Chapter II

Excise Supply Chain Information Management System

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A robust and efficient Information Management System is a pre-requisite for an effective supply chain tracking, monitoring and regulation. Excise Department introduced a Monthly Stock Reconciliation (MSR) method which undermined inventory tracking, data accuracy and regulatory effectiveness through Excise Supply Chain Information Management System (ESCIMS) project. A large proportion of liquor was sold without scanning through ESCIMS. Excise Intelligence Bureau (EIB) module of ESCIMS was non-functional. The Project monitoring and Service Level Compliance monitoring was not satisfactory. Analytical value of the captured data was not exploited to draw insights for enforcement functions. Despite ten years since the start of ESCIMS, the Department continued to be dependent on the same Implementing Agency in the absence of an Exit Management Plan. The project of Excise Adhesive Labels to enhance security had not been implemented even after two and a half years of Cabinet approval.

2.1 Introduction

In February 2010, the Cabinet of Ministers, GNCTD decided that barcoding of all liquor sold in Delhi will be done to ensure that there is no smuggling in Delhi and also to trace the source of liquor in case of any untoward incident. It was decided to implement[6] the project namely Excise Supply Chain Information Management System (ESCIMS) through an Implementing Agency (IA) who was to be selected through a bidding process. ESCIMS covered barcoding of all liquor, inventory management and payment solution for all stakeholders (Excise Department, Wholesale licensees and Retail outlets) in its scope.

The entire investment for the project covering installation of hardware, development of software, customization for Excise Data Centre and Disaster Recovery Centre was to be borne by the IA. The return on investment made by the IA was to be paid at the rate quoted by the IA for each unit of data captured at Excise Data Centre.

Accordingly, the Excise Department signed (November 2011) an agreement with M/s Tata Consultancy Services (TCS), who was the lowest bidder, to deliver a technology enabled process of end-to-end tracking of liquor from its origin to point of sale, with proposed timeline of 78 weeks for implementation. This project was initiated as Pilot phase in February 2013 and was operationalised in December 2013. The agreement was for a period of seven years after December 2013 and could be extended for further two years.

[6] Via DBOOT (Design, Build, Own, Operate and Transfer) model

As per the agreement conditions[7], a barcode fee of 15 paise[8] for every barcode attached to bottles and liquor cases was to be levied on the L1/L1F[9] licensees and paid to the IA i.e. TCS. Only the barcodes captured and finally authenticated as either sold, returned, or broken were to be considered for payment to IA. This was not a revenue sharing agreement and the barcode fee was to be collected only to settle payment liability towards TCS.

The Department, however, found during the pilot phase that percentage of barcodes authenticated at retail vends was very low[10], and thus, initiated (December 2013) a 'stock-take-sold'/Monthly Stock Reconciliation (MSR) process at retail vends. 'Stock-take-sold' process was basically a reconciliation of logical inventory (inventory as per ESCIMS) and physical inventory, wherein the barcodes missing from the physical inventory were updated as sold in the system.

For implementation of ESCIMS, IA was paid through the barcode fee levied on L1/L1F licensees. From project implementation in December 2013 till November 2022, ₹ 112.00 crore (including Service tax/GST) had been collected from L1/L1F licensees on account of barcode fees, and a payment liability of ₹ 90.11 crore (excluding Service tax/GST) had been created for onwards payment to IA[11].

Agreement with IA was extended and the extended period also expired in November 2022. Thereafter, the project was to be transferred to the Department itself or to a replacement Implementing Agency, to be selected through fresh tender. Subsequently, three short extensions have been granted to TCS for project continuation till February 2024.

The process for hiring a consultancy firm for preparation of a Request for Proposal (RFP) for development of a new application software and a Detailed Project Report (DPR) was initiated in October 2019. After delays due to COVID pandemic, M/s Ernst &Young was hired as consultant and work was started in May 2022 after initial payment of ₹ 93.38 lakh (40 *per cent* of the cost - ₹ 2.34 crore). A timeline of six months was planned for completion of procurement phase (RFP and Bid management for selection of System Integrator (SI)). As of December 2023, draft DPR was prepared by the consultant, but was not approved by the competent authority, and subsequent tasks of RFP, Bid management, selection of SI, etc. were pending.

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7 Schedule VI

8 Excluding the Service Tax/GST at applicable rates

9 L1- Wholesale License for sale of India Made Foreign Liquor, L1F- Wholesale License for sale of Foreign Liquor

10 During the initial quarter (February 2013 to April 2013) of Pilot phase of ESCIMS the percentage of authenticated barcodes vs generated barcodes was 0.04 *per cent* which rose to only 30.27 *per cent* during the last quarter (September 2013 to November 2013) before Go-Live.

11 Actual payment to TCS was ₹ 97.55 crore (including Service tax/ GST) till October 2022.

Audit examined the implementation of ESCIMS and observed several deficiencies and irregularities, which are discussed in the following paragraphs.

2.2 ESCIMS's objective of end-to-end tracking of liquor not fulfilled

The objective of ESCIMS was end-to-end tracking of liquor. This was to be achieved through capture of barcodes, on liquor bottles and cases, at all levels of supply chain and ultimately authenticated at Point of Sale (POS) by scanning barcodes of individual Stock Keeping Units (SKU[12]). Barcodes were first to be generated by wholesalers who were charged a barcode fee. Later, the excise duty was paid at the time of generation of Import Permits and also barcodes were to be linked to the Import Permits by the wholesaler.

As of March 2021, 482.62 crore barcodes were shown as sold. Out of this, only 346.09 crore (71.71 *per cent*) were either scanned at POS or categorized (as damaged, expired etc.) after scanning the barcodes, while the remaining 136.53 crore (28.29 *per cent*) were shown as sold through 'stock-take-sold'/MSR Gap[13] exercise. From April 2021 to November 2022, a further 118.14 crore barcodes were shown as sold, wherein the percentage of sale recorded without scanning barcodes was 21.18 *per cent*. Thus, a large proportion of liquor was sold without scanning through ESCIMS system, defeating the objective of end-to-end tracing of liquor.

2.2.1 'Stock-take-sold' exercise coupled with weak attempts to enforce scanning of barcodes defeated the purpose of ESCIMS

During the pilot phase of ESCIMS, before the presentation of first invoice for payment to IA (March 2014), it was observed that scanning percentage was low at retail vends/POS. To address this issue, stock-take-sold process/ MSR Gap was initiated at vends which was a monthly/ bimonthly reconciliation of stock.

The Department continued to use 'stock-take-sold' exercise even after seven years of implementation of ESCIMS. The objective of ESCIMS i.e., end-to-end tracking of liquor, was thus defeated.

The percentage of bottles sold without scanning remained between 14.48 *per cent* and 48.41 *per cent* during the period from 1 April 2017 to 15 November 2021 as shown in **Chart 2.1**.

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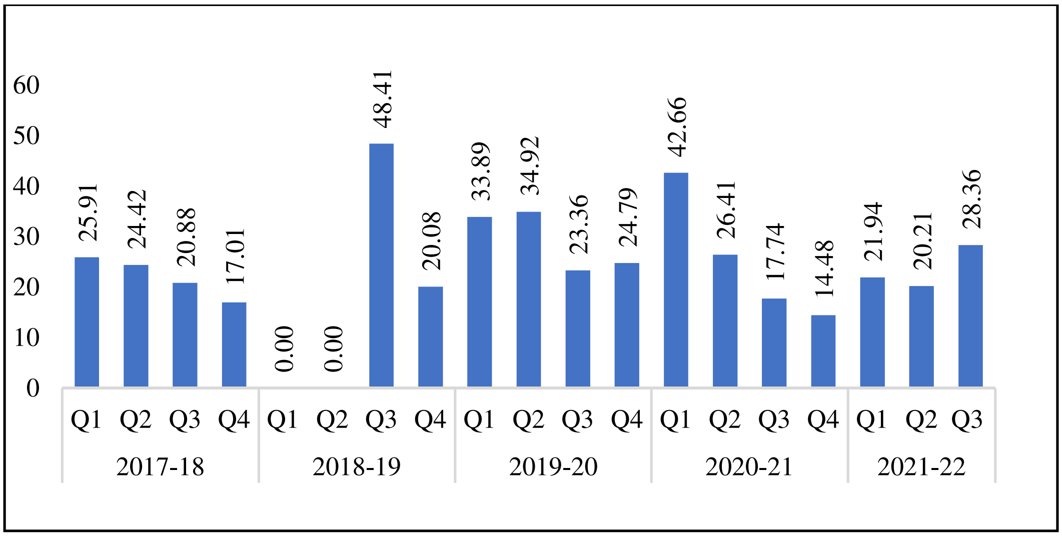
[12] SKU- Stock Keeping Unit is a distinct type of item for sale, purchase, or tracking of inventory (E.g., in case of liquor- a particular brand, size (ml), container type (can/bottle) together would constitute a unique SKU)

[13] MSR Gap/ Stock-Take-Sold- Terms used to refer to the stock marked as sold despite non scanning of the related barcode. It was done by scanning all the stock present at a retail vend, at the end of month, and marking the missing stock as MSR Gap, assuming that since these were not found in vend as per the ESCIMS logical Inventory status, they must have been sold.

Chart 2.1: Percentage of Stock sold without scanning[14]



The Department in its reply (June 2022 and March 2023) stated that the objectives of ESCIMS had been fulfilled, as the "revenue had increased year on year and MSR gap has decreased ever since its introduction (except COVID years and transition to New Policy and back to Old Policy again)". The Department had issued regular instructions to retail vends for complete scanning and also trainings were imparted in this regard. The reply further mentioned that penal provisions were formulated vide order dated 8 August 2020. Also, future Transport Permits were being stopped in case of default. The reply mentioned that there was no revenue loss to the Department and ESCIMS has been able to prevent hooch tragedy. It further mentioned that the learning through implementation of ESCIMS had been noted and the Department was moving towards ESCIMS 2.0.

The reply is not acceptable because even though Excise Department issued circulars (January 2018 and April 2019) mandating scanning of barcodes, however, it framed specific penal provisions for not complying with its circulars only in August 2020. End-to-end tracking of all liquor sold could not be achieved even after seven years. Initial circulars and training brought little improvement as percentage of liquor sold without scanning ranged between 14.48 *per cent* and 48.41 *per cent* during the period April 2017 to 15 November 2021.

2.2.2 No efforts made to identify repeated defaulters through ESCIMS data

Audit analysed sales data of liquor from ESCIMS for the calendar year 2019. The share of various retailers in sale of liquor is shown in **Chart 2.2** and entity-wise quarterly MSR Gap is shown in **Table 2.1**.

[14] MSR Gap exercise was not done during March to September 2018, which also attributed to abnormally high MSR gap in 3rd quarter of the year 2018-19.

Chart 2.2: Liquor sale by Volume (Number of bottles)

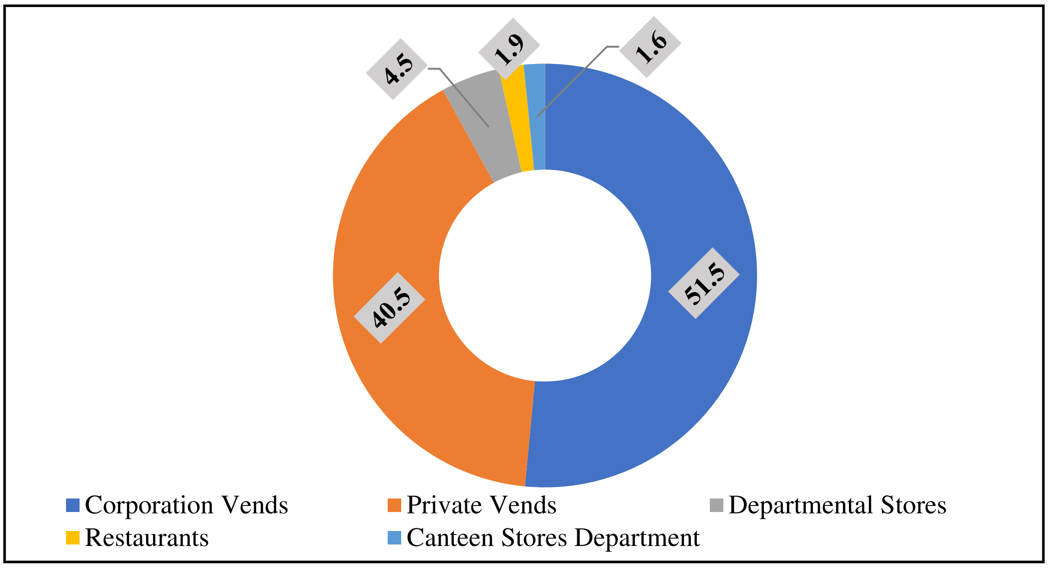


Table 2.1: Entity-wise MSR Gap Report in the Year 2019

(in *per cent*- rounded off)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Grand Total
Delhi State Civil Supplies Corporation Ltd.	36	44	36	27	36
Departmental Store	17	30	25	32	27
Delhi State Civil Supplies Corporation Ltd.	25	29	16	16	22
Delhi State Industrial and Infrastructure Development Corporation	32	66	43	34	45
Delhi Tourism and Transportation Development Corporation	25	38	30	25	30
Private Vend/ shopping malls/ Airport Duty Free Shop	15	28	44	23	29
Grand Total	**23**	**37**	**37**	**25**	**31**

It can be seen from **Table 2.1** that overall MSR Gap was 30.87 *per cent* during the year 2019. However, it ranged from 45 *per cent* in Delhi State Industrial and Infrastructure Development Corporation (DSIIDC) vends to 22 *per cent* in Delhi State Civil Supplies Corporation Ltd. (DSCSC) vends. Second and third quarters of 2019 showed unusually high MSR gap for government as well as private vends.

Audit also analysed ESCIMS sales data of liquor bottles for the calendar year 2019 for all entities. Instances were revealed where percentage of sale without scanning were very high ranging between 70 and 98 *per cent* during certain periods of the calendar year 2019. Details are given in **Annexure II**.

Further analysis of sales data at a granular level also showed an unusually wide variation in reported sales and scanned sales between various months in respect of some retail vendors, as discussed below:

i. In case of one vendor[15], only 3.6 lakh bottles were scanned, whereas, 13.69 lakh bottles were sold without scanning (shown as MSR gap) during six months (July – December) of the year 2019. Out of these 13.69 lakh bottles, 9.94 lakh bottles were shown as MSR gap in one month alone.

ii. It was observed that sale was through scanning during certain months, while during other periods, majority of sale was done without scanning. For example, in case of one case[16], sales data of May 2019 showed that 9.59 lakh bottles were sold via scanning, with zero MSR gap reported. However, for the last six months of the calendar year 2019, average MSR gap reported was at 83 *per cent* of total sale.

iii. Very high MSR gap (70 *per cent*) was reported in third quarter for one vendor[17] whereas it had zero MSR in the first quarter. The data also showed wide monthly sales variation, as June showed a sale of 8.15 lakh bottles against average sale of 1.06 lakh bottles during the first quarter.

Sale without scanning compromises the accuracy of the sales data in ESCIMS. ESCIMS provided an opportunity to the Excise Department to analyze the data available and identify the individual retailers, where scanning of barcodes was repeatedly poor. However, no attempt~~s~~ to identify such individual retailers, through analysis of ESCIMS data by the Department was found by Audit.

Government in its reply stated that Excise Department had levied penalties against above licensees. However, no documentary proof (penalty order, challan, reason for penalty, period of penalty etc.) was attached with the reply and the same could not be verified through ESCIMS portal either.

2.2.3 Unused barcodes prone to misuse

During the period from February 2013 to November 2013, i.e., before the ESCIMS project went Live, 44.64 crore barcodes were generated by wholesale licensees. Out of these, only 18.94 crore barcodes were tracked and shown as sold till March 2021. Out of the barcodes shown as sold, 9.39 crore barcodes were scanned, and 9.55 crore barcodes were marked as sold using the process of Stock-take-sold. Hence, more than 25.70 crore barcodes generated were not accounted for as most of these barcodes were either shown as received at warehouses or dispatched to vends (in transit), but remained untracked thereafter.

Further, additional 13.90 crore barcodes were generated and had been reported as unutilized and archived till March 2017. Fee for these barcodes was not charged from wholesale licensee and these were not linked to Import Permits.

Thus, these barcodes generated by the system but finally unaccounted for could be used to disguise Non-Duty Paid Liquor (NDPL) as Duty paid liquor resulting in

[15] Sl. No. 5 of Annexure II.
[16] Sl. No. 7 of Annexure II.
[17] Sl. No. 10 of Annexure II

loss of revenue to the State. Further, as the barcodes itself are not printed on secure labels, this presents a very high risk that the barcodes on the bottles, found during inspection, are actually duplicates and thus a cover for NDPL.

Government in its reply stated that as on date, the barcodes once generated become archived after a period of 90 days if not dispatched from the distillery. The barcodes which become archived cannot be dispatched again.

The reply is not acceptable as the barcodes generated and printed, though archived, can be used to mask non-duty paid liquor. Moreover, the reply is silent regarding barcodes which were already dispatched to warehouses or to vends (in transit) but remained unused/untracked thereafter.

The continuation of ad-hoc arrangement of barcode issue, tracking and accounting, coupled with weak enforcement of scanning and not utilising data to identify defaulters, defeated the objective of end-to-end tracking of liquor.

2.2.4 Risks associated with authenticating sales without scanning of barcodes

Due to incomplete scanning of barcodes of liquor, end-to-end tracking of liquor was not possible. The practice of 'Stock-take-sold' exercise (Monthly Stock Reconciliation) allowed by the Excise Department vitiated the purpose of implementing a Supply Chain management system.

Hotels, Clubs and Restaurants are supposed to purchase liquor exclusively from wholesale licensee (L1), which incurs an additional duty of 20-30 *per cent* (of wholesale price- to be paid by HCR) vis-a-vis liquor sold at retail vends. If HCR illegally sources liquor from retail vends, then it would lead to a loss of additional excise duty.

Audit test checked records of 11 enforcement cases relating to nine Hotel licensees. In these cases, out of 548 suspected bottles recorded (in ESCIMS) as "sold at other Vends", 298 were found at HCR. These retail vends whose bottles were found at HCR were not issued Show Cause Notice, nor a thorough investigation was carried out to ascertain whether the missing stock was "unsold" or "marked as MSR gap" by the vend. Scanning would have revealed the time of issue and helped in fixing responsibility.

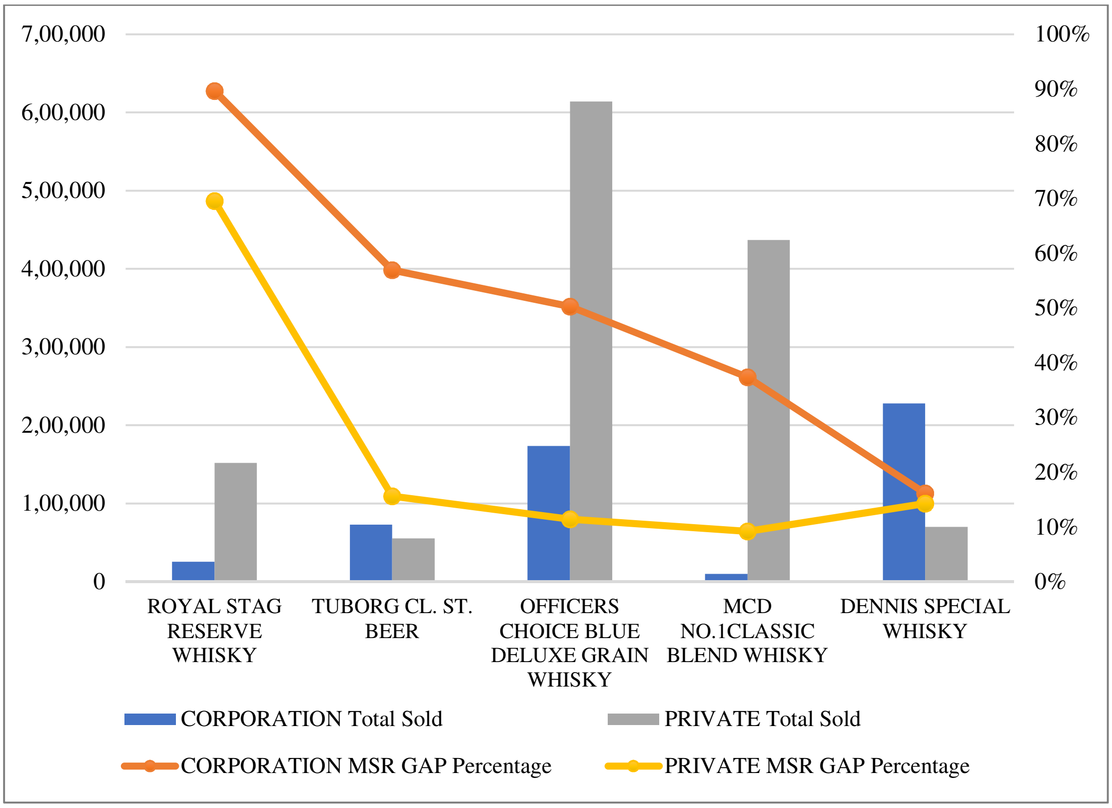
2.2.5 Vend Sales Data Analysis

For analysis, a sample of total of 36 vends was chosen (18 each from Private and Government Corporations, lying in proximate areas). Sales data, in terms of number of bottles sold, for the months of June 2019 and January 2020 was taken from all vends to smoothen any seasonal variations.

(i) Risk of Diversion of Liquor to unauthorized channels

Five of the highest selling brands in Delhi, with more than one *per cent* market share, were considered and substantial variation in MSR Gap (Bottles not scanned before sale and later deemed sold) was observed across brands and across entity ownership (Corporation Vends Vs Private vends), as shown in **Chart 2.3**. Some brands despite high sales figure had low MSR gap, while some brands, despite low sales figures had abnormally high MSR gap.

Chart 2.3: Brand Wise and Entity wise MSR Gap



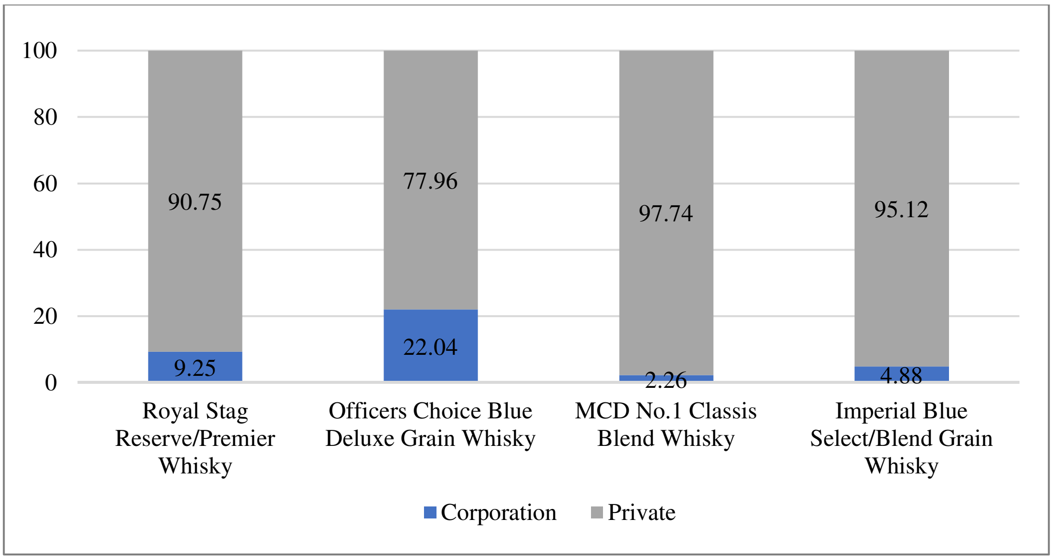
Data shows that scanning of certain brands was not carried out and the sale volume had no correlation to the MSR gap registered for that brand. Review should be carried out by the Excise Department to negate the possibility of diversion of certain brands to unauthorized channels.

(ii) Risk of Brand pushing by Government Corporations[18] vends

The sales figure for four of the highest selling brands of whisky, in the 18 sample government vends and 18 sample private vends, was analyzed. None of these brands figured in the Corporations' top selling brands and invariably all of these figures in the private sector vends as top selling brands.

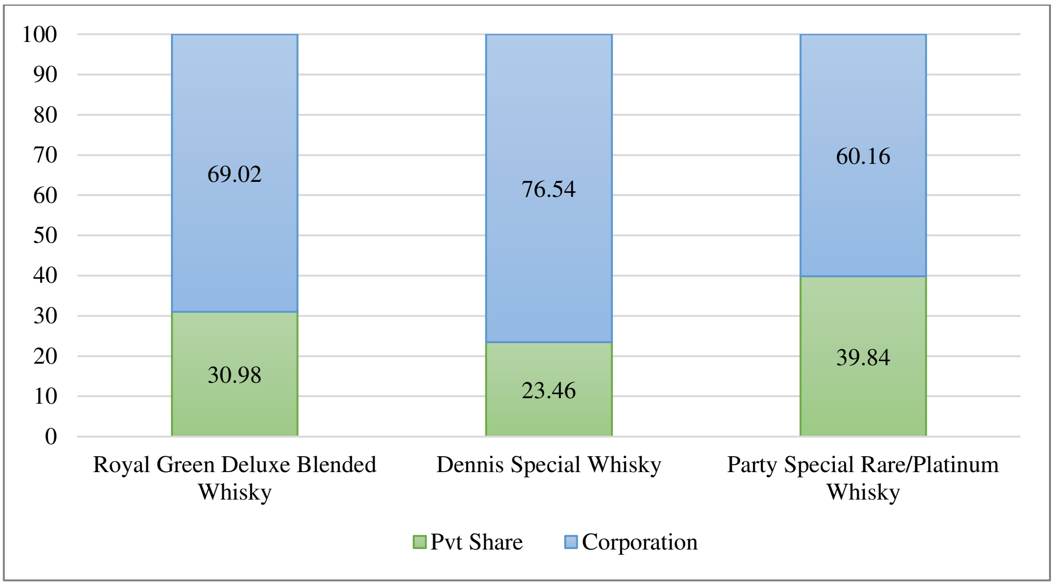
[18] DTTDC, DSIIDC, DSCSC and DCCWS

Chart 2.4: Relative Market Share in sample vends (Private vs Govt. Corporation) for "Four top selling Brands in India"



This indicates that the Corporation vends' sales was not adequately representative of the normal demand in terms of brand preference. Subsequently, comparative sales was analyzed by audit for the brands which were popular at Corporation vends, and it was noticed that few brands which were popular in Corporation vends had limited appeal at private vends, as shown in **Chart 2.5**.

Chart 2.5: Relative Market Share in sample vends (Private vs Govt. Corporation) for "Top selling Brands in Corporation vends"



This analysis indicates the need for a detailed review by the Excise Department that Corporation vends were not giving undue preferential treatment to any particular brand(s).

(iii) Risk of brand pushing by Private Vends

Analysis of the data of sample vends revealed that there was an apparent preferential treatment by private vends to certain brands. From data analyzed for 10 highest selling brands at 18 private vends, the following was observed:

- Goa Spirit of Smoothness Whisky had a total sale of 1.79 lakh bottles, of which two vends alone sold 81 *per cent* and 14 *per cent* of the total units.
- Two vends sold zero units of a Kingfisher Strong Beer while it had an average sale of more than 50,000 units for other vends.
- Three vends alone sold only 67 of the total of 70,053 units of Dennis Special whisky brand.
- One of the popular brands of whisky (MCD No. 1 Classic Blend Whisky) had an average sale of 24,000 bottles per vend and 27 *per cent* of the total sale across Delhi, was sold by one vend alone.
- Another popular brand – Officers Choice Blue Deluxe Grain Whisky had an average sale of more than 38,000 bottles per vend, while two particular vends sold zero units of the same.

The above analysis by Audit underscores the need for detailed and in depth review by the Excise Department to rule out the risk of unauthorized diversions and brand pushing.

Recommendations

2.1: Real time end-to-end barcode tracking should replace the outdated MSR-gap method, while Secure barcode labels should be implemented swiftly to prevent barcode duplication and misuse. Responsibility needs to be fixed for lack of compliance and penal action may be taken.

2.2: Data Analytic tools and Artificial Intelligence algorithms should be deployed to help in analysis and automatic generation of red flags for anomalous data and easy identification.

2.3 Undue benefit of ₹ 24.23 crore to Implementing Agency

Implementing Agency was entitled to payment only for barcodes authenticated by scanning while sale at Point of Sale (POS). From project inception till November 2022, this amounted to ₹ 65.88 crore[19], whereas an actual payment liability of ₹ 90.11 crore, to IA, was created during the same period. The difference amounting to ₹ 24.23 crore (excluding Service Tax/GST) was considered for payment, for bottles considered as sold through stock-take-sold exercise, i.e., without actual authentication at POS.

[19] 346.09 crore barcodes were scanned till March 2021, and 93.12 crore barcode were scanned between April 2021 to November 2022, each barcode with 15 paise payment liability

Audit observed that in spite of poor scanning and resultant ineligibility for payment initially, a Departmental Committee had recommended ad-hoc payment to IA for initial three months even for the stock-take-sold category. The matter was referred to Finance Department which approved (May 2014) the payment without addressing the issues raised. Thereafter, Excise Department again sought (April 2015) opinion/approval of Finance Department to which Finance Department ordered a reconciliation of barcodes generated vs. sold. Reconciliation was not carried out satisfactorily, but the payments continued.

The issue of payment to IA for the stock-take-sold category was not reconsidered and the Department continued release of payments to the IA even for the stock-take-sold category, i.e., the bottles/cases which were shown as sold without scanning.

Audit noted that the release of payment to IA for the un-scanned bottles was not as per the terms of the contract which resulted in undue benefit to the IA.

The Government, in its reply, quoted Schedule VI of the Master Services Agreement, stating that payment is released to IA based on "data captured" in data centre and that the payment did not depend on final scanning during sale.

The reply is not acceptable as it ignores Clauses C (i) to C (iv) of Schedule VI which outlines the payment eligibility for data captured. Schedule VI clearly mentions that the data captured in data centre has to be authenticated (sold at POS, marked as damaged, expired etc.) before the IA is eligible for payment for the same. The decision to pay for MSR-gap was contrary to schedule VI.

2.4 EIB module of ESCIMS not utilised

As per the Section 2.1 of the Master Service Agreement (MSA), Phase-II of the project required implementation of a module for Excise Intelligence Bureau (EIB). Audit, however, observed that the module was completely dysfunctional containing no data.

The Government in its reply stated that data regarding seizure of illicit liquor was being maintained (in soft copy and hard copy) and analyzed as per need in the Department. Also, the role of ACP (EIB) and Inspector (EIB) had been arranged in ESCIMS and proper utilization would be made in future.

EIB is one of the most important aspects of regulatory function of Excise Department and the data gathered could have been utilized to assist the Department with actionable intelligence in planning EIB/Enforcement raids based on mapping of smuggling prone areas, planning action on brands more prone to being smuggled, coordination with other state Excise Departments to check smuggling through information on source/ origin of NDPL etc.

Thus, Excise Department did not leverage the module to prevent revenue leakage or assist its regulatory function.

Recommendation 2.3: EIB module should be utilized to generate actionable intelligence for more effective enforcement function.

2.5 Provisions of Service Level Agreement (SLA) not complied

As per Schedule VIII of Master Service Agreement, SLA compliance Reports were to be prepared by the Excise Department to assess performance of the IA. These would form an essential metric for decision on payments to the IA.

Audit, however, observed that these SLA compliance Reports were prepared and submitted by the IA itself and were accepted by the Department without detailed scrutiny. Moreover, SLA were to be detailed and reviewed[20] annually, which was not done.

Also, some critical SLA metrics like Data Accuracy were not reported upon at all. As per the MSA, Data Accuracy was to be measured daily and reported on weekly basis with target value of 99.99 *per cent*. Project Monitoring Unit had also observed (April 2014) that a subsequent Standardisation, Testing and Quality Certification (STQC) audit would validate the Data Accuracy. No such 3rd party Audit Report was furnished to audit. Audit observed various examples of inaccuracies in ESCIMS data, which were never reported in SLA Reports prepared by IA. This has implications on the payment made to IA. If the metrics had not been complied and submitted, then recovery (amounting to n*0.1 *per cent* of the Performance Bank Guarantee for n successive months) was liable to be charged from the IA.

Audit noted that on several instances, bottles/cases found with one licensee were present with another licensee as per the ESCIMS data. In such cases, no system red flags were generated or data discrepancy pointed out. Audit further noticed from Excise Department's order dated 17 August 2021 that duplicate Transport Permits were generated by ESCIMS system.

Notably, an instance of hacking of ESCIMS was noted during July 2019. The file neither mentions its impact on the relevant SLA (portal security) nor the cause of such breach. Audit inquired the vulnerabilities leading up to the security breach and whether the vulnerabilities were patched up later, but no reply was furnished.

The Government in its reply only mentioned the SLA compliance parameters from MSA and stated that compliance was being monitored regularly.

The reply is not satisfactory as access to SLA monitoring tool was not provided to Audit for independent verification. Detailed monthly reports were also not furnished to support the claim. Other issues pertaining to Data Accuracy and preparation of SLA report by IA itself were not commented upon.

Recommendation 2.4: Service Level compliance should be ensured rigorously and monitoring should be done by the Department.

[20] as per 1.3(iii) of the schedule

2.6 Absence of an Exit Management Plan

An Exit Management Plan for transfer of the project and its assets, after the contracted duration[21] with TCS, was to be prepared and submitted by IA, within 90 days from effective date of agreement, and to be redrafted annually thereafter, as per Section 1.2, Schedule II of MSA.

The Department could not provide the Exit Management Plan. In the absence of Exit Management Plan, Excise Department was not able to take over the Supply Chain Management function independently, nor was able to give it to another replacement Implementing Agency.

ESCIMS was a DBOOT project, which essentially means transferring the asset to the Department. The MSA did not have specific provisions for hardware and software obsolescence. Thus, after ten years of functioning, no tangible/intangible asset was created for the Department.

MSA also had a clause on the obligation of IA to train the personnel of Project Director (Department) as per need. However, the Department failed to produce any document regarding the progress of Capacity Building and knowledge transfer.

In the absence of updated Exit Management Plan coupled with the lack of capacity building steps, transfer of system ownership to the Department could not materialize.

Government in its reply stated that Exit Management Plan has been furnished to the Department on 14 March 2022. However, copy of Exit Management Plan was not furnished to Audit.

Recommendation 2.5: Exit Management Plan should be updated to enable knowledge transfer from Implementing Agency and system ownership by the Department.

2.7 Lack of monitoring after the Role of PMU was taken over by the Department

In December 2012, the Excise Department had appointed National Institute for Smart Governance (NISG) as the Project Monitoring Unit (PMU) for a period of three years (later extended till June 2016). NISG, as PMU, was responsible for planning and monitoring of the project. Subsequently, the Excise Department assumed (July 2016) the role of PMU from NISG.

Initially, NISG was appointed as the PMU to facilitate the management of governance procedures as per schedule IV of MSA. It mainly covered the monthly documented meetings regarding assessment of monthly performance reports, change control, disputes resolution etc. After July 2016, the Department assumed

[21] The Contract with TCS i.e. Implementing Agency was for an initial duration of 7 years which could be extended for further 2 years on the same terms. Thereafter the project was to be transferred to the Excise Department or to a different Implementing Agency.

the role of PMU from NISG. No minutes of meetings were provided for the audit period. In the absence of a functional PMU, the efficiency and effectiveness of the service provider could not be ascertained. This also hampered the achievement of project objectives as envisioned in the agreement.

Deficient project monitoring coupled with absence of Exit Management Plan has led to the continuing dependence of the Department on the vendor i.e. Implementing Agency.

The Government accepted the audit observations and in its reply stated that Excise Department had been functioning under a severe lack of IT cadre officers and a proposal for filling vacant posts and creation of posts had already been sent to cadre controlling authority in September 2020.

Recommendation 2.6: An efficient Project Monitoring Team must be put in place to make the project sustainable and useful in the long run.

2.8 Failure to implement Excise Adhesive Labels

Despite the failure of ESCIMS to meet its intended objective, evidence of misuse and duplication of labels, the Department did not proactively initiate process to address the shortcomings and make the system robust.

Excise Adhesive Labels are secure labels with advanced security features thus ensuring the authenticity, traceability and security aspects of supply. Ministry of Finance, Government of India (GoI), had initiated a proposal for providing the services of Security Printing Press for implementing Excise Adhesive Label (EAL) in Delhi. The same was communicated to the Excise Department via letter (dated 19 March 2019). After the receipt of this letter, the Excise Department took up this issue. Finally, the approval of Cabinet (30 July 2020) for introduction of Excise Adhesive Labels to avoid tax evasion and plugging leakages in supply chain was obtained after a delay of one year and three months.

It was also noticed that the Department independently involved (September 2019) IIT Kanpur (National Centre for Flexible Electronics), for providing an additional security feature to be used along with the EALs. IIT Kanpur offered a technology which was patented by TransPacks Technologies. However, no sufficient justification was offered as to how the incorporation of this technology would be an improvement over and above the EALs. Moreover, the incorporation of this feature could also lead to cost escalation for licensing and technology transfer and need for separate cloud based solution for storage of high resolution image of 3D tags.

An agreement was signed between Security Printing Press (SSPH), Hyderabad, a constituent of SPMCIL[22] and Excise Department on 7 September 2020 for printing and supply of EALs which included a condition for collaboration with IIT Kanpur for the purpose of using that technology. However, during the dry runs (last

[22] Security Printing and Minting Corporation of India Limited, Department of Economic Affairs, Ministry of Finance, Government of India

conducted in April 2022) involving both the technologies, issues pertaining to hardware incompatibility, size and design of labels were observed but could not be reconciled.

Thus, even after a lapse of 19 months (till April 2022), from signing of agreement, the final design could not be firmed up and project could not be implemented even after a considerable time lapse since Cabinet approval. Audit also noticed that no progress was recorded on file, regarding the implementation of EAL thereafter. The initial terms regarding pricing lapsed at the end of year 2022-23.

Regarding the failure of implementation of EAL, the Department, in its reply, stated that the delay was owing to the COVID 19 pandemic, implementation of New Policy and subsequent investigations into the New Policy by central agencies. It further mentioned that the learning that has been achieved since 2010, has resulted in the decision in favour of EAL. However, the issue of not proactively taking up decision to implement EAL was not addressed. Moreover, no progress regarding the implementation of the project could be noticed (March 2023). As a result, the objective of authenticity, traceability and security aspects of the supply side of liquor through EAL couldn't be achieved.

2.9 Conclusion

Excise Supply Chain Information Management System (ESCIMS) was implemented primarily to enable more efficient regulation via end-to-end tracking of liquor. However, implementation of barcode based tracking of liquor was not effective. Attempts to enforce complete scanning were weak and no efforts were made to identify defaulters by analysing anomalous reporting of sales data. The use of MSR-Gap method for inventory reconciliation proved to be the weakest link. Apart from adversely affecting the data quality, it defeated the basic objective of end-to-end tracking since a large portion of stock was assumed to be sold, without being authenticated by scanning.

There had been insufficient participation of the Department in managing and monitoring ESCIMS. Service level compliance was inadequately monitored. The project monitoring function had been dismal after the Department took over this role. EIB module had not been utilized to generate actionable intelligence to prevent revenue leakage. Lack of an Exit Management Plan put the Department in a vendor lock-in situation. Contrary to the planned DBOOT project implementation model, the Department continued to be dependent on the same Implementing Agency team. The project of Excise Adhesive Labels to enhance security of labels could not be implemented even after two and a half years of Cabinet approval.