

CHAPTER VIII

FOLLOW-UP AUDIT

8.1 Follow-up Audit on the Audit recommendations pertaining to the Performance Audit on “Functioning of the Prohibition and Excise Department”

8.1.1 Introduction

Performance Audit on “Functioning of Prohibition and Excise Department” covering the period from 2005-06 to 2009-10 was conducted in 2010-11 and a Standalone Audit Report was tabled in the undivided Andhra Pradesh State Legislature in December 2011. The following nine recommendations were included to enable the Government to address the deficiencies and irregularities pointed out in the Report.

1. Monitor closely the manufacture of Rectified Spirit (RS) by the State distilleries commensurate with the licensed capacity.
2. Make it mandatory for the distilleries to commence production within the validity period of application for licence and frame suitable penal provisions to encourage timely commencement of production.
3. Expedite the process of introducing barcoding system.
4. Factor in the sales potential of the sales outlets while determining their upset prices, based on the material lifted by them in the previous cycles or introducing a system of charging additional licence fee for the goods lifted by the outlets beyond specified limits.
5. Computerise the entire process of dispatch of liquor bottles from the distilleries to marketing depots and to the sales outlets in order to trace and track their movement using their identification numbers so as to prevent and monitor unauthorised sales.
6. Carry out a State-wide review of liquor shops operating near educational / religious institutions and hospitals, ignoring the distance limits prescribed in the Act, and to enforce condition of grant of licence strictly to ensure that outlets are not permitted near educational / religious institutions.
7. Introduce a system of recording the complaints in a register, which may be monitored by a responsible officer for their timely disposal.
8. Strengthen the border check posts in the districts which are proven to be vulnerable to illicit distillation, with competent excise staff and better communication facilities for the purpose of handling excise offences.
9. Frame a training policy that makes training a compulsory requirement for all the officers and the enforcement staff at periodical intervals. Review the curriculum followed at the State Excise Academy to make

it contemporary and to include sessions on topics like communication and analysis of criminal evidence to equip the enforcement staff in meeting the challenges of changing crime scenario.

The residuary State of Andhra Pradesh accepted two recommendations (No.3 and 5) clearly. In respect of two recommendations (No.4 and 7) no reply was furnished regarding acceptance, though fully implemented.

8.1.2 Audit Objective

Audit was conducted between October 2015 and July 2016 to assess the progress made on the recommendations made in the Standalone Audit Report.

8.1.3 Audit Findings

The status of implementation of recommendations has been brought out under three categories i.e., fully implemented, substantially implemented and insignificant or no progress. The Department had completed action on three recommendations (No. 3, 4 and 7), while in the case of three other recommendations (No. 5, 8 and 9), the Department had initiated action for implementation but the same was not completed. In respect of the remaining three recommendations (No. 1, 2 and 6), the Department had not taken any action.

Action taken by the Department and results of verification of the implementation of recommendations are discussed in the following paragraphs.

Fully Implemented

8.1.3.1 It was recommended (No.3) to expedite the process of introducing barcoding system.

Government had introduced (July 2014) Hedonic Path Finder System (HPFS) to track and trace manufacture and sale of Indian Made Foreign Liquor (IMFL). This system included computerisation at three levels i.e. distillery, depots and retail sales outlets. This system also included affixture of Holographic Excise Adhesive Label (HEAL) embedded with barcode on bottles of IMFL in distilleries. Holographic Excise Adhesive Labels (HEAL) were being affixed on liquor bottles manufactured at distilleries.

8.1.3.2 It was recommended (No.4) to factor in the sales potential of the sales outlets while determining their upset prices, based on the material lifted by them in the previous cycles or introducing a system of charging additional licence fee for the goods lifted by the outlets beyond specified limits.

Excise policy based on the auction system was dispensed with, in the year 2012-13. A new Excise Policy based on fixed licence fee was implemented in the year 2012-13. In the new Excise Policy, Government levied privilege fee on sale of liquor at the rate of eight per cent and VAT thereon when the cumulative value of purchase(s) during the licence year exceeded six times the annual licence fee. Privilege fee was levied and collected up to the year

2014-15. The provision of levy and collection of privilege fee was deleted from the Excise Policy in the licence year 2015-16.

Government replied (June 2016) that levy and collection of privilege fee was given up as the levy of privilege fee on the sales over and above the optimum level had dampened the spirit of the licensees to improve their sales. It acted as an impediment to the growth of IMFL sales as the increase in sales did not give any additional income to the licensee.

Information obtained from Andhra Pradesh Beverages Corporation Limited (APBCL) in respect of sale of liquors eligible for levy of privilege fee, showed that the sales had come down during the year 2014-15 as compared to the year 2013-14 which substantiated the cause for deletion of provision to levy privilege fee.

8.1.3.3 It was recommended (No.7) to introduce a system of recording the complaints in a register, which may be monitored by a responsible officer for their timely disposal.

Complaint register was being maintained in the Control Room in the office of the Director of Enforcement. Complaints received over phone and by post were being recorded in complaints register. The complaints received were being referred to officers concerned for necessary action. Follow-up of complaints referred to officers concerned was being taken up for ensuring their timely disposal.

Substantially Implemented

8.1.3.4 It was recommended (No.5) to computerise the entire process of dispatch of liquor bottles from the distilleries to the marketing depots and to the sales outlets in order to trace and track their movement using their identification numbers so as to prevent and monitor unauthorised sales.

Government had introduced (July 2014) HPFS to track and trace manufacture and sale of IMFL. This system included computerisation at three levels i.e. distilleries, depots and retail sales outlets. This system also included affixture of HEAL on bottles of IMFL in distilleries. Computerisation at distilleries and depots level was completed and computerisation of retail sales outlets was pending.

8.1.3.5 It was recommended (No.8) to strengthen the border check posts in the districts which were vulnerable to illicit distillation, with competent excise staff and better communication facilities for the purpose of handling excise offences.

Government had set up 39 check posts in 10 districts. Out of these, 14 new border check posts were set up in June 2014. However, no new posts were sanctioned to operate the Border Check Posts (BCP). Information obtained from Prohibition and Excise Superintendents (P&ES) (Chittoor, Gudur, Palasa, and Penukonda) showed that the number of persons posted against

sanctioned strength remained the same for the past five years and vacancies were yet to be filled up.

Government replied (June 2016) that mobile phone connections were provided to Circle Inspector cadre and above. Information obtained from four Prohibition and Excise Superintendents (P&ES) (Anantapuram, Gudur, Chittoor and Palasa) showed that no communication facilities were provided to the check posts till 2014-15. However, P&ESs (Chittoor and Gudur) stated that tab facility was provided to them in the year 2016.

8.1.3.6 It was recommended (No.9) to frame a training policy that made training a compulsory requirement for all the officers and the enforcement staff at periodical intervals. It was also suggested to review the curriculum followed at the State Excise Academy to make it contemporary, by including sessions on topics like communication and analysis of criminal evidence to equip the enforcement staff in meeting the challenges of changing crime scenario.

After formation of Telangana State (2 June 2014), Government of India had declared Excise Academy to be in Schedule X and was to be managed jointly by Andhra Pradesh and Telangana states. However, the Academy was under the control of Government of Telangana. As seen from the reply furnished by the Government of Telangana, focus on training improved and a total of 889 personnel were imparted training during the years 2012-13 and 2013-14 in the undivided State of Andhra Pradesh. The recommendation was implemented up to 2013-14 and not continued thereafter because of dispute between Governments of Andhra Pradesh and Telangana over the control of Excise Academy.

Insignificant or No progress

8.1.3.7 It was recommended (No. 1) to monitor closely the manufacture of RS by the State distilleries commensurate with the licensed capacity.

Audit observed that the actual production ranged from 50 to 60 *per cent* of licensed capacity of the distilleries during the period from 2012-13 to 2014-15, which indicated that this was even lower than the production capacity (between 59 and 69 *per cent*) utilised during the period 2006-07 to 2009-10.

Causes of underutilisation of licensed capacity of RS distilleries were not analysed and examined by the Government. The Government replied (November 2015) that suitable action was being taken to fully utilise the licensed capacity of distilleries.

8.1.3.8 It was recommended (No.2) to make it mandatory for the distilleries to commence production within the validity period of application for licence and frame suitable penal provisions to encourage timely commencement of production.

Nine Letters of Intent (LOI) were issued for the establishment of distilleries during the period 2010-2013. An LOI was issued to a distillery on

22 July 2011. The distillery commenced production belatedly on 1 May 2015, instead of July 2013. In two cases, LOI was extended up to 31 July 2016 and in the remaining six cases, the production did not commence till June 2016.


As per Rules 5(g) and 8 of AP Distillery (Manufacture of Spirits) Rules, 2006 if the holder of LOI fails to commence production within two years from the date of issue of LOI, right over LOI and on the licence are to be forfeited.

The Government did not forfeit LOI and licence in any of the nine cases where production did not commence within the stipulated time. The Government did not frame suitable penal provisions for delay in commencement of production. Though AP Excise (Manufacture of Spirits) Rules, 2006 and AP (Winery) Rules, 2006 did not provide for extension of LOI, Government continued to extend the validity period of LOI.

8.1.3.9 It was recommended (No. 6) to carry out a State-wide review of the liquor shops operating near the educational/religious institutions and hospitals, ignoring the distance limits prescribed in the Act, and to enforce condition of grant of licence strictly to ensure that outlets are not permitted near educational/religious institutions.

It was observed that State-wide review for bars and shops was yet to be conducted and no action was taken by the Department to shift / alter / modify the premises of sales outlets pointed out in the Standalone Audit Report earlier.

Hyderabad
The 24 February 2017


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The 01 March 2017


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