

2.2 Performance Audit (IT) on Computerisation of Commercial activities by Rajasthan State Ganganagar Sugar Mills Limited

Executive Summary

Rajasthan State Ganganagar Sugar Mills Limited was incorporated (1 July 1956) as a wholly owned Government company with the main objectives to manufacture sugar from sugarcane and sugar beet and to trade in sugar, sugarcane, sugar beet and molasses; produce and raise sugar cane, sugar beet and other crops; and carry on the business as distillers, manufacturers and dealers in Rectified Spirit, Country Liquor and Indian Made Foreign Liquor.

The Excise Department, GoR outsourced (June 2010) the work of Integrated IT Services to M/s Trimax IT Infrastructure & Service Limited, Jaipur (Service provider) at a cost of ₹ 8.21 crore. The Service provider was to implement an integrated IT system in the Excise Department, Rajasthan State Beverages Corporation Limited and Rajasthan State Ganganagar Sugar Mills Limited (Company).

The electronic data for the year 2013-14 and 2014-15 was collected and was analysed through Computer Assisted Audit Techniques using Interactive Data Extraction and Analysis software.

Analysis of the data disclosed serious flaws in the IT system which led to sale of country liquor on dry days, acceptance of duplicate permit numbers, challans numbers and other deficiencies.

General Controls

The Company did not have an IT policy and IT security policy as regards to security of IT assets (software, hardware and databank). In absence of IT security policy, modifications made in the data base relating to the retailers, depot location, any deletion or editing in invoice and challan, etc. by the outsourced agency were not subjected to any supervisory review periodically to ensure that the changes were authorised by the competent authority. There was no business continuity/disaster recovery procedure to avoid any untoward incident. Disaster recovery site at State Data Center Jaipur was not set up by the service provider. Further, the system was also deficient with respect to physical and logical security.

System Design Deficiencies

The billing software was not designed in a robust manner to ensure validation of input advice and output results as per the business rules. Our analysis disclosed that the design deficiencies and inadequate input controls led to irregularity in approval of label and sale of country liquor without testing.

Mapping of business rules

The integrated system lacked mapping of business rules in accordance with the Excise Act/Rules which not only led to violation of the Excise Act/Rules but also statutory violation in sale of country liquor/issue of permit on dry days/election dates and sale of country liquor beyond working hours and on non-working days.

Input Control and Validation Checks

Input control minimizes the possibilities of error or irregularities in computerised systems due to incorrect or irregular input. Input control and validation checks were deficient and the system accepted the same permit and challan numbers more than once. There were instances of sale of liquor beyond the validity of permit or without permit, acceptance of cash from the licensees in violation of policy, discrepancies in material inward slip, short receipt of quantity of country liquor against the ordered quantity and irregular change of retailers' depot, etc.

Internal Controls

The existence of an adequate system of internal control minimises the risk of errors and irregularities. Our analysis disclosed that the internal control mechanism was deficient and it led to sale of unapproved brand of country liquor, illegal transactions and non-reconciliation of Company's data with the data of the Excise Department.

Recommendations

The Performance Audit includes recommendations for formulating and implementing a clear and comprehensive IT policy and its periodical review according to the business environment; carrying out suitable modifications in the system design to avoid any statutory violation as regards to issue of permit and sale of liquor on dry days; capturing the location of depot, quantity of active/inactive stock and date of bottling to ensure timely testing of country liquor; ensuring mapping of business rules in accordance with the provisions of the Excise Act/Rules; building adequate input controls and validation checks to overcome the deficiencies and strengthening the internal control mechanism to ensure proper monitoring of the sale of country liquor and reconciliation of Company's data with the data of Excise Department to avoid any leakage of revenue.

Introduction

2.2.1 Rajasthan State Ganganagar Sugar Mills Limited (Company) was incorporated (1 July 1956) as a wholly owned Government company with the main objectives to manufacture sugar from sugarcane and sugar beet and to trade in sugar, sugarcane, sugar beet and molasses; produce and raise sugar cane, sugar beet and other crops; and carry on the business as distillers, manufacturers and dealers in Rectified Spirit, Country Liquor and Indian Made Foreign Liquor.

Financial and Operational results

- * The Company earned net profit of ` 14.53 crore and ` 10.44 crore during 2012-13 and 2013-14 respectively. The Liquor division earned profit of ` 33.69 crore and ` 35.18 crore during 2012-13 and 2013-14 respectively.
- * Sugar factory incurred losses of ` 19.16 crore and ` 24.74 crore during 2012-13 and 2013-14 respectively. The main reasons for increased losses were low capacity utilization, higher cane price and increase in fuel expenses.
- * Total sale of country liquor during 2013-14 and 2014-15 was 16.41 crore and 19.25 crore Bulk Litre (BL) respectively, out of which 6.55 crore BL (39.91 *per cent*) and 7.76 crore BL (40.31 *per cent*) country liquor was manufactured by the Company during 2013-14 and 2014-15 respectively whereas 9.86 crore BL and 11.49 crore BL country liquor was supplied by private distillers/bottlers during the same period.

Organisational set up

2.2.2 The Company works under the administrative control of the Excise Department of Government of Rajasthan (GoR). The management of the Company is vested in a Board of Directors (BoD) and as on March 2015 there were eight Directors on the Board of the Company. The Secretary, Finance Department (Revenue), GoR is the ex-officio Director-in-charge of the Company.

Information Technology Activities in the Company

2.2.3 The Excise Department, GoR outsourced (June 2010) the work of Integrated Information Technology Services to M/s Trimax IT Infrastructure & Service Limited, Jaipur (Service provider) at a cost of ` 8.21 crore. The Service provider was to implement the integrated system in the Excise Department, Rajasthan State Beverages Corporation Limited¹ (RSBCL) and Rajasthan State Ganganagar Sugar Mills Limited (Company).

The Company was required to bear 20 *per cent* of the total estimated cost and the Service provider was to procure and install hardware equipment along with preparation of web based application software for carrying out day-to-day

1 A Government of Rajasthan company.

operations in the Company's Head office/Unit Offices/Reduction Centre/Depots for a period of five years. Further, the Service provider was responsible for maintaining the integrity, security and backup of the data and applications.

The work order envisaged preparation of 24 modules² using Oracle Relational Database Management System for integration of all the activities of the Company. As on December 2014, out of 24 modules, 13 modules were in operation and the results were being used for accounting purpose. The system had client server architecture with server located at Udaipur. The head office of the Company and all its Units/Depots are linked with the main server.

Scope of Audit

2.2.4 The Performance Audit covers analysis of the computerised data for the period 2013-14 and 2014-15. Besides, audit scrutiny also involves cross verification of records related to trading and inventory management of sugarcane and country liquor kept at the Head Office, Unit Offices and Depots of the Company.

Audit objectives

2.2.5 The Performance Audit (IT) on the computerisation of the commercial activities by the Company was carried out to assess whether:

- * The Company prepared and implemented Information Technology (IT) policy in accordance with the business needs;
- * The Company ensured that the IT system was efficient and effective to cover the business risks in modern IT environment; the business/Government Rules and Regulations were efficiently mapped; completeness/correctness of the data was ensured and the manual records were reconciled with electronic data; and
- * Effective internal control system and internal checks existed to ensure proper monitoring of the IT system and safety of the IT assets (data, software and hardware).

2 (1) Country Liquor and Distribution, (2) Production and supply, (3) Store Management, (4) Liquor Receipt including Batch Management, (5) Inventory Management, (6) Order for Supplies, (7) Supply schedule as per RSBCL Lines, (8) Tax collection at Source as per RSBCL Lines, (9) Financial Accounting, (10) Payment of Country Liquor to Suppliers on Sale basis instead of Consignment basis, (11) Bank Data uploading for Bank Reconciliation, (12) Purchase as per RSBCL Lines, (13) Supplier Rate Approval, (14) Cane Development, (15) Cane Crushing/Sugar/By products Production, (16) Demurrage Calculation, (17) Debit Note/Credit Note, (18) Invoice cum Excise Permit including Batch Management, (19) HR and Payroll, (20) Sugar Factory specific *i.e.* Main Gate & Security Department and Labour Welfare Section, (21) Sugar and By products sales, (22) Engineering, (23) Power Generation and Sales and (24) Plant Maintenance.

Audit criteria

2.2.6 The audit criteria derived from the following sources were adopted:

- * The terms and conditions of the agreement, work order and other directions issued to the software developer/implementing agency;
- * Excise Policy for the years 2013-14 and 2014-15;
- * Accounting Policy, Business Rules and procedures followed by the Company;
- * Rules, notifications and guidelines issued by the Excise Department of the GoR;
- * Management Information System (MIS), Manuals and other orders/circulars issued by the Company and;
- * Best IT Practices.

Audit Methodology

2.2.7 The methodology adopted for attaining audit objectives with reference to audit criteria consisted of explaining audit objectives to the Government/top Management of the Company during entry conference held on 13 February 2015. The electronic data for the year 2013-14 and 2014-15 was collected and analysed through Computer Assisted Audit Techniques using Interactive Data Extraction and Analysis (IDEA) software. Questionnaires were utilised to elicit information from the Company to evaluate controls of application software and to ascertain completeness, regularity and consistency of data. Audit scrutiny involved analysis of data, raising of audit queries, review of records, interaction with the Company/agency personnel, holding of exit conference and issue of Draft Performance Audit Report to the Government/Management for comments.

The Performance Audit Report has been finalised considering the views of the Government/Management during exit conference (14 October 2015) and replies (October 2015) of the Government to the draft Report.

Audit findings

2.2.8 Audit findings based on scrutiny of records, electronic data and review of software mainly highlights deficiencies in general controls, system design, mapping of business rules, application control and internal control mechanism. These findings have been discussed below:

General Controls

2.2.9 General controls include controls over data centre operations, system software acquisition and maintenance, access security, and application system development and maintenance. They create the environment in which the application systems and application controls operate. Categories of general

control include organisation and management controls (IT policies and standards), IT operational controls, physical controls (access and environment), logical access controls, acquisition and program change controls and business continuity and disaster recovery controls.

Lack of formulated and documented IT policy and IT security policy

2.2.10 A formulated and documented IT policy is essential to assess the time frame, key performance indicators and to carry out cost benefit analysis for developing and integrating the various online commercial activities of the Company.

We noticed that the Company had not formulated a formal IT Policy. Further, the Company had also not constituted a planning/steering committee with clear roles and responsibilities to monitor each functional area in a systematic manner. The Company also did not have an IT security policy regarding the security of IT assets, its software, hardware and databank.

In absence of IT security policy, modifications made in the data base relating to the retailers, depot locations, any deletion or editing in invoices and challans, *etc.* by the outsourced agency were not subjected to any supervisory review periodically to ensure that the changes were authorised by the competent authority.

In absence of an effective IT security policy with clear role and responsibilities of the officers of the Company, the Company failed to monitor the modifications made in the master data and assure itself that no unauthorised changes were made in the database.

The State Government while accepting the facts stated (October 2015) that IT policy and IT security policy had been documented and was under consideration for approval of the Management.

Business continuity and disaster recovery plan

2.2.11 Reliance on the computerisation and digitisation of major activities is very critical to the operations of the Company. In case of any untoward incident or disaster, the operations of the Company would be substantially affected. It is, therefore, essential for the Company to prepare and document a disaster recovery and business continuity plan outlining the action to be undertaken immediately after a disaster and to effectively ensure that information processing capability can be resumed at the earliest.

We noticed that the Company was not having any business continuity plan/recovery procedure. As per the work order issued to the service provider, the primary datacenter of the Company was to be set up at Udaipur and disaster recovery site at State Data Center (SDC) Jaipur. We, however, observed that the service provider had not set up disaster recovery site at SDC, Jaipur.

The Government accepted the facts and stated (October 2015) that the disaster recovery site could not be hosted in absence of the security audit which is mandatory prior to hosting the site at SDC.

User Identification and Password

2.2.12 The Company implemented the IT system for better and quicker disposal of work in comparison to the manual system. After adopting the IT system, the Company provided User Identification (User ID) along with user name and password to all the officials and stake holders.

An ideal Password policy should include enforcement of initial password change on first use, an appropriate minimum password length and enforced frequency of password changes. We, however, observed the following discrepancies in User ID and Password policy:-

- * the system accepted the same password during the process of enforcement of password changes; and
- * the system accepted any length of password without combination of alpha-numeric and special character.

Absence of password policy may severely hamper the system in case of any unauthorized access. The Government stated that the password policy was being implemented.

The Company did not have an IT policy and there was no business continuity/disaster recovery plan in case of any untoward incident. Further, the system was also deficient with respect to physical and logical security.

The Company should formulate and implement a clear and comprehensive IT policy and periodically review it according to the business environment.

System Design Deficiencies

2.2.13 The software should be designed in a robust manner to ensure validation of input advice and output results as per the business needs of the Company to minimize the incorrect generation of invoices and acceptance of wrong input advice. The various system design deficiencies noticed during analysis of data are discussed below:

Irregularities in label of country liquor

2.2.14 Rajasthan Excise Rules, 1956 provides that every manufacturer of country liquor, IMFL and beer shall have to obtain approval of the labels (irrespective of size *i.e.* quart, pint or nip) of their brands intended to be manufactured or sold in Rajasthan every year from the Excise Commissioner. While approving the brands of country liquor, it was clearly instructed that the manufacturers can use the brand labels only after indicating the batch number and date of manufacturing.

The approved labels shall be affixed on every item and should be checked at reduction center as well as depot. Approved label shall contain the details of batch number, date of bottling/manufacturing, name and address of suppliers, details of quantity, strength of country liquor, details of selling area, *etc.*

The system did not have provision to capture the date of bottling country liquor and the batch number of carton boxes of country liquor. The following discrepancies were noticed due to these system design deficiencies:

- * The system was not able to capture the quantity of active/inactive stock.
- * It could not be ascertained whether the stock was issued from the depot correctly on first-in-first-out basis as per the policy of the Company.

Further, test check/cross verification of records disclosed that batch number and date of bottling were not printed on the stock available at test check depots but despite that the country liquor manufactured by the private suppliers was accepted. These irregularities were also noticed in Kota Reduction Centre of the Company.



The above shortcomings signified lack of Company's control over important aspects relating to sale of country liquor like display of manufacturing date, batch number, etc.

The Government stated (October 2015) that the Excise Policy did not determine any expiry period for country liquor and the issue rate of country liquor is decided before commencement of the financial year and hence there was no need to capture active/in-active stock as well as method used for its issue. However, agreeing to the audit observation, detailed instructions to ensure batch/date of manufacturing on the carton boxes and FIFO method had been issued.

The plea given by the Government is not justified as in absence of batch number and date of manufacturing on the carton boxes, the system would not be able to ensure that the policy of the Company to issue the country liquor on FIFO method is followed.

Sale of country liquor without any testing

2.2.15 The Company issued general direction to all the depots as well as the Unit office to test more than nine months³ old country liquor in laboratory before issuing it to the retail licensee.

We noticed that 17114 cases of nips of various brands of M/s Ojas Industries Limited, a private approved supplier of country liquor for the year 2013-14, were lying in closing stock of 44 depots of the company at the end of March

3 From the date on which material inwards slip was prepared.

2014. The various brands of country liquor of Ojas Industries Limited for the year 2014-15 were approved in December 2014 and January 2015.

Our analysis of database disclosed that no provision to test country liquor was mapped in the system and therefore the system was not capable to ascertain the nine month old stock. We observed that due to this shortcoming, the system allowed sale of more than nine months old stock of Ojas brands valuing ` 47.76 lakh at 34 depots of the Company as shown in **Annexure-3** without carrying out laboratory test. In three⁴ depots, wherein the test was carried out in compliance of orders of the Head Office, it was observed that the quality of Ojas brand had deteriorated. However, no action was found initiated at the level of Head Office. Further, no MIS as regard to nine months old country liquor lying in stock of the depot was generated by the system.

The Government while accepting the facts stated (October 2015) that the supplier was allowed (May 2015) to take back the deteriorated stock of country liquor. It further stated that testing instruments had been provided to all depots to check the strength and quality of the country liquor. It further stated that the country liquor sold by 34 depots was found suitable for use.

The reply of the Government was not acceptable as no test was carried out by these 34 depots. Further, the reply was silent on the issue of making suitable inbuilt provision in the system to ascertain the stock of nine months old country liquor due for testing before sale.

Location of Depot

2.2.16 The Excise Act provides that minimum distance of 200 metres should be kept between the country liquor shops and hospitals, dispensaries, collegiate institutions, places of public entertainment, public resort and places of common public worship recognized as such by the Excise Commissioner. As per the system in vogue, the District Excise Officer (DEO) is required to verify the detail of the licensees' shops to ensure the aforesaid provision and furnish a check list containing the details of location of shops.

We, however, noticed that the system of verifying the details of licensees' shops was not being adhered to adequately as in many check lists, the columns indicating the distance of the shop from the specified places were either found blank or not completely filled in. Further, in case of bonded warehouses, from where the Company sold/supplied the country liquor to the licensees, this provision was not being followed.

Our analysis of database further disclosed that the integrated system did not have the field to indicate distance of the country liquor shops/depot from the above places. Further, no information as regards to approval of location of depots by the Excise Department was on record.

4 Chippabarod, Jodhpur and Kota Depot.



Test check of few depots disclosed that Bhawanimandi Depot is located within the vicinity of a school and the entrance is the common for depot as well as school. Similarly, Jhalawar depot is situated within the vicinity of Khel Sankul which shows non-adherence to the provision of the Excise Act by the Company.

The Government stated (October 2015) that the restriction of 200 meters is applicable on the shops for retail sale of country liquor and not on depots. It further stated that the locations of the depots were approved by the Excise Department as per the applicable Act/Rules.

The reply is not acceptable in view of the fact that the conditions and restrictions on establishment of Bonded Warehouse provides that the provisions of the Excise Act and rules and instructions issued thereunder are applicable to the bonded warehouse (depots)/bottling plant. Further, the Company is selling the country liquor to the retail licensees and hence these instructions are also applicable to the Company. Moreover, it is not ethical on the part of the Company to operate depots within the vicinity of the specified places. If the system had this field, it would have been possible to ascertain the location of shops from the specified places and thereby enforce the observance of the provision about location of the shops.

The design deficiencies and inadequate input controls, therefore, led to irregularity in approval of label, location of depot and sale of country liquor without testing.

The system should be able to capture the location of depot, quantity of active/inactive stock and date of bottling to ensure timely testing of country liquor.

Mapping of business rules

2.2.17 The provisions of the Excise Act, 1950 and Excise Rules 1956 made there under as well as Excise Policy framed each year by the State Government are mandatory in nature and required to be followed by the Company to run its business. The discrepancies noticed where either the Act/Rules/Policy framed were not adhered to or not appropriately incorporated in the system are discussed below:

Statutory Violation in sale of country liquor/issue of permit

2.2.18 The Excise Department, GoR in its Excise Policy declared five⁵ days as dry days and sale of liquor on these days was prohibited in Rajasthan.

We noticed that suitable provisions in the software were not incorporated to prohibit sale of country liquor even though prohibited four days have fixed dates except Mahavir Jayanti.

The database analysis disclosed that the system allowed generation of invoices and as a result the Company sold country liquor worth ` 38.42 lakh (97 invoices) on Republic Day, Shaheed Diwas, Independence Day and Gandhi Jayanti during 2013-15. Further, the Company also sold country liquor worth ` 2.90 crore (765 invoices) on the occasion of Mahavir Jayanti during 2013-14.

Besides, the Excise Department also did not adhere to these provisions and thereby issued 1117 permits on dry days.

Thus, the Company failed to adhere to the statutory provisions and sold country liquor on dry days. Further, the internal control mechanism of the Company was also deficient as it could never detect the statutory violations by analysing the MIS, working of depot, *etc.*

The Government accepted (October 2015) the facts of non-mapping of provision in the software to prohibit sale of country liquor on dry days. It, however, stated that the actual issue of country liquor was made before the dry days but the entries in the system were made on dry days because of power failure, internet connectivity, *etc.* It further stated that the system of generation of online excise permits had been implemented w.e.f. 1st October 2015 and these provisions had been mapped in the software to prohibit issue of permits as well as sale of country liquor on dry days.

The reasons attributed by the Government are not convincing in view of the fact that the Company issued (March 2013) directions to its Depot In-charge to sell the country liquor through system only *i.e.* by generating the invoice online and hence the country liquor could not be sold without generating the invoice. Further, the manual records of the depots also indicated that the invoices were generated and sale of country liquor was made on dry days. The depots were functioning on dry days in violation of the Excise policy. Further all the depots have facility of UPS, invertors and that the observation pertains to almost all the depots. The reply of the Government was silent on issue of permit by the Excise Department on dry days.

Sale/permit on Election Day

2.2.19 Pursuant to the provisions of Section 135C of the Representation of the People Act, 1951, the Election Commission declared 'dry days' on election dates as well as counting day for Lok Sabha, State Assembly and Municipal Corporation elections held in 2013-14 and 2014-15. Any person found contravening these provisions was punishable with imprisonment for a term

5 Republic Day, Shaheed Diwas, Mahavir Jayanti, Independence Day and Gandhi Jayanti.

which would extend upto six months, or with fine upto two thousand rupees, or with both.

As per the direction of Excise Commissioner of Rajasthan (September 2013), under the instruction/guidelines of Election Commission to record (24 hours X 7 days) the incoming and outgoing of country liquor from the Company's depot, 99 Close Circuit Television (CCTV) Cameras were installed at depots by incurring an expenditure of ` 44.21 lakh and 198 hard-disks valuing ` 13.14 lakh were purchased for recording purposes.

The analysis of database of the Company disclosed that the Company did not give cognizance to the orders issued by the Election Commission and did not make suitable provision in the software. Thus, the Company sold country liquor worth ` 4.13 crore to the retailers on the dates⁶ declared as 'dry days' during election/counting of votes in 2013-14 and 2014-15. All the CCTV cameras installed at depots of the Company were in good working conditions which indicated that the management did not check the CCTV footage. The purpose, for which the CCTV cameras were installed by incurring an expenditure of ` 44.21 lakh, was not achieved.

Besides, the Excise Department also did not adhere to these provisions and issued 1218 permits on election/counting dates. The restriction that was imposed by the Election Commission, therefore, was flouted.

The Government stated (October 2015) that there was no sale of country liquor on election dates. It further stated that the entries appearing in the system for election dates belong to sale of country liquor on earlier days. The Government added that the system of generation of online excise permits had been implemented w.e.f. 1st October 2015 and necessary provisions had been mapped in the software to prohibit issue of permits as well as sale of country liquor on dry days.

The reply is not convincing as manual records of the depots indicated sale proceeds on election dates. Further, sale of country liquor could not be made without generating the invoice on-line. The reply of the Government was silent on issue of permits by the Excise Department on dry days.

Sale of liquor beyond working hours/non-working days of the warehouse

2.2.20 The State Government determined six days week for the depots of the Company. The working hours for the depots were from 10 AM to 5 PM on each working day except Sunday and second Saturday. Further, the Excise Policy also provided timings for retail shops of country liquor, *i.e.* 10 AM to 8 PM. Clause 6.2 of condition of country liquor retail sale license provided a licensee to purchase the country liquor from the Company's depot and transport the same by shortest route to retail shop. As depots are bonded warehouse, it is mandatory for the Company to take prior approval from the Excise Department to carry out any loading or unloading of country liquor in depot beyond working hours or on non-working days.

Analysis of the database disclosed that the integrated system did not map the working hours to prohibit the transactions beyond the fixed working hours. The system, however, allowed generation of invoices even after working hours

6 30 November 2013, 16 & 17 April 2014 and 21, 22 & 25 November 2014.

without prior approval of the competent authority as well as Excise Department.

We observed that 65499 invoices for sale of country liquor valuing ` 253.01 crore were generated beyond 5 PM in all the 99 depots of the Company during 2013-15. Moreover, 10630 invoices for sale of country liquor valuing ` 40.41 crore were found generated after 8 PM, *i.e.* after the closing time of retail shops. Further, 7586 invoices for sale of country liquor valuing ` 31.88 crore were generated at all the 99 depots of the Company on Sunday/second Saturday.

We also observed that these provisions were not adhered to by the Excise Department officials deputed at various depots of the Company as instances of issue of 5294 permits valuing ` 22.11 crore on Sunday were noticed.

The Government stated (October 2015) that the country liquor was issued to the retail licensees even after 8 PM looking to the problems of licensees and to safeguard the excise revenue.

The reply of the Government is not convincing as the Excise Department provides minimum one day validity for obtaining the supply of country liquor from Company's depot and hence the supply could be obtained on next day. Further, issue of country liquor after working hours was in violation of the Excise Policy/rules made there under. The reply is silent on the issue of sale of country liquor on non-working days. Moreover, the argument as regards to safeguarding the excise revenue is also not convincing as the Company had the exclusive right to supply the country liquor in the State.

Violation of Excise Policy

2.2.21 Pursuant to the Excise Policy for the years 2013-14 and 2014-15, the manufactures/suppliers had to maintain an ideal/specific ratio of strong and lower strength of country liquor. Accordingly, a supplier had to ensure minimum 30 *per cent* and 35 *per cent* supply of 50UP⁷ (lower strength) of total supplied country liquor in 2013-14 and 2014-15 respectively.

This provision was not mapped in the integrated system and the Company could not maintain the required ratio of strong and lower strength of country liquor in both the years. Further, due to non-mapping of this provision, the system was not competent to generate any report or to raise any alert regarding violation of Excise Policy by the Company's reduction center.

The Company supplied 19.37 *per cent* and 23.22 *per cent* of 50UP country liquor as against provisions prescribed in the Excise Policy. This led to an excess consumption of Rectified Sprit and consequential loss of ` 2.68⁸ crore on manufacturing and supply of 18.71 lakh case of nips in excess of the ratio determined in Excise Policy of the respective years.

The Government stated (October 2015) that these ideal ratios were fixed in Excise Policy in context of the whole State and not at depot/licensee level. It further stated that the prescribed ratios were maintained in the State as a whole. Further, the production of 50UP country liquor as per the ratio

7 Under proof.

8 Loss has been calculated after considering selling price of 50UP country liquor and weighted average cost of per BL rectified spirit.

prescribed in the Excise Policy might lead to its unsold stock and could cause significant loss to the Company.

The reply is not convincing because the ratios prescribed in the Excise Policy were to be ensured by each supplier/manufacturer of country liquor. Further, the audit observation pertains to country liquor produced and supplied by the Company in the whole State. Non-observance of the Excise Policy by the Company, which is under administrative control of the Excise Department, is a matter of concern and hence the Government should take effective steps in this matter.

Violation of Excise Act by the retail licensee

2.2.22 Rule 7.3 of terms and conditions for the retailers/licensee of country liquor provided that the retail licensee, to fulfill the monthly guaranteed supply, could obtain maximum 70 per cent and 65 per cent supply of 40UP country liquor during 2013-14 and in 2014-15 respectively.

We noticed that this provision was not mapped in the integrated system and, therefore, the system was not competent to determine the ratio as regards to supply of country liquor to each licensee/retailer on monthly basis.

There were 1547 and 2849 instances during 2013-14 and 2014-15 respectively wherein various depots of the Company supplied country liquor in excess of the maximum permissible limit in violation of the rule.

The Government stated (October 2015) that it would not be practical to force a licensee to lift country liquor as per ratios mentioned in Excise Policy ignoring the choice of locals for particular brand and strength. It further stated that the licensees obtained the supply of country liquor as per permit issued by the Excise Department.

The reply is not convincing as these ratios were required to be followed by each licensee as per Excise Rules. Further, the IEMS was developed to integrate the various activities of the Excise Department and the Company and hence it was required to map the provisions of the Excise Act, Policy and Rules made there under. The reply was, however, silent as regards to mapping of necessary provisions in the system.

The integrated system lacked mapping of business rules in accordance with the Excise Act/Rules which led to statutory violation in sale of country liquor/issue of permit on dry days/election dates and sale of liquor beyond working hours and on non-working days.

The Company may ensure mapping of business rules in accordance with the provisions of the Excise Act/Rules and periodically review and update them.

Application Controls

Input Control and Validation Check

2.2.23 Input control is extremely important as the most significant source of error or fraud in computerised systems is incorrect or fraudulent input. Input control and validation checks are vital to the integrity of the system as the

procedures and controls reasonably guarantee that the data received for processing are genuine, complete, not previously processed, accurate and properly authorised. It also ensures that data are entered accurately and without duplication. Deficiencies noticed in input control and validation checks are discussed below:

Sale of liquor beyond the validity of permit or without permit

2.2.24 For procurement of country liquor from the warehouse/depot of the Company, the retail licensees are required to obtain a permit (containing various information such as issue date, its validity, transport route, excise duty paid and quantity/brand of country liquor) from the Excise Department on payment of permit fee and excise duty.

The analysis of database disclosed that the integrated system did not have adequate input control and validation checks and hence it did not validate the date of issue of permit and its validity at the time of generation of invoice for sale of liquor to the retailers. We noticed that 11543 invoices for sale of country liquor valuing ` 47.86 crore were generated 2 to 324 days after the expiry of validity of permit.

The integrated system accepted permit numbers having more than seven digits and instances of fake transactions were noticed. To cross verify the sale of unapproved brand, we test checked the records of three depots⁹ and found that there were 21 fictitious invoices/transactions¹⁰ worth ` 4.40 lakh. These fictitious invoices were generated by adding one more digit to the existing permit numbers. While creating these invoices, the depot manager debited the retailers whose credit balance was lying with them. These irregularities were due to inadequate input controls/validation checks in the integrated system and issue of manual permit by the Excise Department coupled with inadequate internal control mechanism in the Company.

The Government assured (October 2015) to incorporate all necessary input controls and validation checks in the system. It further stated that in most of the highlighted cases, the country liquor was issued within the validity period but due to paucity of time, the invoices were generated later. As regards to 21 fictitious invoices, it stated that necessary rectification entries had been made and the fictitious entries got corrected.

The reply of the Government that invoices were generated later on is not convincing because it is possible only when a parallel system of manual sale is in vogue which is prohibited as per the directions of the Company. As regards to the document provided in support of rectification entries made, only the additional digit from the permit number was found removed without rectifying the whole transaction *i.e.* balances of retail licensee, balances of closing stock and payment already made to private supplier.

Cash/credit sales to retailers

2.2.25 As per policy of the Company, for purchase of country liquor from its depots, the retailers are required to deposit the amount either in State Bank of

9 Bhawanimandi, Jhalawar and Rajsamand.

10 (five entries worth ` 2.11 lakh in BhawaniMandi), (13 entries worth ` 2.11 lakh in Jhalawar) and (three entries worth ` 0.18 lakh in Rajsamand).

Bikaner and Jaipur or Bank of Baroda through challan issued by the Company and to produce a copy of the challan at depot. The system verifies the copy of challan produced by the retailer with the Bank data and then generates the invoice for sale of country liquor upto the deposited amount, *i.e.* invoice amount up to the credit balance of that retailer. Further, the Company issued (June 2013) order prohibiting acceptance of cash in lieu of bank challan.

We noticed that the integrated system did not have adequate controls and therefore accepted manual interventions *i.e.* the depot manager could accept cash in lieu of bank challan, edit the challan amount, challan number, challan date, *etc.* Our analysis of database disclosed that:

- * In 1735 instances at 59 depots of the Company, the depot manager accepted cash from the retailers and the system allowed manual intervention of cash entries by generating invoices valuing ` 2.05 crore during 2013-15.
- * There were 411 and 214 instances of credit sales valuing ` 1.15 crore and ` 0.42 crore during 2013-14 and 2014-15 respectively. Further an amount of ` 0.20 crore and ` 0.09 crore remained outstanding against 54 retailers and 19 retailers on account of credit sales at the end of 2013-14 and 2014-15 respectively. The Company did not have any financial hold against these retailers.

The Government stated (October 2015) that cash transactions were accepted due to non-working day of the banks, non-uploading of licensees name on 1st April and to ensure fulfillment of monthly guarantee. It further stated that after pointing out by audit, necessary provisions were being mapped in the software. The credit sales had occurred due to deletion of challans and correction in brands mentioned in invoices after the end of the financial year. The Government added that in the instances quoted by audit, there were no credit sales as no negative balance appeared in licensees ledger.

The reply is not convincing as apart from 1st April, huge number of transactions pertain to different dates and locations. Further, it was violation of the Company's directives issued to the depot in-charge every year not to accept cash on 1st April. Moreover, the system was deficient as it accepted the backhand entries of deletion of challans or correction in brands mentioned in invoice. The fact remained that due to inadequate control, the system accepted manual interventions which caused outstanding amount of ` 0.29 crore.

Shortcomings in Material Inward Slip

2.2.26 For the supply of country liquor from the distilleries/bottlers/manufactures, the suppliers are required to obtain a permit from the Excise Department. The permit so issued indicates the specific brand and quantity of country liquor. The Excise Department issued online permit to the supplier from May 2014 onwards. The Company prepared a Material Inward Slip (MIS) on receipt of the consignment of country liquor.

Analysis of database disclosed that the integrated system did not have adequate validation checks to ensure permit validity, quantity and receipt of consignment while preparation of MIS. We noticed the following discrepancies:

- * In 4172 instances, the Company received 33.80 lakh cases of country liquor from private suppliers even after the expiry of validity of permit (ranging between 1 to 68 days). Further, in one case, the system generated the MIS of supplier's brand which was not approved by the Excise Department.
- * In 44 instances, the Excise Department issued permit quantity of 35675 cases against which only 27889 cases were supplied at various depots of the Company.
- * 81 permits issued by the Excise Department during 2014-15 to private suppliers for supply of 58401 cases of country liquor to various depots of the Company were neither cancelled by the Excise Department nor was any supply received at the Company's depot. As per the prescribed rate of excise duty, the above mentioned quantity of country liquor involved excise duty of ` 3.14 crore.

The Company did not take up the matter with the suppliers/Excise Department for short/non-supply of country liquor. The possibility of supply of country liquor illegally to the retailers and evasion of excise duty cannot be ruled out.

- * In 31206 instances there was substantial delay ranging between 1 and 93 days in preparation of MIS from the date of receipt of the consignment (gate entry) which indicates delay in unloading of the consignment of country liquor.

The Government, while accepting the facts of not having adequate input control and validation check in the system, stated (October 2015) that gate entries at depots were taken as the date of receipt of consignment and not the date of material inward slip. Further, less receipt of country liquor at Depot as compared to the quantity shown in the permit was attributed to accident of truck carrying consignment, theft of consignment in transit, rejection of sample by the laboratory after gate entry, *etc.* It further assured to develop a system wherein online permits will be issued to the suppliers as per the OFS being issued by the Company.

The reply is not convincing in view of the facts that there was substantial delay in receipt of consignment. Even if date of entry is taken as date of receipt, the consignment was taken into stock with a delay ranging between 1 to 93 days. Further, no documentary proof was produced in support of reasons mentioned for less receipt of consignment at depot. In case of theft of consignment in transit, there was direct loss of excise revenue. However, these matters were neither taken up nor reconciled. The reply of the Government was silent on the issue of non-cancellation of permits where no supply was affected.

Issue of Order for supply

2.2.27 For supply of country liquor at specific depot of the Company, the supplier/manufacturer makes a request to the Company. The Company after analyzing the stock position of respective depot can accept the request of the supplier and issue Order for Supply (OFS) accordingly.

We noticed that the system did not validate the quantity of OFS while preparing of MIS. There were three instances noticed wherein the system

accepted excess quantity of 750 cases as compared to quantity for which OFS was issued.

Further, there were 37 and 34 instances during the year 2013-14 and 2014-15 respectively wherein the full quantity shown in OFS was not received and in 31 instances though OFS were issued, no MIS was generated during 2013-15. Further, these OFS were not cancelled by the Company. We observed that the system was deficient as it issued subsequent OFS on the same suppliers without raising any alert that the quantity of previous OFS was either short received or not received.

The Government assured (October 2015) that the point raised by Audit would be taken care of in future. It further stated that new system would be introduced after December 2015 to avoid such problems in future.

Duplicate Permit Number

2.2.28 Permits with unique numeric number of seven digits are manually issued to the retailers on payment of permit fee and excise duty. The permits issued by the Excise Department are entered in the integrated system at Company's depot while generating the invoice for sale of country liquor.

Analysis of database, however, disclosed that the system did not have appropriate input controls to identify the same permit number. Due to this deficiency, the system accepted the entries of the same permit number more than once. As a result, 18768 and 24275 instances of duplicate permit numbers were noticed during 2013-14 and 2014-15 respectively. Further due to absence of appropriate input controls, the system accepted any type of alpha-numeric number of permit.

We noticed that the applicable amount of excise duty on duplicate permit numbers worked out to ` 139.61 crore. Due to the shortcoming of the system in accepting the same permit number, there were possibilities of obtaining the supply of country liquor by the retailers without payment of excise duty. We test checked 48 instances where the same retailer obtained the supply by providing the same permit for the same quantity. We cross verified these instances with the record of the depot and noticed that in few instances the irregularity was due to wrong feeding of the permit number whereas in two depots (Chittorgarh and Nimbahera) as against 20 invoices worth ` 8.07 lakh, only 10 permits were found on record and 10 invoices were generated on the same permit number which led to evasion of excise duty of ` 7.01 lakh.

	FIN_YEAR	ACCOUNT_NAME	ORDER_ID	INVOICE_NUMBER	INVOICE_DATE	PERMIT_NO	PERMIT_DATE	NET_AMOUNT
1	20132014	CHITTORGARH	46301	CHR01C000975	06-01-14	187654	06-01-14	61,608.00
2	20132014	CHITTORGARH	46301	CHR01C000976	06-01-14	187654	06-01-14	61,608.00
3	20132014	CHITTORGARH	46321	CHR01C000971	06-01-14	187652	06-01-14	32,236.00
4	20132014	CHITTORGARH	46321	CHR01C000972	06-01-14	187652	06-01-14	32,236.00
5	20132014	CHITTORGARH	46358	CHR01C000969	06-01-14	187651	06-01-14	41,689.00
6	20132014	CHITTORGARH	46358	CHR01C000970	06-01-14	187651	06-01-14	41,689.00
7	20132014	CHITTORGARH	46390	CHR01C000973	06-01-14	187653	06-01-14	32,063.00
8	20132014	CHITTORGARH	46390	CHR01C000974	06-01-14	187653	06-01-14	32,063.00
9	20132014	CHITTORGARH	46434	CHR01C001121	01-03-14	305902	26-02-14	28,664.00
10	20132014	CHITTORGARH	46434	CHR01C001136	03-03-14	305902	26-02-14	28,664.00
11	20132014	CHITTORGARH	46436	CHR01C000977	06-01-14	30699	06-01-14	119,306.00
12	20132014	CHITTORGARH	46436	CHR01C000978	06-01-14	30699	06-01-14	119,306.00
13	20132014	CHITTORGARH	46441	CHR01C000967	06-01-14	30698	06-01-14	17,421.00
14	20132014	CHITTORGARH	46441	CHR01C000968	06-01-14	30698	06-01-14	17,421.00
15	20132014	NIMBAHERA	46193	CHR08C000182	16-05-13	155686	15-05-13	667.00
16	20132014	NIMBAHERA	46193	CHR08C000776	17-01-14	155686	13-05-13	667.00
17	20132014	NIMBAHERA	46226	CHR08C000564	26-10-13	224807	26-10-13	71,377.00
18	20132014	NIMBAHERA	46226	CHR08C000566	26-10-13	224807	25-10-13	71,377.00
19	20132014	NIMBAHERA	46231	CHR08C000145	03-05-13	155647	03-05-13	33,491.00
20	20132014	NIMBAHERA	46231	CHR08C000295	28-06-13	155647	27-06-13	33,491.00

Duplicate Permits in Chittorgarh and Nimbahera Depot

The Government accepted the facts and stated (October 2015) that two invoices on a permit number were issued and the stock of the country liquor was reduced twice and accordingly the payment was also made to the supplier. It further stated that a new system had been introduced to avoid such problems.

Duplicate Challan Number

2.2.29 The Challan Slips with unique numeric number of seven digits are kept in control of the store keeper at Head Office. These challan slips are issued to depots and are used by the retailers for depositing the amount in the bank.

We noticed that:

- * the Company did not have details of Challan Book issued to its various depot which indicated shortcomings in maintaining the records relating to issue of challan book.
- * the Challan Book/slip instead of having alpha-numeric seven digits had only numbers.
- * the system accepted 67994 entries of challan numbers having less/more than seven digits during 2013-15.
- * the system did not have appropriate input controls to identify the same challan number. As a result, it accepted the entries of the same challan number more than once. There were 5747 and 8206 instances wherein the system accepted the same challan number valuing ` 26.83 crore

and ` 35.19 crore in the same year during 2013-14 and 2014-15 respectively.

We observed that there were 74 retailers during 2013-14 and 2014-15 who obtained the supply of country liquor worth ` 33.09 lakh from the same depots by producing the same challan for the same amount deposited in the bank on a given date. As the system accepted manual interventions, there was sale of country liquor without payment and consequential minimum loss of ` 16.55 lakh to the Company.

	FIN_YEAR	CHALAN_NO	DEPOSIT_DATE_DATE	CUSTOMER_ID	AMOUNT	POSIT_DA
1	20142015	1391372	04-08-14	55528	10,000.00	00
2	20142015	1391372	04-08-14	55528	10,000.00	00
3	20142015	1330215	12-02-15	54505	9,000.00	00
4	20142015	1330215	12-02-15	54505	9,000.00	00
5	20142015	1326795	19-02-15	51786	44,000.00	00
6	20142015	1326795	19-02-15	51786	44,000.00	00
7	20142015	1295435	02-02-15	51977	13,500.00	00
8	20142015	1295435	02-02-15	51977	13,500.00	00
9	20142015	1295434	31-01-15	51977	18,500.00	00
10	20142015	1295434	31-01-15	51977	18,500.00	00
11	20142015	1278407	07-03-15	54772	60,600.00	00
12	20142015	1278407	07-03-15	54772	60,600.00	00
13	20142015	1271131	29-12-14	54818	25,000.00	00
14	20142015	1271131	29-12-14	54818	25,000.00	00
15	20142015	3943	05-11-14	54048	19,080.00	00
16	20142015	3943	05-11-14	54048	19,080.00	00

Duplicate Challan Numbers during 2014-15

The Government stated (October 2015) that in the reported cases, manual entry was made at various depots to issue country liquor to licensees as the entries of the deposited amount were not displayed in the system in real time due to non-clearance by the concerned banks. Later on, the banks also cleared deposit entries and this way the challans were doubled. However, the country liquor was issued only once. The Government further stated that in the reported cases, necessary corrections had been made and wherever the deposited amount fell short, the same had been recovered from the licensees. It further assured to put in place proper safeguards in the software to avoid such cases in future.

Undue benefit given to supplier in supplied schedule

2.2.30 The Company issued online schedule to the private manufactures/suppliers for supply of country liquor on monthly basis as per the request made by the supplier and stock availability of the supplier's brand at depot where the supply was to be done.

We observed that the system, by default, determined the maximum validity period up to the last date of the month in which supply was to be made. We also noticed that the integrated system did not have input control to determine the commencement date of supply. The system took the date of issue of order

for supply (OFS) as date of commencement of supply irrespective of the fact that supply was to be made in the next month as per the request made by the supplier. Analysis of database disclosed that the system accepted the material before the month in which the supplies were to be made. There were 44 and 62 instances during 2013-14 and 2014-15 wherein the supplier commenced the supplies before the scheduled month on the basis of OFS issued.

The Government assured (October 2015) that the OFS would be issued specifically for the time period within which the supply has to be made by the suppliers. It further assured to put in place proper input control and validation check in the system.

Excess Quantity accepted in Integrated System

2.2.31 The Company issued (October 2013) directions to all the depots specifying not to accept consignment of more than 625 cases without prior approval of the Head Office.

We noticed that in absence of adequate input control, the system did not validate the quantity of cases while preparing the material inward slip and thereby accepted the country liquor consignment having more than 625 cases. Further, no system was found in place to obtain prior approval of the Head Office in case the consignment exceeded 625 cases.

Our analysis disclosed that there were 3079 and 4311 instances during 2013-14 and 2014-15 respectively wherein the consignments exceeded 625 cases but approval of the Head Office was not obtained.

The Government stated (October 2015) that as per the decision taken in the meeting held in March 2014, the suppliers were allowed to supply upto 950 cases in case the distance involved was more than 200 km. It further assured to put in place proper input control and validation check in the system.

Irregularities in changes of retailer's depot

2.2.32 Condition 6.2 of license for retail sale of country liquor provides that retail licensee can obtain the supply of country liquor from the allotted depot of the Company. It further provides that the licensee cannot obtain supply of country liquor from any other place or other licensees. The Excise Department finalized the list of licensees and allotted Company's depot for each licensee for purchase of country liquor and entered the same in the integrated system.

Analysis of database disclosed that the system lacked adequate input control and validation checks as there were 50 and 145 instances during the year 2013-14 and 2014-15 respectively wherein the retail licensee obtained supply of country liquor from more than one depot. This happened as the permits were issued by the Excise Department manually. We also observed that in one instance of Pokhran Depot, the Company itself changed the depot of licensee for one day to regularize the illegal sale of unapproved brand of country liquor made in April 2014 to match the stock of Pokhran Depot on approval of the brand in December 2014.

Thus, non-mapping of business rules coupled with inadequate validation control led to non-adherence to the directions of the Head Office by depot officials as well as suppliers.

The Government stated (October 2015) that the Company had to comply with the direction of the Excise Authorities and therefore the country liquor was sold as per the permit issued by the Excise Department. It further stated that as per the permit issued (3 April 2014) by the Excise Department, Pokhran Depot in-charge sold the country liquor of Ojas brand (initially not approved) manually and to regularize the same, allocation of the licensee was changed for one day with approval of Head Office. It further stated that access of the system had been given to District Excise Officers to avoid such instances in future.

The reply of the Government confirmed the fact that the integrated system was not secure and accepted any change/modification without proper authorisation. Further, the reply of the Government was silent on issuance of permits to the licensees by the Excise Department for lifting supplies from two depots.

Overloading of sugarcane in vehicles

2.2.33 The Company issued demand slip to all the farmers for supply of sugarcane on the basis of requirement and keeping in view the vehicle capacity. Further, the Company had also determined the loading capacity of each type of vehicle *i.e.* truck (150 quintals), tractor trolley (120 quintals) and camel cart (30 quintals).

We noticed that the sugar module developed by the service provider was not fully operational as the database did not have details about crushing of sugarcane and production of sugar as well as its byproduct. The database has details upto the weigh-in of sugarcane only.

We observed that though the demand slips were issued through the system, the same were not validated at the time of weigh-in of the sugarcane. Our analysis of database disclosed that there were 2989 and 3585 instances during 2013-14 and 2014-15 respectively wherein the sugarcane quantity was much beyond the carrying capacity of the vehicles. We noticed that the overloading in a truck ranged between 20 quintals and 189 quintals whereas overloading in a tractor trolley ranged between 23 quintals and 210 quintals beyond the capacity of these vehicles. The overloading to the extent of 126 *per cent* in case of truck and 175 *per cent* in case of trolley was abnormal but in absence of validation check, the system did not raise any alert about overloading. As the database did not have complete details about crushing and production of sugar, we could not vouchsafe the quantity of sugarcane actually received.

The Government stated (October 2015) that the higher-weight vehicles of sugarcane were accepted to avoid administrative, law and order situation created by the cultivators in case of non-weighing of the overloaded vehicles. It further stated that the data of cane crushing and sugar production was well maintained. It assured to put in place proper input control and validation check in the system.

Thus, the system did not validate the weight of sugarcane loaded in the vehicles with reference to demand slip issued. Further, the database did not have details of cane crushing and sugar production.

There was lack of input controls and validation checks. As a result, the system accepted same permit and challan numbers more than once. There

were instances of sale of liquor beyond the validity of permit or without permit, cash sales to retailers and irregular change of retailers' depot.

The Company should build in adequate input controls and validation checks to overcome the above deficiencies and to ensure correctness and completeness of the data.

Compliance of provisions of the contract

Terms and conditions of the work order

2.2.34 As per the work order awarded in June 2010, the project was to be completed before December 2010 for procurement and installation of hardware and for preparation of a web based application software in the Company's Head office and its units/reduction centre/depots. The service provider was responsible for maintaining integrity, security and backup of the Company's data and applications. The work envisaged preparation of 24 modules using Oracle Relational Database Management System for integration of all the activities of the Company.

We noticed that the work was not completed within the prescribed time period. However, the project completion period was extended up to March 2012 without imposing any liquidated damages as per the condition of the work order.

We further observed that the service provider had not completed the entire work even by June 2015 as 11 modules including the financial accounting module, human resource & payroll module and sugar/by products production module were not running and the Company had to use a parallel system.

Thus, the service provider failed to comply with the contractual liabilities.

The Government stated (October 2015) that the nodal agency (RSBCL) imposed (May 2012) the penalty and no payment was made for the gap period due to non-completion of work. It further stated that efforts were being made to operationalise the remaining modules.

Internal Controls

2.2.35 The existence of an adequate system of internal control minimises the risk of errors and irregularities. Internal controls in a computer system are all the manual and programmed methods, policies and procedures, practices and organizational structures that ensure the protection of the entity's assets, accuracy and reliability of records, and operational adherence to the management standards. Deficiencies noticed in the internal control system are discussed below:

Sale of unapproved brand of country liquor

2.2.36 Rule 69 (3) of the Rajasthan Excise Rules, 1956 provides that every manufacturer of country liquor, Indian Made Foreign Liquor (IMFL) and beer shall have to get labels (irrespective of size, viz. quart, pint or nip) of brands intended to be sold or manufactured in Rajasthan, approved and recorded with Excise Commissioner and a fee of ` 25000 shall be payable per brand per year

or part thereof for this purpose. Further, clause 54 of the Excise Act, 1950 provides that whoever in contravention of this Act or any rule or order made or any license, permit or pass granted there under imports, exports, transports, manufactures, collects, sells or possesses any excisable article shall be punishable with imprisonment and fine.

As per the prescribed mechanism, the Excise Department approves the brand and forwards the same for entry into the integrated system. Once a brand is forwarded by the Excise Department for entry into the integrated system, it is available for sale at RSGSM depot. In absence of approval of brand and its entry into the integrated system, invoices cannot be generated.

We noticed that the Excise Department approved the brands of a private supplier, *i.e.* M/s Ojas Industries Private Limited in December 2014 and January 2015 and therefore, these brands were not available for sale upto December 2014/January 2015.

Our scrutiny of database and test check of depots disclosed that at five depots of the Company, the Company's official sold 1542¹¹ cases worth ` 5.12 lakh of various brands of Ojas Industries Limited in April 2014 manually bypassing the system. In spite of being aware of the facts, the management accorded (February 2015) its approval to feed the old entries of sale in the system at Pokhran depot. Further, similar irregularity was also noticed at four more depots test checked wherein feeding of the data in system was allowed without verifying any permit or corresponding challans.

The Government stated (October 2015) that the sale of unapproved country liquor was made against permit issued by the Excise Department. It further stated that suitable instructions had been issued to all Unit Manager and depot in-charge to issue country liquor of approved brands only.

The reply of the Government confirmed that not only the Excise Department issued permits of unapproved brand but the Company also sold the unapproved brand of country liquor manually bypassing the online system. Further, the reply of the Government was silent on issue of permits of unapproved brand of country liquor.

Illegal transaction at Rajsamand depot

2.2.37 We noticed that the Excise Department did not approve 'Pin Kon King Queen brand' of a private supplier *i.e.* M/s Mahamaya Limited for the year 2014-15 and therefore, the same was not available for sale in the year 2014-15.

Our scrutiny of database, Inspection Reports and test check of depot disclosed that the Excise Department issued the permit for sale of this brand. As the Excise Department issued the permit to the retailers/licensees manually instead of using the integrated system it could not assess the fact whether the brand, for which permit was being issued, was an approved brand. We observed that on production of permit by the retail licensee, the Rajsamand depot sold 2496 bottles (52 cases) (out of the total stock of 25812 bottles) manually without generating the invoice through the system. When the

11 Bhawanimandi Depot (624 cases), Jhalawar Depot (624 cases), Pokhran Depot (220 cases) Rajsamand Depot (54 cases) and Ramganjmandi Depot (20 cases).

discrepancy in the stock was pointed out during the course of physical verification of stock, the depot official generated the invoice of another supplier's brand, *i.e.* 'Ghunguroo' on a subsequent date to match the stock position.

We observed that the integrated system was not fully operational and if the permits to the retail licensee were issued through the system only, such irregularities could be controlled. Further, the depot could only generate the invoice for which the permit was issued. We also observed that the depot returned (May 2015) the total quantity of 25812 bottles to the supplier without generating a material outward slip. This is substantiated from the fact that the integrated system still indicated 25812 bottles worth ` 1.80 lakh in the stock of Rajsamand Depot.

The Government stated (October 2015) that a preliminary enquiry was ordered in the matter of illegal transaction at Rajsamand Depot. It further stated that the sale of country liquor was made as per the permit issued by the Excise Department manually for unapproved brand. The Government added that in the new system of online issue of permits, such incidents will not occur in future.

The reply of the Government confirmed the fact that such incidents took place due to issue of permits manually and the depot in-charge sold the country liquor of unapproved brand by generating the invoice of another brand. Further, the reply of the Government was silent on issue of permits of unapproved brand of country liquor.

Irregularities in licensee balances

2.2.38 As per the policy of the Company, for purchase of country liquor from its depots, the retailers are required to deposit the amount either in State Bank of Bikaner and Jaipur or Bank of Baroda through challan issued by the Company and to produce a copy of the challan at depot. Further, in case the total value of invoice for sale of country liquor is less than the amount deposited by the licensee in the Bank, the same is shown as credit balance of that particular licensee.

Analysis of database disclosed that an amount of ` 4.59 crore and ` 6.48 crore was shown as credit balance in respect of 4821 and 5605 licensees at the end of 2013-14 and 2014-15 respectively. However, the same was shown as 'nil' in the beginning of next financial year. We observed that the system allowed manual interventions and, therefore, the data as regard to credit balances of the licensees had been changed/modified without specific approval of the Management.

We also observed that the Company did not have authorisation policy as regards to any change/modification in the database. Further, the integrated system was not found foolproof and the internal control of the Company was weak as no mechanism of reconciliation of balances shown in the system and financial statements of the Company existed.

The Government stated (October 2015) that the 'petty amount' of excise licensees remaining in the books at the end of the financial year is released if claim is made by the licensee and in case, no claimant comes, the petty amount is transferred as 'miscellaneous income' in the books of accounts of the

Company. It further stated that a Committee had been constituted to reconcile the amount lying in the credit balances of excise licensees as per IT system and as per physical books of accounts and action would be taken to account for the same on some rational basis as may be decided by the Management.

Thus, there was no mechanism to reconcile the balances of the licensees with financial statements.

Non-reconciliation of data

2.2.39 The work of Integrated IT Services in Excise Department, RSBCL and the Company was initiated with the aim to process all the work online.

We, however, noticed that no mechanism was evolved for reconciliation of data pertaining to the Company, RSBCL and Excise Department. While checking the cross referential integrity of data of sale of country liquor by the Company with the data of Excise Department, the following discrepancies were noticed:

- * Under the 'Guarantee System' of the Rajasthan Excise Rules, 1956, an amount of ` 14.53 crore was to be recovered under the head of shortfall/deficit against monthly guaranteed sales as per the sales module of the Company whereas in the database of the Excise Department, only ` 6.85 crore was shown as recovered.
- * As per the data of the Company, 16.40 crore BL (8.98 crore BL 40UP and 7.42 crore BL 50UP) country liquor was sold during 2013-14. Accordingly, as per the database of the Company and as worked out by us, the total excise duty leviable comes out to ` 1062.15 crore whereas in the database of the Excise Department, the amount recovered towards excise duty was shown as ` 566.26 crore only.
- * The Company sold 16.40 crore BL (9.86 crore BL of private suppliers and 6.54 crore BL of its own production) country liquor during 2013-14. Accordingly, ` 72.16 crore was to be recovered as bottling fee at the rate of ` 4.40 per BL on total sales of 16.40 crore BL during 2013-14 whereas the collected bottling fee shown in the database of the Excise Department was ` 22.23 crore only during 2013-14.

In absence of any mechanism in the integrated system as regards to reconciliation of guaranteed collection of excise duty, excise duty leviable as per the actual sale of country liquor, collection of bottling fee with amount actually collected by the Excise Department, *etc.*, the basic objective of developing an integrated system was defeated. Further, the system could not ensure that chances of leakage of revenue, if any, were ruled out.

The Government stated (October 2015) that IEMS is managed and controlled by the nodal agency (RSBCL). It further stated that actual revenue from excise duty on country liquor and different types of fees was ` 1215.99 crore but the difference occurred due to non-feeding of the data.

The fact remains that the integrated system did not have any mechanism for reconciliation of data.

The internal control mechanism was deficient and it led to sale of unapproved brand of country liquor, illegal transactions and non-

reconciliation of data of the Company with the data of the Excise Department.

The Department and the Company should strengthen the internal control mechanism to ensure proper monitoring of the sale of country liquor and reconciliation of Company's data with the data of the Excise Department to avoid any leakage of revenue.

Conclusion

The Company did not have an IT policy and there was no business continuity/disaster recovery plan in case of any untoward incident. The system was also deficient with respect to physical and logical security. The design deficiencies and inadequate input controls led to irregularity in approval of label, location of depot and sale of country liquor without testing. The integrated system lacked mapping of business rules in accordance with the Excise Act/Rules which led to statutory violation in sale of country liquor/issue of permit on dry days/election dates and sale of liquor beyond working hours and on non-working days. There was lack of input controls and validation checks. As a result, the system accepted same permit and challan numbers more than once. There were instances of sale of liquor beyond the validity of permit or without permit, cash sales to retailers and irregular change of retailers' depot. The internal control mechanism was deficient and it led to sale of unapproved brand of country liquor, illegal transactions and non-reconciliation of data of the Company with the data of the Excise Department.