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## Executive Summary

### Context

In our assessment, the operations of the State Excise Department did not rank high in terms of financial materiality of the revenue generated and financial risk. However, the Department emerged with high priority in terms of significance and visibility of its operations, operational risks and estimated audit impact. In our view as only limited effort is needed from the Excise Department to generate and collect revenue, the Department activities are more geared towards regulation and enforcement.

### This Report

Our audit was conducted between January and May 2011 with focus on identification of key risks by the Department, efficacy in enforcement of provision of Acts and Rules relating to production, transportation and consumption of illicit/harmful spirituous preparations, and effective implementation of annual Abkari policies of the Government. The Report has been prepared by using the COSO frame work of internal controls.

### Audit Findings

In this report we present several lapses such as non-imposition of import fee, non-levy of permit fee, etc. with financial impact of ₹ 253.75 crore. We noticed that the Government adopted inconsistent policies and that the Department had not effectively implemented the Government policies.

#### Waiver of import fee on rectified spirit.

We consider that the Government and the top management of the Department did not follow transparent procedures to get an amendment to the Abkari Act enacted to waive import fee on rectified spirit which involves an annual revenue loss of about ₹ 77 core.

#### Permit fee on movement of IMFL

The Department had not collected permit fee of ₹ 16.45 crore on movement of IMFL from FL 9 Licences to other licences

#### System deficiencies

We noticed that the printing of permits and security labels were prone to misuse. Effective control measures were not applied in collection of arrears, issue of licenses and supervision of foreign liquor shops. 61 per cent of the bar hotels were functioning without satisfying the eligibility conditions. There was no effective system of supervision of interdivision transport of toddy. The Department did not effectively discharge its enforcement responsibilities. The functioning of check posts was hampered by lack of infrastructure facilities.

### **Internal Audit wing**

The Department did not prepare a risk based annual / biennial audit plan to cover the field units. The Department audited only 31 *per cent* of the total units during 2010-11

### **Our conclusion**

The Government must amend the Rules so that bar hotels are not situated near educational institutions and places of worship. It may take effective steps to facilitate easy identification of artificial toddy and to ensure that toddy is distributed to other divisions under excise escort.

The Department may be provided with necessary manpower and infrastructure to enable effective discharge of its enforcement functions.