warehouses, retail vendors (point of sale), hotels, clubs, and restaurants (point of service), and ultimately the consumers as shown in **Chart 1.1**.

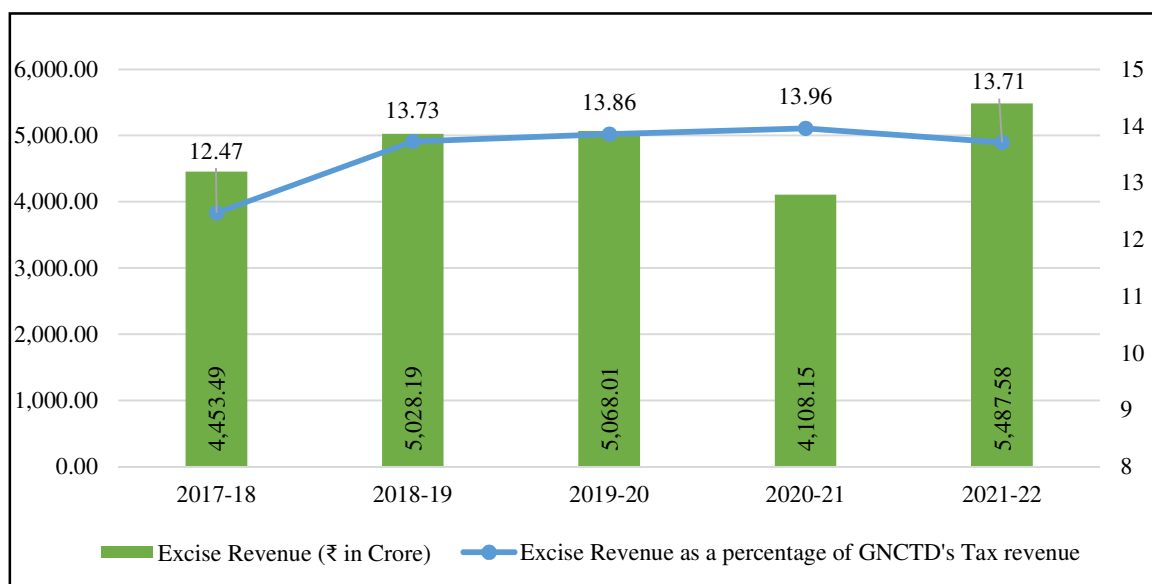
Chart 1.1: Liquor Supply Chain



The Excise Department levies Excise Duty¹ and multiple other fees e.g., license fee, permit fee, import fee etc. on supply of liquor in Delhi. Revenue from Excise Duty and other fees levied on 'Liquor' by the Excise Department is a major contributor to GNCTD's Tax Revenue (approx. 14 *per cent* for the years 2018-19 to 2021-22), as depicted in the **Chart 1.2**.

¹ With effect from 1 July 2017, Goods and Services Tax (GST) was implemented throughout country, wherein the Excise Duty on manufacture and sale of various goods and services was subsumed into GST, except for 'Liquor for human consumption'. Hence, w.e.f. 1 July 2017, 'Liquor' is the only item on which Excise Duty is levied by the State Governments, including GNCTD.

Chart 1.2: Excise Revenue

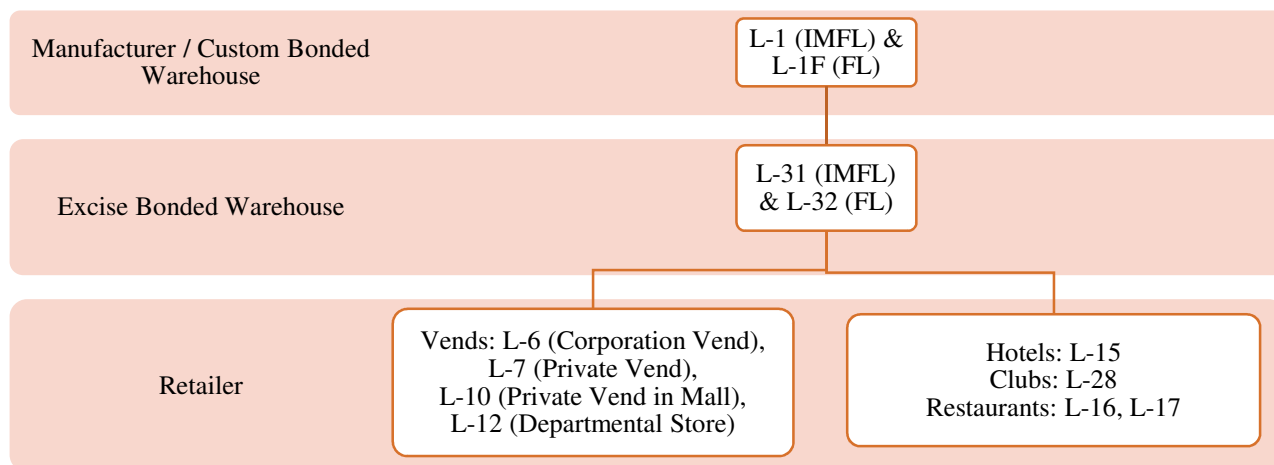


Source: Annual Financial Statements of GNCTD

There are three different types of liquor, i.e., Indian Made Foreign Liquor (IMFL), Foreign Liquor (FL) and Country Liquor (CL), which differ in their origin, pricing and quality. Accordingly, regulations vary for all the three types of liquor.

The licenses issued to stakeholders in supply chain of IMFL and FL are as given in **Chart 1.3**.

Chart 1.3: Hierarchy of Licensees²

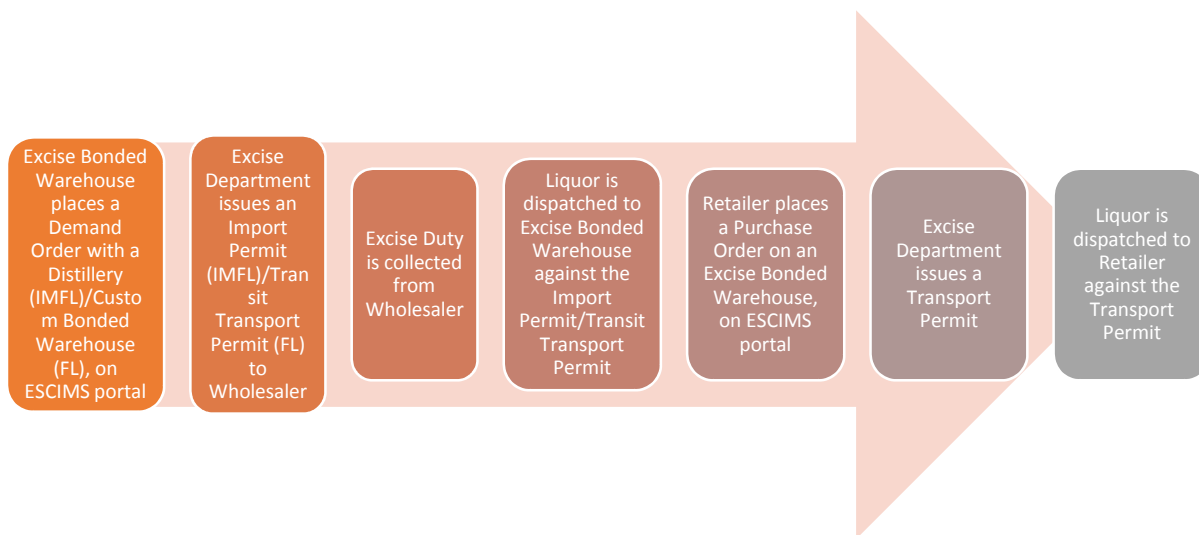


During the period 1 April 2017 to 16 November 2021, IMFL was supplied by manufacturers (located outside NCT of Delhi) who were also wholesale licensees, to their Excise Bonded Warehouses in NCT of Delhi (NCTD). However, FL was supplied by wholesale licensees to Excise Bonded Warehouses in NCTD from the

² This hierarchy of License was applicable for the period excluding the withdrawn Excise Policy regime effective between 17 November 2021 and 31 August 2022. The License types for the Excise Policy 2021-22 have been mentioned in Chapter VIII.

Custom Bonded Warehouses, where it was received from their country of origin. The Retailers included Vends, Hotels, Clubs and Restaurants (HCR) and Canteen Store Depots (CSD).

Chart 1.4: Excise Department's Regulation of Liquor Supply chain



In respect of Country Liquor³, supply chain was directly controlled by the Excise Department as it fixed quota (not exceeding 33 *per cent* of total quota) for each of the wholesale licensee and also placed Demand Order on the basis of monthly allocation⁴. In terms of sale volume, IMFL and FL held about 90 *per cent* market share during the period April 2017 to March 2021, and the remaining 10 *per cent* market share was of Country Liquor.

The Excise Department regulates the entire supply chain of liquor via its web-based application ESCIMS (Excise Supply Chain Information Management System), which is used for all purposes, e.g., application for license, placing the demand order, issue of import permit, barcoding of all liquor and inventory management and payment solution for all stakeholders, etc.

Apart from the revenue collection, Excise Department's regulation of liquor supply involves issue of licenses and enforcement of license conditions, price fixation, prevention of sale of poor quality and non-duty paid liquor, etc. Barcodes generated through ESCIMS were required to be affixed on all liquor cases and bottles to be imported into Delhi. The Excise Intelligence Bureau (EIB) of Excise Department is responsible for checking of inter-state smuggling of liquor, detection of manufacture and sale of illicit liquor, checking illegal serving of liquor at unlicensed premises and liaison with various units of Delhi Police to combat bootlegging. Enforcement Branch of Excise Department is entrusted with the responsibility of

³ Country Liquor was sold only through the Vends managed by the four undertakings of GNCTD namely Delhi Tourism and Transportation Development Corporation (DTTDC), Delhi State Industrial and Infrastructure Development Corporation (DSIIDC), Delhi State Civil Supply Corporation (DSCSC) and Delhi Consumers Co-operative Wholesale Store Limited (DCCWS).

⁴ The Purchase Order for IMFL and FL was placed by the Retailers as per their own assessment, without any interference from Excise Department.

conducting surprise inspections at Excise licensed premises of licensees and reporting violations found.

1.2 Audit Objectives

The objectives of this Audit on “Regulation and supply of Liquor in Delhi” were to assess whether:

- i. The licensing process is fair, efficient, and effective;
- ii. The pricing policy ensures protection of excise revenue, without passing undue benefit to the manufacturers/distilleries;
- iii. An effective mechanism exists to enforce the license conditions; and
- iv. ESCIMS is enabling e-governance in Excise Administration.

1.3 Audit Criteria

The audit criteria were sourced from the following:

- Delhi Excise Act, 2009
- Delhi Excise Rules, 2010
- User Manuals for ESCIMS
- General Financial Rules
- Administrative Manual
- Orders and Circulars issued by GNCTD
- Orders, Circulars, and policy papers issued by the Excise Department

1.4 Audit Scope and Methodology

This audit initially (between July 2021 to January 2022) covered a period of four years from 2017-18 to 2020-21. However, owing to a major change in Excise Policy in the year 2021-22, which came into effect from 17 November 2021 and lasted until 31 August 2022, it was considered prudent to audit the changed policy and its implications. Therefore, the audit was extended to cover this period as well and audit was conducted during December 2022 and January 2023.

This audit has examined regulation and supply of IMFL and FL in NCT of Delhi in detail. Supply chain of Country Liquor has not been examined in detail in this audit from the point of view of licensing, sale / purchase etc. However, some portion of the same has been examined under confiscation activities and reported upon in Chapter VI. The audit methodology included scrutiny of records provided by the Excise Department and data from ESCIMS application. 59 Licensees were selected through random sampling method for test-check, out of which records relating to 46 Licensees were provided to Audit. Details are given in **Annexure I**.

A formal meeting with the Head of the Department was held on 30 June 2021 to discuss the scope of audit. Exit Conference to discuss the detailed observations was held on 10 June 2022 with representatives⁵ of GNCTD. Replies furnished by the

⁵ Secretary (Finance), GNCTD; Special Secretary (Finance), GNCTD; Commissioner, Excise Department; Joint Director (Finance), GNCTD and other members.

Government in June 2022 have been suitably incorporated in the respective paragraphs.

Replies of the Government for audit observations relating to roll out and implementation of Excise Policy 2021-22 have not been received despite repeated reminders. Principal Secretary (Finance), GNCTD intimated vide letter No. F.6 (30)/Ex/Audit/2022-23/1395 dated 2 June 2023 that “each and every facet of License Based Policy is under investigation by Central Bureau of Investigation (CBI) and Enforcement Directorate (ED) and furnishing comments by this Department may become prejudicial to the investigations”. As regards holding of Exit Conference to discuss findings relating to Excise Policy 2021-22, it was stated that “It may not be appropriate to have Exit Conference and offer any comments/interpretations at this stage which may become prejudicial to the ongoing investigations”. The reply was reiterated by the Department vide letter dated 6 November 2023. It is also pertinent to mention that, due to the ongoing investigations, the audit pertaining to this portion was conducted on the basis of limited files made available to Audit. The sufficiency and completeness of records pertaining to formulation and implementation of policy could not therefore be ascertained.

1.5 Structure of the Report

Audit observed several discrepancies in the way Excise Department monitored and regulated the supply of Liquor in NCT of Delhi. Total financial implication of the audit findings is around ₹ 2,026.91 crore. Audit findings have been structured in the following chapters:

Chapter-II covers the issues related to Excise Supply Chain Information Management System, a web based application of Excise Department to regulate supply chain of liquor.

Chapter-III covers the issues related to Licensing Policy and issue of licenses during the period 2017-18 to 2020-21.

Chapter-IV covers the issues related to Pricing Policy during the period 2017-18 to 2020-21.

Chapter-V covers the issues related to compliance of Quality norms during the period 2017-18 to 2020-21.

Chapter-VI covers the issues related to Excise Intelligence Bureau & Confiscation during the period 2017-18 to 2020-21.

Chapter-VII covers the issues related to working of Enforcement Branch of Excise Department during the period 2017-18 to 2020-21.

Chapter-VIII covers the issues pertaining to roll out and implementation of Excise Policy 2021-22.

