Chapter 2

Information System Audit of License Management, Liquor Production and Distribution System in Excise Department

Chapter 2

Information System Audit of License Management, Liquor Production and Distribution System in Excise Department

2.1 Introduction

The Excise and Taxation Department regulates import, export, transport, manufacture, sale and possession of intoxicating liquor[1]. It also controls prices and levies excise duties on alcohol. Excise revenue is an important source of revenue of the State Government. The excise revenue comprised 15.36 *per cent* of own tax revenue of the Government of Haryana during the year 2022-23. Excise revenue is mainly derived from fee for grant of license of various vends, excise duty, bottling fee, import/export duty etc. and also fines for confiscation of illicit liquor.

The Haryana Liquor License Rules of 1970 (HLL Rules) empower the Government to frame an excise policy prescribing the procedure and fixation of reserve price and license fee for grant of retail and wholesale vends selling Indian Made Foreign Liquor (IMFL)/Country Liquor (CL). The State Excise Policies for the years 2016-17 to 2022-23 were designed to achieve several key objectives such as breaking up monopolistic cartels, broadening trade by facilitating the entry of new, modestly resourced players, establishing a transparent system for allotting retail outlets, preventing leakage and pilferage, optimizing revenue, promoting legitimate and responsible drinking and providing good quality liquor at reasonable prices. The policy aims to safeguard the interests of four main stakeholders: the State Government, distillers and brewers, wholesale and retail licensees, and consumers.

2.2 Organisational setup

The Additional Chief Secretary (ACS)/Principal Secretary (PS) to the Government of Haryana, Excise and Taxation Department is the administrative head at Government level and the Excise and Taxation Commissioner (ETC) is the head of the Department. The ETC is assisted by the Collector (Excise) at headquarters and Deputy Excise and Taxation Commissioners {DETCs (Excise)}, Excise and Taxation Officers (ETOs)/Assistant Excise and Taxation Officers (AETOs), Inspectors and other allied staff for proper administration of State Excise Acts/Rules at district level field offices.

---

1 Intoxicating liquor means spirits, wine, beer, cider and any fermented, distilled or spirituous liquor with an alcohol content exceeding 1.2 *per cent* by volume.

2.3 Background of Information Technology System

In April 2012, the Department published a tender document for selection of a System Integrator (SI) for implementation of Commercial Taxes e-Governance in the Department of Excise and Taxation, Haryana. This system was envisaged to serve stakeholders associated with Value Added Tax (VAT), Excise, Luxury Tax, Entertainment Tax and Passenger & Goods Tax (PGT).

The Department, in its tender document, envisaged to automate the processes of all the wings under its jurisdiction. Functional requirements for each of the envisaged modules were also included in this document. The Department commissioned an external agency (M/s Ernst & Young LLP) to prepare an "As-Is Process and Procedure Document" and "To-Be Process and Procedure Document" to define the existing processes and systems prevailing in the Department and to propose/suggest revised business processes, including process flows in the applications and linkages between the applications. Besides this, the department had also prepared a System Requirement Specification (SRS) document defining details of business requirements with process maps and process description of the modules to be developed for the solution.

Department with stated objectives to improve compliance, effectiveness in collections, efficient service delivery, ease and reduced cost of compliance for the stakeholder, transparency in operations, reduction in discretionary approach to assessments & decisions and in formulation of policies in tune with the economic and market trends selected M/s Wipro Limited (SI) in January 2014 to set up the Haryana e-Commercial Tax (H-eCT) application solution. In relation to functions of excise wing, department in its RFP document envisaged to implement various modules such as Registration, License Management, Permit & Pass Management, Payment, Taxpayer ledger, Refunds, Regulation of MUs, Arrears & Recoveries, Objection & Appeals, Record Management, Internal Audit, Monitoring & Inspection, Mailing Solution, Document Management etc. to achieve the intended objectives. A payment of ₹ 104.86 crore was made to SI and system was declared go live on August 2018.

2.4 Audit Objectives

The IS audit of license management, liquor production and distribution system in excise department was carried out to assess whether:

1. the license management, liquor production, and distribution modules of the IT System implemented by the Department complied with the provisions of the Excise Act, Excise policies, relevant rules, and the System Requirements Specification (SRS);

2. application Controls including Input, Process, and Output Controls were adequately embedded in the system; and

3. Robust Business Continuity Plan (BCP), Disaster Recovery Plan (DRP) and IS Security were in place.

2.5 Audit Scope and Methodology

IS audit covered the period from policy years 2015-16 to 2022-23 and data from December 2015 to June 2023 was analysed by using Computer Assisted Audit Techniques (CAATs-IDEA, Tableau) to assess the adequacy of input, output, and process controls present in the system. The audit examination focused on functionalities related to the automation of licensing, liquor production and liquor distribution workflows implemented through various modules of H-eCT. Receipt data available in the e-GRAS system of Treasury and Accounts Department, Haryana was also used to validate the payment details. An entry conference was held on 25 May 2023 with the Principal Secretary Department of Excise and Taxation, Government of Haryana, in which the objectives, audit criteria and scope and methodology of audit were discussed. Walkthrough was carried out in Audit to examine the User Screen Interface of the modules designed for License Management, Liquor Production and Liquor Distribution System for the functionalities as envisaged under the To-Be Process and Procedure Document, SRS document and Functional Requirement Specifications (FRS) Nine[2] districts were selected to substantiate the findings through data analysis and assess the impact of non-automated functionalities. Audit was taken up between May 2023 and August 2024.

An exit conference was held on 06 March 2025 with Principal Secretary, Department of Excise and Taxation, Government of Haryana. The replies submitted by the Department (May 2025) have been suitably incorporated in the Report.

2.6 Audit criteria

The IS audit was conducted with reference to the provisions made under the following Acts, Rules and instructions:

- Punjab Excise Act, 1914 (as applicable to the State of Haryana)
- Punjab Distilleries Rules, 1932 (as applicable to the State of Haryana)
- Punjab Excise Liquor Definition Rules, 1954 (as applicable to the State of Haryana)

[2] DETCs: Ambala, Faridabad, Gurugram (East), Gurugram (West), Hisar, Jagadhri (including distillery), Karnal, Panipat (including distillery) and Sonipat.

- Punjab Breweries Rules, 1956 (as applicable to the State of Haryana)
- Punjab Excise Bonded Warehouse Rules, 1957 (as applicable to the State of Haryana)
- Haryana Liquor License Rules, 1970
- Haryana Restaurant (Consumption of Liquor) Rules, 1988
- State Excise policies of 2016-17 to 2022-23
- Functional Requirements Specification/SRS documents and good IT practices
- User Manuals, agreements, work orders and other directions issued to the software developer/ implementing agency.

2.7 Acknowledgement and Constraints

Audit acknowledges the co-operation extended by the officials of Excise and Taxation Department, development team and field offices in providing necessary information and records to audit and for furnishing replies to the audit observations. However, audit also faced a few constraints as documentation of the development process, implementation process and change management process carried out during implementation of the IT system including System Design Document (SDD), Data Dictionary, Entity Relationship Diagram (ER Diagram) and User Acceptance Test cases (UATs), rights to access the system were not made available.

Audit Findings

The audit findings are detailed under the following categories:

- License Management
- Liquor Production
- Liquor Distribution
- Other IT control issues

2.8 License Management

The department in its Request for Proposal (RFP) document had envisaged to automate the licensing process in on-line mode for different types of licenses granted by the department. It was also envisaged that renewal and cancellation/surrender of licenses would also be processed through automated system. The system was also expected to keep track of the license application at each level to enhance the transparency.

Audit findings related to License Management module are as below:

2.8.1 Absence of functionality for processing of application for grant of license

Under the provisions of the HLL Rules, the department issues various licenses for the manufacturing and trading of intoxicants to distilleries, breweries, wineries, bottling plants, bars, and wholesale/retail liquor vendors. As part of the automation initiative, the SI in the SRS document designed a process flow to be configured in the proposed system for automation of licensing process for grant of new licenses as well as their renewals.

During walkthrough exercise with departmental users to assess the functionalities embedded in the system, it was observed that the process of granting of licenses to retail vends was being carried out through the IT system for each policy year. However, in case of distilleries, breweries, wineries, bottlers, bars and wholesale licensees, the process for grant and renewal of license was done manually. Thereafter, the license details were entered into the IT system.

In absence of end-to-end functionality to process all types of licenses in the system, trails for actions performed by different users at each level of licensing process till the grant of new/renewal of license including payment of prescribed fees cannot be reviewed/monitored and extent of improvement in service delivery efficiency achieved, as one of the objectives of the computerisation project, could not be measured.

The Department admitted the facts (May 2025) and stated that efforts would be made to process all types of licenses through the online system from the next policy year.

2.8.2 Absence of functionality for remission of participation fee/earnest money deposit into Government account

Functional requirement for payment module included in the RFP document revealed that System should provide challan generation facility through online portal as well as client executable utility.

The bidding process for liquor vends involves the following steps:

- **Vendor Registration:** Applicants register with the department.
- **Payment submission:** Upon approval, applicants upload demand drafts (DDs) details for participation fees and EMDs after which the system generates an acknowledgement.

- **Verification and Bidding:** The Excise authority verifies the DDs and approves the application, thereby allowing participation in the bidding.
- **Refund and Remission:** Unutilised DDs refunded to remitters are flagged as "Y" in the database and DDs retained for successful bidders are remitted into the treasury.

Walkthrough of the front-end process and analysis of data revealed that functionality for generating treasury challans for remittance of participation fee and EMD into treasury was not embedded in the system. The amount was remitted into treasury by generating challans directly from e-GRAS portal, bypassing the departmental application. Legacy data related to these challans was also not captured in the system. Owing to this process flow gap, timeliness and completeness of remission of participation fee and EMD into the treasury could not be reconciled.

The Department admitted the facts and stated (May 2025) that system would be modified to incorporate the appropriate functionality to minimise the chances of manual error.

2.8.3 Deficient design to capture complete details for bar licenses

Paras 9.8.3 and 9.8.8 of annual excise policies provided fee rates prescribed for L-4/5 (bar) licensees based on the star ratings of hotels. The policy also permits for operation of additional points for hotels, pubs, and bars, subject to payment of additional fee. The policy also specify the hours of sale for bars and pubs, with facility to extend operating hours on payment of an extra fee.

Scrutiny of the database and walkthrough of the application processes revealed that the system was not designed to capture the star ratings of hotels for issuance of bar licenses. It also lacked functionality to record details of additional operational points, operational timings and extended operational hours for bars. As a result, the system can neither validate the applicable license fee based on hotel ratings, additional points, or extended operational hours, nor can it point out discrepancies between the payable amount and the actual payments made. During visit to field units, it was observed that manual registers being maintained/used to keep track of the license fee.

The Department admitted the facts and stated (May 2025) that system lacks functionality to capture other critical details about the bar licensees and assured that complete automation of all excise processes would be got done from the new System Integrator (SI).

2.8.4 Absence of utility to create a repository for blacklisted vendors

The annual excise policies are designed to protect the state exchequer by ensuring that applicants for liquor licenses do not have outstanding dues under various Acts under the jurisdiction of Excise Department. Furthermore, these policies stipulate that successful bidders who fail to deposit the initial five *per cent* of the bid amount on the day of allotment as security, their bids shall be cancelled and EMD be forfeited. Such bidder shall be blacklisted for five years The system would document the credentials, including any blacklist status or convictions, of applicants.

Scrutiny of the database and functionalities available within the IT application revealed that no database table was dedicated to capture the details of blacklisted or tax defaulter vendors.

The absence of centralised repository of blacklisted vendors increases the risk of participation of defaulters in the bidding process, potentially may lead to revenue risk and violation of excise polices.

The Department admitted the facts and stated (May 2025) that SI has been asked to provide appropriate functionality.

2.8.5 Historical information for renewable licenses

As per the provisions of the HLL Rules, two types of licenses are issued by the Department for each policy year (i) renewable[3] (ii) fresh.

Scrutiny of licensees' master data maintained in the database revealed that the license validity date was updated after each renewal, but historical information about the license details for preceding policy years was not maintained in the system.

Thus, absence of historical information made it impossible to determine when and by whom the licenses were renewed in previous policy years. It was also unclear whether the licenses were renewed within their validity period, if any delays occurred or if licenses were obtained/issued in the intervening period.

The Department stated (May 2025) that historical information was being maintained outside the system, however, the new SI has been directed to incorporate the provisions in the system for retention of historical information.

[3] All licenses other than for retail and wholesale vends.

2.8.6 Absence of functionality to capture and process the documents furnished by retail licensees

As per process given in the "As-is Process Document", every successful allottee must submit the prescribed documents, including valid proof of identity with a photograph duly attested by a Notary public or Gazetted officer, photocopy of the PAN card, an affidavit for no default in payment under any of the acts of the Department, two sets of surety bond (Form M-75) on non-judicial stamp paper signed by two solvent persons whose solvency equals the license fee of the allotted vend, along with their passport-size photograph. The solvency certificate certified by the Tehsildar that the licensee's immovable property cannot be transferred or sold without clearance from the Excise Department. The documents furnished by the licensee shall be verified by the excise authorities prior to the grant of license. Failure to furnish these documents or providing false affidavits can lead to cancellation of license.

A walkthrough exercise showed that no functionality was embedded in the system to upload documents and verification prior to grant of license. The entire process of maintenance of these documents and verification thereof was being done manually.

In the absence of relevant functionality in the system, deficient documentation could neither be restricted nor document examination process undertaken by the excise authorities at district level be checked for correctness by higher authorities to safeguard the state exchequer in case of any payment default by the licensee.

The Department admitted the facts and stated (May 2025) that the functionality for submission of other documents by successful allottee was not available in the system. However, the new SI has been appointed by the department with the goal of complete automation of all excise processes in future.

2.8.7 Non-availability of Geographic Information System (GIS)-coordinates of vends/sub-vends in the System

The state excise policy for the years 2018-19 to 2022-23, as outlined in paragraphs 1.2.1, 1.2.2, 1.3.6, and 9.5.2.3, stipulates the following provisions for the establishment of liquor shops:-

(i) No vend/sub-vend can be established at a distance of less than 150 meters from the main gate of a recognised school/college/main bus stand and a place of worship.

(ii) No license shall be granted to a shop (a) that is visible or directly accessible from a National/State Highway or (b) that is situated within a distance of 500 meters from the outer edge of the NH/SH/service lane along the highway on the areas falling outside the municipal limit.

(iii) There shall be a minimum distance of 2.5 kms between the sub-vend and vend/sub-vend of any other licensee in case of a rural area.

(iv) No L-1BF shop[4] shall be allowed to be located within a distance of 10 kms from any customs bonded warehouse.

The policies also provide that DETC (Excise) shall upload the Geographic Information System (GIS) coordinates of all L-2/L-14A[5] vends, sub-vends and Tavern located in its district on the web portal of the Department to monitor adherence to the above-mentioned provisions of excise policies.

Scrutiny of the data revealed that information regarding GIS co-ordinates in respect of location of vends/sub-vends/tavern was not available in the Licensee or Zone master tables of the database. This was also validated during the walk-through exercise that no functionality was available in the application to capture the GIS co-ordinates to record the location of vends/sub-vends.

Thus, non-availability of location data hinders enforcement of minimum distance criteria, risking policy non-compliance.

The Department stated (May 2025) that this provision would be implemented in the new system.

2.8.8 Capturing of Invalid/Blank Permanent Account Numbers

Para 1.2.1 of “To be Process Document” mandates the inclusion of permanent account numbers (PAN) for licensees within the system. The inclusion of PAN is crucial for the identification of ownership of vends. The Excise Department's License Management system is vital for regulating the sale and distribution of liquor.

Scrutiny of licensee data revealed that since implementation of the application (April 2015), 20,731 licenses were granted by the department. However, adequate input controls were not present in the system for furnishing of PAN details mandatorily while applying and granting the excise license. Analysis of the data further revealed that in the case of 6,646 licenses granted, system had allowed either to leave the PAN column blank or to capture PAN number not having a standard length of 10 alphanumeric characters. The IT system of

4 L-1BF: Wholesale license for the trade of IFL.

5 L-14A: Retail Vend of CL and L-2 : Retail Vend of IMFL.

Excise Department consistently failed to ensure that valid PAN numbers are entered for licensees.

Inadequate input controls over PAN, a unique identifier, limit the Department's ability to identify and restrict tax defaulter entities from participating in the bidding process.

The Department stated (May 2025) that validation check on the field related to PAN was incorporated from the policy year 2023-24. Reply of the department was not admissible as the database had licensee transaction with blank/invalid PAN even in the policy year 2023-24.

2.8.9 Grant of temporary licenses (L-12A)

Rule 24 of the HLL Rules, provides that the following categories shall apply for the grant of L-12A license:

1. Banquet halls, Farmhouses, Community centres, Public parks/ places of Haryana Sahari Vikas Pradhikaran, Dharamshalas holding functions, get-togethers, and marriage parties.
2. Hotels, Restaurants, and Clubs for serving liquor outside their licensed premises on a temporary basis for hosting a function on a specific day.
3. Individuals to serve liquor at a private place for a day.

Following irregularities were noticed during the data analysis of temporary licenses:

2.8.9.1 Non-adherence to Right to Service Act (RTSA) timeline

As per the provisions of the RTSA, a temporary license was to be granted within 30 working days from the receipt of application on the department's web-portal.

During analysis of the temporary license data pertaining to the period December 2015 to July 2023, 17,157 temporary licenses were approved/rejected by the competent authority, of which 619 licenses were approved/rejected after the permissible time limit. The delay ranged from one to 1,599[6] days. There was no functionality in the system to ensure adherence/monitoring of timelines prescribed under the Act *ibid*.

[6] Excluding Saturdays, Sundays and State holidays.

Further, analysis of the temporary license applications revealed that 5,452 out of 46,414 applications received on portal up to March 2023 were pending for disposal till June 2023. The pendency period for these applications ranged between 91 and 2,760 days. In these cases, fee amounting to ₹ 3.74 crore was paid into the treasury.

The absence of this escalation matrix functionality hindered timely disposal of temporary license, undermining the project's objective of efficient service delivery.

The Department stated (May 2025) that there is no mechanism for prompting the excise officials regarding pendency of such applications, however, new SI had been directed to make desired modifications in the system and possibilities for incorporating the escalation matrix in such cases would be explored to deal with the delayed applications.

2.8.9.2 Non-existence of validation checks

As per excise policies for 2020-21 to 2022-23, all commercial venues i.e. Banquet halls and Hotels with party halls/lawns should be mandatorily registered with the Excise Department by paying the prescribed registration fee.

Analysis of the department's website for applying the L-12A licenses revealed that on selecting the venue category as "Commercial" a drop-down list of registered commercial venues pops up for selection by the applicant. This list also contains "others" as an option, which allows the applicant to enter the venue's address of his choice.

Analysis of data from December 2015 to July 2023 revealed that 10,522 temporary licenses (L-12A) were approved on the portal by competent authorities, out of which, for 8,010 licenses, the venue category "others" was selected instead of a specific venue name, making it impossible for the system to identify whether any license was issued to the commercial venue for holding these events. In the absence of a specific venue name and license number, it cannot be ensured that the particular commercial venue was registered with the department. Out of remaining 2,512 licenses approved for 86 venues, 69 venues lacked valid registrations, yet 2,149 temporary licenses were issued for functions held at these places.

Thus, due to absence of adequate validation checks in the system to verify the registration status of commercial venue, grant of temporary licenses for serving liquor at unregistered commercial venues could not be restricted as per the excise policy provisions.

(ii) Analysis of data related to temporary licenses also revealed that in 1,787 out of 46,414 permit requests received between December 2015 and June 2023, the approval/rejection was granted after the scheduled event. Approval or rejection of applications after the event indicates a potential risk of unauthorized serving of liquor.

(iii) Analysis of temporary license data with prescribed process flow revealed that in 23 pending/rejected transactions, license number was assigned indicating towards the absence of adequate validation checks in the system.

The Department stated (May 2025) that "Other" option is available for holding functions at venues like offices or at private places that are not self-owned and such places were not required to be registered, however, fee of higher category i.e. commercial venues was charged. Reply was not admissible as, in the case of holding functions privately, the applicant had the option of selecting the category as "Private Venue" instead of "Commercial Venue". It is required that under the "Commercial Venue" category list of only commercial venues should have been available to verify the registration of such venues by the system. However, the Department has assured that necessary steps would be taken to rectify this.

Further in case of action taken on applications after the event, the department admitted the facts and stated (May 2025) that necessary instructions have been issued (March 2025) to the field offices for timely disposal of such applications. Moreover, SI had also been instructed to improve the functionality and for assignment of license number to pending rejected application, department stated that SI has been instructed to take necessary action to this technical glitch.

2.8.10 Users' Credential details missing in the master table

As per prescribed process flow, the applicant logs in to the excise portal with his login credentials provided at the time of sign up process and fills the requisite details alongwith details of DDs. The applicant had to furnish on account of participation fee and EMD prior to submission of the application to the concerned DETC. Once the application process is approved by the DETC, the applicant becomes eligible for submission of tender application. On the day of tender submission, the applicant logs-in the system and submit the tender application after furnishing the bid details. It is mandatory for every individual willing to participate in the liquor vend bidding process to register on department's portal.

Scrutiny of the data revealed that requisite details of an individual who participated in the bidding process were missing from the master table. Missing user credentials in the master table is a serious issue as it can also be possible due to deletion of record from the backend without leaving any trail of actions and creates a risk of a user succeeding in the bidding process without registration on the portal.

The Department admitted the facts and stated (May 2025) that the said user had participated in the bidding process, however, reasons for missing user credentials were not furnished.

2.9 Liquor Production

Liquor production in the State is regulated by the provisions contained in the Punjab Excise Act 1914, Punjab Distillery Rules 1932, Punjab Breweries Rules 1956, Annual Excise policies and amendments/instructions issued by the Government from time to time.

As per the provisions contained in the Punjab Distillery Rules, 1932, Excise staff posted at Manufacturing Unit (MU) is responsible for ensuring adherence to the prescribed rules by the MUs under their jurisdiction.

Audit findings related to Liquor Production are given below:

2.9.1 Non-automation of liquor production process

Excise Inspector (EI) oversees liquor production, measurement of Extra Neutral Alcohol (ENA), transferring ENA to blending VATS[7], transferring manufactured liquor to Holding tanks for bottling purposes and securing storage units with excise locks tagged with tickets at Manufacturing Units (MUs).

As per departmental instructions issued in April 2022, all the distilleries/bottling plants were to install mass flow meters on the pipelines between the stills and the spirit receivers as well as between the spirit storage tanks, blending VAT and loading point in order to measure the mass flow of spirit passing through such pipeline accurately. The Licensee was required to install an Infotech system to record the readings of the mass flow meters capable of communicating the readings to the IT system of the department for preparation of register in Form D-30, maintained by the officer-in-charge of the distillery. Department in its To-be Process document envisaged to capture the day-to-day entries in the system to automate the preparation of D-13B, D-14A and D-9 registers to keep track of spirit issued for bottling, bottles filled with quantities filled therein and balance quantity of spirit in hand besides wastage; daily total of bottled spirit stored, issued and balance at stocks; and inspector's diary containing details about spirit in vessels, locks put on/off, serial number of the ticket used on locks respectively. It was also envisaged to maintain detailed audit trail to detect any abnormal deviation in production volume, opening and closing stock and prevention of information from tampering. Digitisation of

[7] "VATs" refers to a large, open-topped vessel, like a large tank or tub, used for holding, blending and sometimes fermenting liquids, particularly in the production of spirits like whisky.

information related to opening and closing of VATS locks will also help to monitor the operational hours of the distillery.

Scrutiny of records of two MUs revealed that the liquor production process, including details of VAT lock operations and bottling activities (opening balance, production, sale, and closing balance), was maintained manually as these functionalities were not automated by the department.

Thus, due to lack of automation, manual processes remained vulnerable to errors and manipulation in quantity of ENA used, liquor produced and wastage reported at various stages of production cycle, highlighting the urgent need for a fully integrated digital system to enhance efficiency.

The Department admitted the facts and stated (May 2025) that due to technical reasons distillery module could not be implemented successfully, however, new vendor has been selected now to ensure complete automation of the processes.

2.9.2 Non-automation of issuance of permit/pass for supply of Extra Neutral Alcohol

To ensure the lawful and controlled utilisation of ENA, the Haryana Excise Department mandates that individuals and enterprises involved in the production, distribution, and trade of ENA must obtain appropriate permits.

During the walk-through exercise of the process flow meant for distilleries (performed at Haryana Organics Distillery, Samalkha), it was found that permits for the movement of ENA to bottling plants, distilleries, and outside the State were not being regulated through the IT system. Excise permits for inward supply and passes for outward supply of ENA were prepared and issued manually, although an online provision for permit applications was available, as evidenced by 16 test entries found in the database for the period between 2016-17 and 2020-21.

Test check of sale invoices revealed that M/S Haryana Organics, Samalkha had sold 7,28,32,195 PL[8] of ENA in the State for manufacturing of CL/IMFL during the years 2018-19 to 2022-23 but permits and passes of this quantity were issued manually outside the system.

[8] 2,11,03,003 Bulk Litre (2,11,03,003*1.68=3,54,53,045 Proof Litre (PL)) of ENA to bottling Plant of M/S United Spirits Limited and 2,22,49,494 BL (2,22,49,494*1.68= 3,73,79,150 PL) to different distilleries.

Thus, manual issuance of permits and passes for large quantities of ENA outside the system increases the risk of unauthorized diversion, misreporting, and potential revenue loss due to lack of automated controls and audit trail.

2.9.3 Non-automation of functionality to capture liquor chemical examination reports

The H-eCT IT system was implemented to automate the functions of the Excise Department under applicable Acts and Rules. As per Rule 17 of the Punjab Distilleries Rules (applicable to Haryana), distilleries are required to permit sampling of materials used in spirit production to ensure liquor is fit for human consumption. In the state of Haryana, prior to dispatch from MUs, samples from each batch are sent to the chemical examiner for quality testing. Scrutiny of system data and entry forms revealed that the IT application lacked a design to capture details of samples sent for testing and the results received from the chemical examiner.

In absence of this information in the application, adequate validation checks could not be enforced in the system to prevent the approval of passes (for dispatch) in respect of batches for which either the chemical examiner's reports was not received or where the results of the chemical examination were not in confirmation to the specified parameters.

Scrutiny of records of M/s Haryana Distillery Limited, Yamunanagar, and Haryana Organics, Samalkha, (for the period from 2016-17 to 2022-23) revealed that in 44 batches, liquor was dispatched before receipt of chemical examination reports. The reports were received one and 581 days after the dispatch passes were issued. In the absence of system functionality to capture chemical test results, validation checks could not be enforced to restrict the issuance of passes until the results of the internal/external chemical analysis were received.

The Department stated (May 2025) that as per Punjab Distillery Rules, it was not mandatory that sample from each batch for chemical examination should be drawn. However, samples taken from each batch were tested in-house by the distilleries and got tested by the Government examiner acting as an additional check which usually gets delayed. However, department assured that this issue would be addressed in new software.

Reply is not admissible as Department's reliance on in-house testing by distilleries and delayed verification by the Government examiner highlights a lapse in regulatory control and allowing the manufacturer to self-certify its own product creates an inherent conflict of interest and undermines the credibility of quality checks.

2.9.4 Absence of functionality to capture hologram serials for mapping with liquor stock approved for supply

Security labels (holograms) are mandated on liquor bottles to prevent counterfeiting, ensure authenticity, and curb illegal sales. Each hologram carries information like serial number, pack type, and liquor type.

Further, to mitigate the risk of illegal liquor supply, departmental enforcement teams and police staff were tasked with monitoring liquor movement by checking the excise pass carried during movement of liquor. During walkthrough and analysis of database, audit observed that after bottling, hologram-affixed bottles are approved by excise authorities, but the system lacks functionality to capture hologram serial numbers and their mapping with excise passes. Consequently, Form L-34 does not record hologram details of the stock in transit. To enhance regulatory control, prevent illicit activities, and strengthen enforcement, it is crucial to design and implement a system that integrates hologram tracking with the excise pass, enabling real-time verification of liquor authenticity during transit.

Department stated (May 2025) that capturing hologram details on passes was not feasible and cited implementation of a QR/barcode-based track and trace system.

The fact, however, remains that holograms are still in use and absence of hologram details on excise passes makes it difficult for enforcement staff to effectively verify the genuineness of liquor supply/pose risk of liquor diversion /circulation of counterfeit products.

2.9.5 Process for issuance and use of hologram by L-1BF licensees not automated

Analysis of the manual record maintained by DETC(Excise) Ambala revealed that 44,70,082 holograms were issued to L-1BF licensee during the policy year 2022-23 and as per data, the licensee had supplied 19,87,869 bottles of liquor leaving balance of 24,82,213 un-utilised holograms, however, no such entry was made in the records.

Lack of automation in IFL hologram created variations between issued and utilised holograms and prevented tracking of unutilised holograms, posing a risk of misreporting and diversion. The Department admitted the facts and stated (May 2025) that the process for issuance of holograms and their usage was not automated and was being maintained manually.

2.9.6 Liquor bottling, dispatch and export

Annual excise policies issued by the Government of Haryana prescribe rates of bottling fees for bottling of IMFL by distilleries, bottling of their own brands by bottling plants and bottling of beer by breweries. Similarly, annual excise policies also prescribe rates of export duty to be levied on the liquor stock exported outside the State by the MUs situated in the State.

After bottling of liquor, the licensee submits batches of liquor on the excise portal for approval by the Excise Authorities posted at the MUs. Before the final submission of the transaction, the system computes and stores the value of the bottling fee payable in stock table of the database and a parallel entry is also populated in the payment table for setting off the liability from the available corpus of the concerned licensee.

Audit observation noticed during the scrutiny of the bottling data are as follows:

(a) Short computation/realisation of bottling fee

The development team informed that during submission of batches of bottled liquor for approval of the excise authorities, the system calculates the bottling fee and records it in the system and a corresponding entry is created to adjust the payable amount from the licensee's available corpus.

Analysis of the data (for the period from 2016-17 to 2022-23) revealed that the system had computed excise levies amounting to ₹ 4.14 crore on account of bottling fee payable for 37,25,330 Proof litre (PL)/Bulk litre (BL) of liquor bottled against 591 Finished Goods (FG) transactions whereas as per the prescribed rates, ₹ 5 crore were payable for approved stock, resulting in less computation of ₹ 0.86 crore by the system.

Simultaneously, as per information available in the table containing details of stocks approved, it was found that 69,385 FG transactions for IMFL and beer were approved by the excise authorities on the excise portal. Analysis of the payable bottling fee recorded in the respective table with the values recorded as actually set-off from the available corpus of the licensees, variation in bottling fee payable and actually set-off was noticed for 133 transactions. In these transactions, bottling fee amounting to ₹ 2.48 crore was computed as payable, however, liability of only ₹ 0.07 crore was recorded for setting off from the corpus available with the licensees. Thus, absence of adequate process controls resulted in short realisation of bottling fee of ₹ 2.41 crore.

The Department admitted the facts and stated (May 2025) that ₹ 40.12 lakh had already been recovered/adjusted. Further, in respect of short realisation of bottling fee an amount of ₹ 7.32 lakh had been recovered/adjusted out of ₹ 2.41 crore.

(b) Non-compliance of Excise Policy by Packaging Country Liquor in Pet bottles

As per good IT practices, it was expected that IT applications should have in-built controls which automatically check that data input is accurate and valid.

As per Para 2.13.11 of the Excise Policy for the policy years 2021-22 and 2022-23, the bottles to be used for bottling of country spirit of 50-degree proof[9] must be made of 'pucca glass' (glass bottles) or PET bottles manufactured on fully automatic machines. However, for CL of 65 degree proof, such as Metro Liquor and Indian Made Foreign Spirit of 75 degree proof, only 'pucca glass' bottles were permitted.

Analysis of the data revealed that liquor stock bottled by the MUs and approved by the excise authorities, 14 batches containing 42,120 PL of CL of 65 degree proof strength were bottled in PET bottles in contravention of the aforementioned instructions mandating the use of glass bottles. These batches included pack types of 180 ml, 375 ml, and 750 ml totalling 7,200 boxes of liquor.

This indicates that adequate checks in accordance with the excise policy guidelines were not embedded in the system to restrict the use of pet bottles for CL for strength above 50 degree proof.

The Department admitted the facts and stated (May 2025) that SI had been directed to provide adequate validation checks in the system.

(c) Allowance of bottling wastage

Rule 101 of the Punjab Distillery Rules allows a wastage of 1.5 *per cent* for bottling operations of both CL and IMFL. Monthly wastage calculations permit distilleries to offset lower wastage in one month against higher wastage in another. Further, Rule 101(4) provides that duty shall be charged at the rate applicable to particular kind of spirit.

Analysis of data from the table containing date-wise details of bottled liquor and wastage claims revealed that during the years 2015-16 to 2022-23, excess wastage of 91.17 lakh PL/BL beyond the permissible limit was approved by excise authorities. As per prescribed rates, excise duty amounting to ₹ 42.19 crore was leviable on the excessive wastage allowed. Further, scrutiny

---

9 Alcohol proof is a measurement of the amount of alcohol in a beverage. It is usually double the percentage of alcohol by volume.

of the payment details table revealed that no payment transactions was found on account of excess wastage ***(Appendix 2.1)*** allowed for IMFL, CL and Beer.

Scrutiny of D-13B registers maintained at the excise office (at Distillery in Jagadhri) revealed that the volume of bottling wastage recorded in the manual registers was not being captured in the IT system.

Thus, in absence of adequate validation checks in the system, neither allowance of bottling wastage in excess of the permissible limits was restricted by the system nor excise duty on excessive wastage was levied by the system.

The Department while admitting the facts stated (May 2025) that functionality for levy of excise duty on the excess wastage would be considered in the new software being developed by the new SI and assured that recovery of excise levies payable for excess wastage already allowed would be effected.

(d) Approval of excise pass for dispatches of liquor after the prescribed timings

As per the provisions contained in the Punjab Distillery Rules, the Government issues instruction for fixation of timings for liquor dispatches from the distilleries/breweries/bottling plants situated in the State. For the Policy Year upto 2021-22 the said timing was fixed from 0900 hrs to 1700 hrs, and from 2022-23 onwards it was fixed from 0900 hrs to 1900 hrs.

During analysis of pass details since policy year 2017-18 to 2022-23, it was found that 610,93,922 PL (584,51,041 PL intra-state and 26,42,881 PL inter-state) of the total liquor was dispatched beyond the prescribed dispatch timings through 30,719 passes (comprising 29,902 intra-state and 817 inter-state passes). Similarly in case of breweries and bottling plants, it was revealed that 7,82,89,819 BL of this liquor (3,94,57,174 BL intra-state and 3,88,32,645 BL inter-state) was dispatched beyond the prescribed timings through 10,189 passes (comprising 5,458 intra-state and 4,731 inter-state passes). These passes were approved by excise authorities after the permissible dispatch hours.

Test check of 833 entries made in the gate pass register maintained at M/s Haryana Organics, Samalkha, Panipat, (for the period between 2020-21 and 2023-24) confirmed that in 153 cases, dispatches for liquor supply were made after the permissible timings. Analysis of data also revealed that these transactions did not capture time stamps for pass validity or the date and time details when the liquor supply was received by the recipient licensee.

Absence of system controls to restrict approval of passes beyond permissible hours and lack of timestamp records increases the risk of unauthorised liquor movement, possible diversion, revenue leakage and misuse of excise passes without accountability. Thus, owing to the absence of process controls in the system, approval of passes beyond the permissible hours could not be restricted by the system.

The Department admitted the facts and stated (May 2025) that no process controls were present in the system and it had ensured that no dispatches would be made after the prescribed timings.

(e) Missing stock register entries for bottled liquor

Discussions with the development team revealed that batch no. wise, brand wise and pack type wise details of FG stocks of liquor bottles are captured in the "Stock Register" table by distilleries and forwarded to the Excise authorities deputed in distillery for their approval. On grant of approval, liquor bottles are packed into boxes and dispatched. Each transaction in the table is identified by the automated sequential numerical values stored in the "Stock Register ID" column. Analysis of this column revealed that 90[10] transactions were missing for the years 2015-16 to 2018-19.

The missing transactions raises concerns about the possibility of unauthorised deletions or alterations and with the associated risk of diversion of liquor and revenue loss.

The Department stated (May 2025) that in case of failure in submission of any transaction, ID assigned to failed transaction was not re-used and new ID was generated to next attempt leading to gaps. The reply was not admissible as the absence of audit trail for failed transactions and gaps in IDs indicate a lack of system controls and raises concerns over data integrity.

(f) Lack of controls over batch details information

During process flow demonstrated at a MU, it was noticed that liquor prepared in a blending VAT is assigned with a distinct batch number and liquor bottled therefrom is approved by the excise authorities. Details of bottled liquor are captured in the stock table. After receipt of stock approval, details of batch numbers are captured in the table designed to hold the details of passes. The information in both tables helps excise authorities monitor that the batch-wise quantity of liquor dispatched from the distillery matches the quantity approved by excise staff.

[10] 2015-16: 29, 2016-17: 34, 2017-18: 19 and 2018-19: 8.

Analysis of the data/information available in the Pass details and Stock register tables revealed that the system allows capturing multiple batch numbers in one transaction for a composite quantity which shows lack of inadequate input control to verify the discrepancies. Absence of these controls creates a risk of excess/ short supply of liquor to vendors with reference to liquor actually produced in a batch.

The Department admitted the facts and stated (May 2025) that there was no mechanism to capture batchwise quantitative details of liquor issued through a pass from the distillery, however, this utility would be created.

(g) Short computation of export duty

Development team, while describing the data flow designed for processing of export consignment, explained that the system itself computes export fee payable based on the export duty rates captured in the master table. This export duty, computed for volume of liquor, was to be set off from the corpus money available in the licensee's ledger.

Analysis of data revealed that since the policy year 2015, 64,303 passes were approved for export of 3,862.08 lakh PL/BL of liquor.

Analysis of export duty payable against these pass transactions with "Amount_Due" information available in the Payment table revealed that in case of 858 transactions created for exporting liquor to other States/Union Territories within country, export duty amounting to ₹ 55.29 lakh was payable, however, as per payment information available in the database, a sum of ₹ 33.03 lakh was set-off from the corpus of respective licensees on account of export duty. Absence of adequate process controls over computation of export duty resulted into short realisation of export duty amounting to ₹ 22.26 lakh.

The Department admitted the facts and stated (May 2025) that an amount of ₹ 1.03 lakh had already been recovered and the remaining cases would be examined.

2.10 Liquor Distribution

Movement of liquor in the State of Haryana is regulated under the provisions of Punjab Liquor Permit and Pass Rules, 1932. "Permit (Form L-32)" means a no objection statement issued by the Collector of the destination district or an officer authorised in this behalf for import and transport of liquor but does not empower the authorised person for its removal from the place of issue. This term is also used for permits authorising possession of liquor exceeding the limit of retail sale. Further "Pass (Form L-34)" is the document which actually authorises the removal of liquor.

As per RFP, liquor transfer requires a permit issued by the destination excise office and a pass from the source excise office, both applied through digital filing with e-payment. The system links permit and pass for quota monitoring, tracks utilization and collection of various types of excise levies.

Audit findings related to Liquor Distribution module are as follows:

2.10.1 Missing information for historical Ex-Distillery Price (EDP)

The State Government in each policy year fix EDP for CL and different brands of IMFL supplied by the MUs or wholesale licensees of the MUs not situated in the State. Excise duty payable on sale of liquor is determined based on EDP fixed. As per good IT practices, historical information updated for each transaction shall be maintained in an IT system.

Data analysis of the information maintained in the brand master table revealed that the EDP of the previous policy year is replaced by EDP fixed for the current year. However, no historical information was found in the database for EDP fixed for previous years in order to verify the correctness of excise duty charged for different types of brands of IMFL.

Unauthorised overwriting of historical EDP values without audit trail may result in incorrect excise duty charges, leading to revenue loss and hindering verification of accuracy of calculation/payment of EDP.

The Department admitted the facts and stated (May 2025) that historical information of EDP for previous years was not being retained and efforts would be made to upgrade the existing system to keep the historical information about EDP for each policy year.

2.10.2 Short Computation of additional excise duty (AED)

As per paragraph 3.4.1 of the Excise Policy for the years 2016-17 to 2022-23, licensees of retail outlets of (L-14A and L-2) are entitled to lift an additional quota of liquor up to 50 *per cent* of the annual basic quota prescribed in Excise Arrangement circulated prior to publishing the notice of liquor vend auction. Basic quota of the retail licensees was further bifurcated to quarterly quota slabs and any quantity of liquor lifted in a quarter beyond the basic quota limit was termed as additional quota. The retail licensees had to pay AED as per prescribed rates on the volume of liquor lifted in excess of the prescribed quota of CL and IMFL.

During walk through exercise of the functionalities embedded at front end of the application, it was observed that a radio button option was made available to the licensee to select the requested liquor supply under the category of “Basic Quota” or “Additional Quota” In case of liquor quantity exceeded the basic quota limit, system should have capability to determine the levy of AED on quantity of liquor falling under additional quota category.

Analysis of data (for the period from 2016-17 to 2022-23) revealed that 125 CL retail licensees lifted 2,555,137 PL beyond their quarterly basic quota, incurring an AED of ₹ 11.31 crore, but only ₹ 6.36 crore was recorded as paid. Similarly, 243 IMFL licensees lifted 55,27,254 PL beyond their quota, with ₹ 29.70 crore due but only ₹ 24.28 crore was levied.

Thus, absence of adequate process controls in the system and allowing the licensees to self-categorise the liquor supply as basic quota or additional quota resulted into short levy and realisation of AED amounting to ₹ 10.37 crore.

The Department stated (May 2025) that AED was levied on additional quota lifted by the licensees as reported in the MIS report.

The reply was not admissible as the system lacks functionality for auto determination of the liquor lifted in excess of the basis quota as "additional quota" The Department further stated that database level checks were implemented to enforce data integrity from 2023 and onwards. However, no UAT report were furnished by the Department to verify the same in Audit.

2.10.3 Approval of passes for quantity in excess of the quantity approved in permits

As per the liquor movement process, a licensee must pay applicable excise levies before submitting a permit application. Each permit has fixed validity, within which the approved liquor must be procured. If the supply is not fully lifted, the licensee may seek revalidation of the permit multiple times until the approved quantity is obtained. No additional excise levies are required for revalidated permits, as payment is made with the original application.

Analysis of data revealed that in 2,414 permits, the volume of liquor approved in the original permit (62,09,589 PL/BL of liquor) was lower than the quantity actually lifted (1,18,97,399 PL/BL of liquor) by the licensees through passes issued against original/revalidated permits. The absence of adequate validation checks in the system to restrict the overall supply of liquor against original/revalidated permits resulted in excess supply of 56,87,810 PL of liquor.

This resulted in a short levy of excise dues to the tune of ₹ 6.93 crore in respect of 789 out of these 2,414 permits.

The Department stated (May 2025) that random checking of the pointed out transactions was done and in none of the cases, supply of liquor in excess of the quantity mentioned in permits was noticed. The reply was not admissible as in all the cases, the quantity lifted through excise passes was more than the quantity approved in permits. Moreover, the department did not provide any documentary evidence in support of its claim.

2.10.4 Outward supply in excess of the available quantity

In the State of Haryana, L-1B and L-1B1 licenses are issued for wholesale trade of IMFL and beer/wine respectively to the MUs situated in the State and L-1AB license is granted for wholesale trade issued to other brands of repute with low sale volumes or reputed brands owned by non-distillers having no distillery license in India. These licenses were renewed annually and stock balance at the end of a policy year was carried forward to the next policy year.

During analysis of the information regarding quantity of liquor received and supplied by the aforementioned types of licensees for the period upto June 2023, instances were noticed where quantity of liquor supplied by 21 licensees was more than the liquor stock available with them, resulting into negative balance of quantity in their ledgers at the end of policy year.

Thus, due to the absence of adequate processing checks, the system could not restrict the quantum of supply to the extent the liquor stock was available with the licensee. Absence of these controls may also lead to supply of liquor without payment of excise levies and loss of revenue to the exchequer.

The Department stated (May 2025) that the issue arose due to technical glitch. Further, it was stated that the current system lacks mechanism to limit supply on the licensee’s available stock, however, the system would be updated.

2.10.5 Difference between the quantity supplied by the supplier and quantity taken in the stock by the licensee

The data table containing details related to passes, capture quantity of liquor supplied by a supplier licensee and quantity of liquor received in stock by the recipient licensee. The Quota lifted by a licensee is determined based on the liquor taken into stock by him/her.

Analysis of the pass details revealed that in 2,793 pass transactions liquor quantity claimed to be supplied by supplier licensee was not in consonance with liquor quantity claimed by the recipient licensee in its stock as detailed below:

- In 2,731 passes, suppliers reported 71,49,522 PL/BL of liquor, but recipients recorded only 31,89,609 PL/BL of liquor, leading to an under-recording of 39,59,913 PL/BL of liquor.
- In 62 passes, suppliers reported 33,780 PL/BL of liquor, while recipients recorded 1,15,074 PL/BL of liquor, resulting in an excess credit of 81,294 PL/BL of liquor.

Thus, in absence of adequate processing controls, system did not restrict processing transactions even when there was mis-match between the quantities of liquor reported by the supplier and recipient licensees. This discrepancy can lead to inaccurate stock reporting, misstatement in MIS and revenue loss besides possible risk of unauthorised diversion and inaccurate stock inflation.

The Department stated (May 2025) that stock was updated only after physical verification of consignment received and it could not be rectified/edited. Reply was not admissible as there existed a difference in quantity supplied and quantity taken in stock by the recipient licensee.

2.10.6 Creation and Management of Permits for liquor distribution

As per prescribed process flow, the Licensee online submits its permit request to the destination excise authorities after the payment excise levies. On the basis of approved permit request, the recipient applies for pass request to the source excise authorities and after approval of pass request the liquor is authorised to be transported to the recipient licensee.

Audit findings related to permit transactions are as below:

2.10.6.1 Missing permit transactions

Data Table designed to hold permit transactions records information from creation of permit request to approval/rejection of the permit request. Each transaction in the table is assigned with a system generated sequential number to derive an assurance that data is complete. Excise levies i.e. excise duty, permit fee, AED etc. are levied on the basis of transactions populated in this table.

Analysis of values available in the column containing system generated sequential number in the permit transaction table for the period April 2016 to May 2023 revealed that 89,285 transactions were missing. However, information regarding these missing permit transactions was not available in the database.

The missing transactions raise concerns about unauthorised deletions or alterations and poor control over transaction logging with the risk of unauthorised liquor diversion not being ruled out.

The Department stated (May 2025) that in case of failure in submission of any permit application, ID assigned to failed application is discarded and new ID is generated for the next attempt leading to gaps, however, in the new system necessary measures would be taken to ensure all the successful and unsuccessful permit application attempts are appropriately logged in the database.

The department needs to investigate all the cases pointed out by audit to ensure that all irregularities are identified and corrective action is taken to safeguard revenue and control over liquor stock.

2.10.6.2 Time taken for finalisation of permit applications

The Department, in its RFP document, aimed to improve service delivery efficiency for departmental stakeholders by automating functions performed by departmental users. Further, the State Government notified (December 2020) timeline of three working days for grant of permit under the RTSA.

(i) Scrutiny of data revealed that 28,18,519 transactions were captured in permit details data table of which 26,69,137 transactions were either approved or rejected by the authorities. Analysis of approved/rejected transactions revealed that 19,11,297 regular permits were created by the users between policy years 2016-17 and 2022-23. Further, analysis of these permits revealed that 18,85,767 permits were either approved or rejected within seven days of their creation. However, in remaining 25,530 permits time taken to approve/reject these permits ranged between eight to 1,522 days.

(ii) Analysis of the permit transactions data revealed that out of 74,833 permit cancellation requests submitted by licensees, 221 requests initiated between January 2016 and May 2023 were pending up to July 2023.

(iii) Similarly, 2,060 permit applications received between December 2015 to March 2023 were pending for decision up to July 2023.

Audit noticed that no escalation matrix was available in the system to deal with permit applications not finalised within the prescribed timeline to achieve the objective of improvement in service delivery efficiency as envisaged in the RFP document.

The Department admitted the facts and stated (May 2025) that the absence of an automated escalation mechanism in the current system contributed to this delay. However, this issue would be effectively addressed in the new system through automation and real time monitoring.

2.10.6.3 Variable validity period assigned to permits

Analysis of the master data table containing details of validity to be assigned to each type of permit revealed that maximum validity of 7 to15 days and 3 to 15 days was fixed for inter and intra district respectively. However, for import permits no validity was prescribed. Analysis of the permit transactions revealed that maximum validity assigned to permit approved during the policy years from 2015-16 to 2022-23 ranged between 62 to 741 days, 56 to 378 days and 40 to 62 days respectively for intra-district, inter-district and import permits against maximum validity of 15 days given in the master table as detailed in ***Appendix 2.2***.

Absence of adequate input validation controls over assigning the validity of permit resulted into assignment of validity beyond the period values given in the master table.

The Department admitted the facts and stated (May 2025) that variable validity to permits were assigned due to absence of system enforced validation checks within current workflow. However, enhanced validation mechanism has now been implemented to ensure that the permit validity aligned with the provisions of excise policies. Reply is not tenable as User Acceptance Testing reports have not been submitted in support of the reply.

2.10.6.4 Issuance of passes against cancelled permits

As per the permit process flow, a permit request submitted by a licensee can be rejected either by Excise Inspector (EI) or Additional Excise & Taxation Officer (AETO) prior to its approval. The System also facilitates the licensee to submit a request for cancellation of the permit already approved by the AETO. Different codes were assigned in the database for permit requests rejected prior to their approval and permit requests cancelled against the cancellation request made by the licensee.

Analysis of the data available up to July 2023 revealed that 28,19,000 permit transaction requests were submitted on the departmental portal by the excise licensees. Analysis of these permits further revealed that 74,478 transactions were rejected/cancelled by the excise authorities.

Further, analysis of these rejected /cancelled permits with approved pass transactions revealed that passes were issued against 310 cancelled/ rejected permit transactions for supply of 4,37,402 PL/BL liquor, of which 296 transactions, permits were cancelled/ rejected after the passes were issued and in remaining 14 transactions, passes were issued against the cancelled/ rejected permit resulting in non-levy of excise duty of ₹ 33.19 lakh.

Issuance of passes against cancelled/rejected permits led to non-levy of excise duty, exposing the department to revenue loss and hinders liquor movement tracking.

The Department admitted the facts and stated (May 2025) that due to absence of validation controls, these approved permits were cancelled after issuance of passes and efforts would be made to recover the outstanding amount.

2.10.6.5 Transactions related to permit not compliant with prescribed process flow

During analysis of the data, it was found that in the following permit transactions processed were not compliant with the prescribed process flow:-

(i) As per the prescribed process flow, permit number is assigned to each request on its approval. In case of 464 rejected permit transactions, permit number was assigned. The Department while admitting the facts stated (May 2025) that all the necessary checks have been now implemented to prevent generation of permit number in case of rejection. The department, however, did not provide User Acceptance Testing in support of the reply.

(ii) During the development process of the IT system it was envisaged that uniqueness of permit and pass numbers would be ensured.

- Analysis of the data revealed that in 30 transactions same permit numbers were assigned for the different licensees.
- Similarly for nine acknowledgement numbers assigned to permit requests, 18 different permit numbers were assigned.

The Department while admitting the facts stated (May 2025) that these issues occurred due to some technical error and all the necessary checks have now been implemented by SI to prevent these issues. However, the Department did not furnish User Acceptance Testing reports in support of its claim.

(iii) As per information available in the database, 641 permit were issued prior to their creation. The Department stated (May 2025) that these issues occurred due to technical error.

(iv) 75 permits approved in favour of 51 licensees after the expiry of validity period of respective licenses. The Department stated (May 2025) that these issues occurred due to some technical error and all the necessary checks have now been implemented by SI to prevent these issues. Reply is not tenable as UAT reports have not been submitted in support of the reply.

(v) In 1,648 transactions[11], validity period of the approved passes was beyond the currency of respective policy year. The Department stated (May 2025) that these issues occurred due to technical errors.

[11] Number of passes: 2016-17: 72; 2017-18: 1,380; 2018-19: 47; 2019-20: 1; 2020-21: 125; 2021-22: 2 and 2022-23: 21.

2.10.7 Pass applications

2.10.7.1 Inadmissible allowance of breakage to wholesale

As per para number 12.5A of Excise policy 2022, the breakage allowance for in-storage and in-transit losses to the wholesale vends for various types of liquor shall be allowed upto the extent of norms prescribed in annual excise policies. However, between the policy years 2016 and 2021, no such provision was made in the policies.

Analysis of the data of Pass table for the policy years 2016 to 2022, revealed that pass requests submitted by licensees claiming breakage of liquor bottles was allowed in the system. In these cases, breakage for liquor volume of 1,09,61,428 PL/BL was allowed to the different types of licensees as mentioned below:

Year	2016	2017	2018	2019	2020	2021	2022	Total
Total	6,71,601	10,59,948	9,40,892	11,80,310	45,03,158	25,88,373	17,146	1,09,61,428

Thus, in absence of adequate validation controls in the system, inadmissible breakage allowance could not be restricted. There is possible risk of under-reporting by misclassifying of liquor shortages as breakage by wholesale licensees and diversion of liquor.

The Department stated (May 2025) that the breakage was admissible as per rule 16 (iii) and 16 (iv) of the Punjab Liquor Permit and Pass Rules 1932. Reply was not admissible since as per rule 16(iii), the wastage allowance was prescribed for spirit conveyed in wooden or metallic vessels and as per rule 16(iv), no scale of wastage was prescribed for bottled spirit. All the pointed out cases were related to breakage of bottled spirits which was not provided in the extant rules.

2.10.7.2 Liquor stock not updated

Analysis of the data of Pass table revealed that stock of 194,12,484 PL/BL of liquor received by wholesale licensees of CL/IMFL was not updated in their accounts. This quantity was issued through 4,551 passes during the policy years from 2016 to 2022. Pendency of stock updation in 3,327 out of 4,551 passes ranged between 11 and 337 days from the date of issuance of passes to the close of the respective excise policy year.

Due to non-updation of liquor stock by wholesale licensees, the actual stock received and available was not reflected accurately. Their FG stock report showed mis-leading/inaccurate information to the Excise Authorities during physical inspections of the licensees' premises. Further, disposal of non-updated stock could not be monitored by the Excise Authorities.

The Department admitted the facts and stated (May 2025) that the process to introduce the escalation matrix to avoid abnormal delay in stock updation would be initiated.

2.10.7.3 Issuance of liquor at the last day of policy years

Analysis of data for the policy years 2016-17 to 2022-23 revealed that 6,731 passes were approved in favour of retail licensees on the last day of the policy year for lifting 1,21,41,304 PL/BL of liquor. Analysis of these passes further revealed that the quantity of liquor lifted by 370 licenses on the last day of the policy year was more than ten *per cent* of the annual quota, which is also more than the last month's quota (eight *per cent*) of the licensee. These outliers underscore the possibility of the quantity being lifted on the last day of the policy year and evasion of the payment of transfer fee by wholesale licensees on stock that remained unsold with them in the respective policy year.

Further, analysis of these passes revealed that 1,289 out of 6,731 passes were approved after official working hours. The timeline of these passes approved after 18.00 hours was as follows:

Sr. No.	Time period	Number of passes approved	Liquor quantity approved in passes
1	18.00 hours to 19.59 hours	808	16,49,997
2	20.00 hours to 22.00 hours	353	7,68,153
3	22.00 hours to 23.00 hours	52	1,17,106
4	23.00 hours to 23.59 hours	76	1,58,240
	Total passes/liquor approved after 18.00 hours	**1,289**	**26,93,496**

The large movement of liquor from wholesale to retail vends in the closing hours of the last day of the excise year raises concerns about its actual disposal and indicates a possible risk of attempt to evade transfer fees in the succeeding policy year.

The Department stated (May 2025) that in the absence of any specific clause and restriction in the excise policies, the licensee was free to apply the passes even on the last day and even after 6 PM. The reply was not admissible as issuance of high number of passes on the last day of policy year or after official working hours raises serious concern about procedural proprietary which suggests potential misuse to avoid transfer fee. Last-hour liquor lifting raises doubts about its transportation and sale, highlighting the need for stricter controls and real-time monitoring to ensure transparency and compliance.

2.10.7.4 Passes issued during COVID lockdown

Though liquor vending was closed during the lockdown period analysis of the pass details of data pass table revealed that 167 passes containing 923 pass transactions were approved during the currency of the lockdown enforced to curb the spread of the pandemic. This included 54 passes approved on account of breakage of liquor bottles.

Timely changes were not made in the system in accordance with the instructions issued by the Government to restrict the processing of permit/passes during the COVID lockdown.

The Department admitted the facts and stated (May 2025) that charge-sheets were issued to the concerned excise officers/officials.

2.10.7.5 Absence of validation checks in the system to restrict the issuance of passes

As per para 9.1.3 of Haryana Excise policy 2022-23, the license fee of L-1B for the policy year 2022-23 was structured as follows:

- ₹ 30 lakh for a new license or if the annual sale from L-1B in the policy year 2021-22 (12 June 2021 to 11 June 2022) was 25 lakh PL or less.
- ₹ 60 lakh if the annual sale in 2021-22 was more than 25 lakh PL but not exceeding 50 lakh PL.
- ₹ 110 lakh if the annual sale in 2021-22 was more than 50 lakh PL but not exceeding 100 lakh PL.
- ₹ 150 lakh if the annual sale in 2021-22 was more than 100 lakh PL.

Additionally, the policy stipulated that if an L-1B licensee's sales in 2022-23 exceeded a prescribed threshold, they would be required to pay the differential amount corresponding to the next higher category.

Analysis of licensee detail data revealed that A Ltd. was granted an L-1B license for 2022-23. However, license fee payment details were not found in the payment records. Further examination of the permit and pass data indicates that the licensee sold 29,47,322 PL of IMFL during the excise year and initial threshold of 25 lakh PL was surpassed on 25 April 2023. As a result, the licensee was liable to pay an additional license fee of ₹ 30 lakh for further supply of liquor.

Upon inquiry, it was found that the licensee had initially paid ₹ 30 lakh on 26 May 2022 along with its license renewal application and subsequently paid the additional ₹ 30 lakh on 18 May 2023. However, an analysis of the pass data revealed that the system neither prompted for payment of additional license fee nor restricted the issuance of passes between 26 April 2023 and 17 May 2023 for 1,52,842 PL of liquor without payment of additional license fee.

Lack of automated prompts for enhanced payments increase the risk of allowing undue authorization of lifting of liquor with possible revenue loss to the state exchequer.

The Department admitted the facts and stated (May 2025) that there was no check in system to restrict issuance of passes in such cases and the same had been embedded in system w.e.f. 2023. The reply is not admissible as no UAT report was furnished showing incorporation of relevant checks in the system.

2.10.7.6 Transactions related to pass not compliant with prescribed process flow

During analysis of the data, it was found that in the following pass transactions processed were not compliant with the prescribed process flow:-

(i) Analysis of the pass transaction data revealed that same pass numbers were assigned/captured against 31,407 approved permits requests. The frequency of same pass number for one permit number ranged between two and 987.

(ii) Vehicle number is a crucial field to be published on the Pass document to check and curb the illegal transportation of liquor. Analysis of the data revealed that in nine pass transactions vehicle number was not captured. The Department stated (May 2025) that these transactions were quota conversion passes and vehicle number was not mandatory in these cases. The reply was not admissible as these passes were regular passes and not for quota conversion as claimed by the department. Further, the Department stated that necessary checks had been incorporated on vehicle number field since 2023, however, no UAT report was provided to audit.

(iii) Five passes were approved in the next excise policy year against the permits created in the preceding policy year. The Department stated (May 2025) that as per the current functionality of the system there was no validation check present in the system to prevent approval/rejection of pass or permit post the Excise Policy year.

(iv) In case of 16 pass transactions approval was granted before the request for creation of pass. The Department stated (May 2025) that in these cases approval date was after their creation. However, checks had been implemented in the system to enforce data integrity since 2023 onwards. Reply was not admissible as data analysis revealed contradictory facts i.e. pass issue dates were earlier than pass creation dates.

2.10.8 Non Automation/deficient design of functionality

The department in its scope of work envisaged to automate the functions performed by it under the various Acts/Rules applicable to the department. Automation of departmental functions by deploying different functionalities in accordance with the organisation's business rules is important as it minimizes manual intervention, thereby reducing errors and saving time. It ensures consistency, accuracy, and efficiency in operations while improving transparency and accountability. Automated processes also strengthen internal controls, enable better monitoring, and support timely decision-making, ultimately leading to enhanced governance and overall organizational performance.

Audit findings regarding non automation or deficient functionalities are given below:

2.10.8.1 Absence of functionality for Computation of Stock Transfer Fee and differential excise duty

As per annual excise policies, at the termination of the contract for a particular year, the outgoing licensees can transfer their remaining liquor stock to incoming licensees, after paying prescribed transfer rates for different types of liquor. Annual excise policies further provide that in case the excise duty rates in the succeeding policy years are enhanced, a difference in excise duty rates would also be charged on the quantity of liquor transferred.

Analysis of departmental data showed that these transfers were recorded in the system under permit/pass numbers starting with "P0." However, field records revealed that stock transfer fees and differential excise duty were manually calculated, as no functionality to do so was available in the system.

Test check of physical records for liquor stock transferred from outgoing licensee of preceding policy year to the new licensee at DETC (Excise) Fatehabad (2018-19) and Gurugram (West) (2022-23) field offices, revealed that in three cases, excise levies amounting to ₹ 48.23 lakh were manually computed whereas ₹ 1.30 crore was actually due as per policy rates.

Thus, absence of process automation to compute transfer fee and differential excise duty resulted in short levy of excise dues amounting to ₹ 0.82 crore.

The Department admitted the facts and stated (May 2025) that in one case of DETC (EX) Fatehabad, property of the licensee had been attached and active efforts were underway to recover the pending dues. In another case, DETC (EX), Gurugram (West) stated that an amount of ₹ 52.31 lakh had been recovered.

2.10.8.2 Absence of functionality to calculate penalty payable on short lifting of prescribed liquor quota

In the annual excise policies, a schedule of quota to be lifted by retail licensees in each quarter is prescribed. Failure to lift its prescribed quota attracts a penalty at rates prescribed in the excise policy of the respective excise year. Department in its FRS included that the system should on a periodic basis compute the interest and penalty due against a taxpayer based on amounts outstanding and post it to the taxpayer's ledger.

Analysis of the data related to quarterly quota granted to L-1BF and L-2BF[12] licensees and liquor stock lifted revealed following deficiencies:

(a) Non levy of penalty for liquor quota short lifted by L-1BF Licensee

Para 9.5.4 of Haryana Excise Policy approved for the policy year 2020-21 and 2021-22, prescribed a 'minimum quota' of whisky, Beer and wine segment of IFL (BIO) for each L-1BF of the State as detailed below:

Type of Liquor	2021	2020
	(Quota, in cases)	
Whiskey, Scotch, Rum, Vodka, Gin, Brandy etc.	18,000	10,000
Beer	4,500	7,000
Wine, Cider, Liqueur etc.	7,500	3,000

Provisions of policies provided levy of penalty at the rate of ₹ 3,000 per case in case licensee failed to lift the minimum prescribed quota of whisky/wine and ₹ 1,500 per case in case of Beer. Provisions of the policies also provided that the quota prescribed for the wine and whisky segment could be clubbed, at the request of the licensee, for determination of the quota lifted.

Analysis of the data related to liquor stock lifted by the L-1BF licensees revealed that in the policy year 2020-21 and 2021-22 four licensees were assigned a quota of 19,462 cases of IFL (Beer), however, these licensees had lifted only 13,426 cases against the prescribed quota causing short lifting of quota of 6,036 cases. Similarly, five licensees during the policy year 2021-22 lifted a short quota of 37,833 cases of IFL (Whiskey &Wine) by lifting 79,857 cases against the minimum quota of 1,17,690 cases. As per penalty provisions contained in the excise policies, the penalty of ₹ 11.35 crore in case

12 Retail license of Imported Foreign Liquor.

of IFL (Whiskey &Wine) and ₹ 0.90 crore in case of IFL (Beer) was leviable on account of short lifting of prescribed quota which was not done.

The Department admitted the facts and stated (May 2025) that an amount of ₹ 0.25 crore had been recovered. Further, the matter regarding recovery of ₹ 6.59 crore was pending with court and recovery proceedings was initiated to recover the balance amount. Department also accepted that the functionality for calculation of short quota penalty for IFL was not embedded in the system and new SI would now be instructed to develop the functionality.

(b) Non-levy of penalty on L-2BF for short lifting of Imported Foreign Liquor quota

As per Excise Policy 2020-21, L-2BF licenses were mandatory for certain IMFL retail outlets at a fixed price based on vend potential. These licensees had a minimum IFL (BIO) quota (Whiskey, Beer, Wine) and were subject to penalties for short lifting i.e. ₹ 5,000 per case for Whiskey/Wine and ₹ 2,000 per case for Beer. Wine and Whiskey quotas could be interchanged without extra fees. Excise Policy 2022 assigned a total IFL (BIO) quota per L-2BF, with the same penalty provisions.

Analysis of data revealed that in 2020-21 and 2021-22, licensees of 151 Zones had lifted 33,733 boxes of IFL Whiskey and Wine against the fixed quota of 42,226 boxes. Similarly, in the case of IFL Beer, the licensees of 131 zones lifted 11,373 boxes of IFL beer against the fixed quota of 17,066 boxes during the policy years 2020-21 and 2021-22. Resultantly, licensees had short lifted 8,493 and 5,693 cases of IFL (Whiskey/Wine) and IFL Beer respectively. As per penalty provisions contained in the respective excise policies, penalty amounting to ₹ 5.38 crore (8,493 cases @ ₹ 5,000 per case plus 5,693 cases @ ₹ 2,000 per case) was leviable in these cases.

For 2022-23, two licensees lifted 34,311 IFL (BIO) boxes against a quota of 36,557. In these cases, a penalty of ₹ 44.92 lakh (2246 x 2000) was leviable.

Thus, due to non-provisioning of appropriate functionality in the system for computation, levy and recovery of penalty on account of short lifting of quota by L-2BF licensees, penalty amounting to ₹ 5.83 crore could not be levied.

The Department admitted the facts and stated (May 2025) that functionality for calculating short lifting penalty for L-2BF would be developed and implemented in IT system. Department further stated that recovery of ₹ 1.80 lakh had been made and efforts were being made to recover the pending dues.

2.10.8.3 Absence of functionality for computation of interest

FRS published in the RFP document contain a requirement that the system should be capable of computation of interest on arrear amounts due on the basis of penalty rules.

Analysis of the data and functionalities demonstrated by the development team revealed that functionality for computation of interest on delayed payment of licensee fee was not embedded in the system. In the absence of the functionality, the department calculates this interest manually and recovers/adjust the interest due at the end of the Policy year. The manual process of interest computation may lead to miscalculation of interest.

The Department admitted the facts and stated (May 2025) that it is envisaged that all excise processes would be automated in future by new SI.

2.10.8.4 Absence of functionality to automate appeal process

Para 2.3 of SRS document envisaged that the detailed process maps and process description of the Appeal module was to be got developed and implemented by the department to automate the Appeal process followed by the licensees.

Scrutiny of the data revealed that data related to objections and appeals filed by the licensee was not available in the database. The absence of the data related to appeal cases, precludes effective monitoring and addressing of excessive finalisation delays.

The Department admitted the facts and stated (May 2025) that it is envisaged that all excise processes would be automated in future by new SI.

2.10.8.5 Absence of functionality to automate the inspection process

Annual excise policies provides that departmental authorities shall conduct inspection of the premises of the liquor licensees to detect any breach of applicable codal provisions and to curb the illegal sale/possession of the liquor.

During walk through exercise to assess the extent of functionalities available in the system and analysis of database tables, it was noticed that functionalities to automate the inspection process envisaged in the SRS document were not embedded in the system.

Effects of non-automations of the inspection process are as under:

(i) Short levy of minimum penalty

Scrutiny of the physical record of breach[13] cases maintained by test-checked field units revealed that amount of penalty was computed by the HO manually. No functionality was embedded in the system to capture the granular details reported by the inspecting officer in order to automate the computation of the penalty. Scrutiny of the breach cases detected during the physical verification of premises of wholesale licensees by excise authorities for the policy year

[13] Violation of Excise policy norms noticed during the physical verification by the Excise Authorities at the premise of the Licensees.

2018-19 to 2022-23 revealed that in 13 cases pertaining to DETC (Excise) Fatehabad, Gurugram (East) and Panipat, penalty amounting to ₹ 19.24 crore was leviable in accordance with the norms prescribed on account of shortage of liquor (CL & IMFL) stock. However, in these cases penalty of only ₹ 8.70 crore was levied. It was also noticed that norms to calculate penalty in case of unaccounted quantity of beer, wine or RTB other than IFL detected during the inspection of licensees' premises were not included in the annual excise policies.

Thus, absence of functionality to automate the inspection and penalty computation process resulted in short levy of minimum penalty of ₹ 10.54 crore.

The Department admitted the facts and stated (May 2025) that online module was not available in the system to automate inspection and penalty calculation. Further, it was also stated that the breach cases were decided by the Collector under section 36 C of the Excise Act, 1914 as a quasi-judicial authority and penalty was not prescribed in the excise policies before 2022-23. Reply was not admissible as penalty norms were prescribed in Para No 4.7 and 5.6 of Excise Policy for the year 2021-22 onwards.

(ii) Non-levy of penalty for pending breach case

As per para 4.7 and 5.6 of the Haryana Excise Policy 2019-20, in case any L-13/L-1 licensee respectively, is found to be indulging in the illegal or clandestine sale of liquor in order to avoid AED, the amount becoming due on account of penalty etc. towards such L-13/L-1 licensee shall also be recoverable from the security deposits of the retail outlets (L-14A/L-2) of the said licensee. Para 3.4.1 of the policy provided that AED @ ₹ 23 per PL for CL and ₹ 51 per PL in case of IMFL was chargeable.

Scrutiny of the records of DETC Fatehabad revealed that physical verification of premises of L-1 and L-13 was conducted during the Covid period by a team constituted in response to the directions of Collector (Excise). The breach cases noticed during these inspections were forwarded to Collector (Excise) for levy of penalty. Records revealed that in two cases penalty in accordance with the provisions of Punjab Excise (Haryana Amendment 2020) Act, was levied. As per the FG report of the licensee, there was a balance stock of 1,62,000 PL, 2,307.231 PL and 8,078.20 BL for CL, IMFL and Wine respectively, as on 6 May 2020 but as per the reports of the inspection team, no physical stock was available at premises of the L-1 and L-13 licensee. This breach case involved a penalty of ₹ 1.92 crore which was not levied, as per details given below:

Sr. No.	Type of Liquor	Stock found short (in PL)	AED per PL (in ₹)	Minimum penalty as per provisions ibid (five times of AED)	Penalty leviable (in ₹)
	(a)	(b)	(c)	(d) = {(c) x 5}	(e) = {(b) x (d)}
1	IMFL	2,307.23	51	255	5,88,343
2	CL	1,62,000	23	115	1,86,30,000
Total					**1,92,18,343**

The Department admitted the facts and stated (May 2025) that the case had been sent to the Collector (Excise) in February 2025 and recovery proceedings would be initiated accordingly.

2.10.8.6 Absence of functionality to capture process for grant of tavern license and non-levy of mandatory "Anumat Kaksh" fee

Scrutiny of data and walkthrough exercise of functionalities available in the system revealed that no functionality was embedded at the front end of the application to submit an online application for the grant of tavern to retail licensees in urban and sub-urban areas/ processing by excise authorities. In the absence of an automated process, trail of actions performed by departmental users to detect processing delays of these applications cannot be monitored. Further, correctness of the applicable fee levied and collected in accordance with the rates prescribed in respective annual excise policies cannot be assessed.

As per para 1.4.3 of Haryana Excise policy for the year 2018-19, all licensees of the urban zones were required to deposit an extra license fee at the rate of 0.8 *per cent* of the license fee of the zone, subject to a minimum of ₹ four lakh for operating up to two *Anumat Kaksh* in their respective zones. Similarly, the licensees of the sub-urban zones were required to deposit an extra license fee @0.4 *per cent* of the license fee of the zone, subject to a minimum of ₹ two lakh for operating up to one *Anumat Kaksh* in their respective zones.

As per para 1.4.3 of Haryana Excise policies for the year 2019-20, the fee structures for *Anumat Kaksh* in urban zone and sub-urban zone were as follows:

Sr. No.	Fee for *Anumat Kaksh* in Urban Zones		Fee for *Anumat Kaksh* in Sub-Urban Zones		Nature of license fee
	License fee (percentage license fee of the zone)	Permissible Number of *Anumat Kaksh* in a zone	License fee (percentage license fee of the zone)	Permissible Number of *Anumat Kaksh* in a zone	
1	0.8	2	0.4	1	Mandatory
2	1.4	3	0.8	2	Optional
3	1.6	6	1.2	3	Optional

Scrutiny of records of the office of DETC (Excise), Fatehabad for the years 2018-19 to 2019-20 revealed that mandatory *Anumat Kaksh* fee amounting to ₹ 19.43 lakh was not realised from seven Sub Urban zones (2018-19: 4 and 2019-20: 3).

On being pointed out, the DETC (Excise) Fatehabad stated that out of seven zones, an amount of ₹ 7.87 lakh in respect of three zones was adjusted by the department from the security and efforts would be made to recover the outstanding amount of ₹ 11.56 lakh. Further, in regard to availability of functionality, the Department stated (May 2025) that functionality to receive/grant of the *tavern* applications/licenses was enabled in the year 2021. Reply is not admissible as no UAT in this regard was provided by the Department.

2.10.8.7 Non-automation of movement of liquor from vend to sub vend

As per annual excise policies published by the department since the policy year 2015, there is a provision for the allotment of license for sub-vend. During the analysis of Permit and Pass tables from the dump data and process flow available at front end of the application, it was found that functionality was not designed in the system to capture details about the liquor movement from vend to sub-vend and resultantly no information was available in the system to track the liquor supplied from vend to sub-vend.

In absence of any centralised information regarding liquor movement from vend to sub-vend, any instance of unauthorised movement of liquor cannot be monitored effectively.

The Department stated (May 2025) that the functionality for movement of liquor from vend to sub-vend has been developed by the department and is in testing phase.

2.10.8.8 Absence of functionality to track the supply of exported liquor and Export Verification Certificates (EVCs)

Excise Duty on export sale is imposed by the competent authority of the importing State. The exporter has to obtain acknowledgement for receipt of stock in the importing State in the shape of EVC from the Excise Authority of the importing State. The EVC is to be submitted to the Excise Officer-in-Charge of the concerned exporting unit and ensures complete quantity of liquor received.

Analysis of the data of Export passes revealed that 60,903 passes were approved by the excise authorities for export of 3,815.83 lakh PL/BL of liquor (BEER, IMFL, IFL, CL) outside the State during the policy years 2016-17 to 2022-23. However, no EVC was captured in the system due to a lack of such functionality in the application.

Analysis of information captured in the column "Received_Flag" showed that in 57,019 out of 60,903 transactions, value "N[14]" was captured, which indicates that the stock of 3815.76 lakh PL/BL (as stock of .07 lakh PL/BL was captured as "Y") was either not received by the importing State/licensee or the information was not updated in the system. Without EVCs updation, the system cannot provide assurance regarding actual delivery of the exported liquor in terms of its quantity. This gap increases the chance of discrepancies, misreporting, or potential diversion of stock.

The Department admitted the facts and stated (May 2025) that due to manual nature of EVC verification, the "received_flag" was not updated. Now the department has been working on updation of these entries.

2.10.8.9 Deficient form design for liquor stock transfer details

Annual excise policies provides that an outgoing licensee can transfer its undisposed stock of liquor to the incoming licensee subject to payment of the prescribed stock transfer fee. A retail licensee can transfer its balance stock intra-district, however, a wholesaler can transfer its left-over stock intra-district as well as inter-district. In case of inter-district transfer of stock, the licensee was required to pay the stock transfer fee at higher rates in comparison to stock transfer fee leviable on intra-district transfer.

Scrutiny of the data Pass Details and Permit Details tables revealed that during the policy years 2018-2023, a total of 349,89,981 PL/BL of liquor/beer stock was allowed as stock transfer from the outgoing licensees of the preceding policy years.

In these stock transfer transactions, details of suppliers from whom the stock was transferred were not found in the database, as provisions at the front end were not available to record the details of the transferor. Owing to the lack of supplier details in the system it was not possible to verify whether the entire undisposed stock was legitimately transferred by the outgoing licensees.

The Department admitted the facts (May 2025) that details of outgoing licensees were not captured in the system.

2.11 Other Information Technology control issues

2.11.1 Deficient payment module in the Information Technology system

During description of the process flow at the front end and data flow at backend of the application, it was disclosed by the development team that all the transactions related to payments made by the excise licensees and excise

[14] In the data table value "Y" represents exported liquor received and value "N" represents exported liquor not received.

levies payable on account of excise duty, permit fee, import fee, export fee, etc. were populated in the data table containing details of payment in the database. The payments made by the licensees either at designated banks or using e-payment method were subsequently validated by the system from the e-GRAS portal of the Treasury and Accounts Department Haryana through an Application Programming Interface (API).

Audit findings regarding deficient payment module are given below:

(a) Missing payment transactions

The development team, during discussion on data structure about the data table structure containing payment details, disclosed that each row in the table is represented by system generated sequential number.

During analysis of the data related to payment details captured from April 2016 to May 2023 in the database, it was noticed that 2,61,050 transactions were missing.

The missing transactions undermine data integrity, thereby raising concerns about unauthorised deletions or alterations and poor control over transaction logging. Missing payment transactions indicates risk of permits being generated without realization of excise dues, leading to possible financial irregularities and revenue leakage.

The Department while admitting that 10 *per cent* of the transactions were missing stated (May 2025) that in case of failure in submission of any transaction, ID assigned to failed transaction is not re-used and new ID is generated. The reply was not admissible as the absence of audit trail for the failed transactions and gaps in IDs indicates lack of system controls and raises concerns over data integrity.

(b) Historical information for payment transactions modified

Scrutiny of payment details revealed that in only 8,76,102 out of 22,80,846 modified date was populated. However, no historical information about the nature of changes made to existing information was available in the database.

In absence of maintenance of historical information, unauthorised editing of payment transactions cannot be ruled out.

The Department stated (May 2025) that historical information for edited/modified payment transactions was not being maintained.

(c) Critical information left blank

(i) Analysis of the payment details (December 2015 to June 2023) revealed that the transaction creation date in 3,621 transactions for payment amount of ₹ 789.16 crore was left blank.

(ii) In 64 out of 2,81,530 payment transactions recorded in data table containing details on account of payment made into treasury, the payment date column was left blank. An amount of ₹ 4.90 crore was paid by the licensees through these 64 transactions. In the absence of a payment date, any delay with reference to the payment schedule cannot be ascertained.

The absence of adequate input validation controls has resulted in critical data omissions in the payment details, undermining the integrity, completeness and reliability of payment records.

The Department stated (May 2025) that there was no revenue loss. Reply is not admissible as in absence of payment date, any delay with reference to payment schedule cannot be determined.

(d) Transactions accepted without availability of funds

System facilitates the excise licensees to remit an advance amount as miscellaneous fee (corpus) to set-off the amount of excise levies[15] payable. Any transaction request, attracting excise levy, made by the excise licensee can only be successfully submitted in the system when the funds to set-off such levies are available in the corpus of the licensee.

Analysis of the licensee-wise data related to corpus amount and dues set-off from it on account of excise levies by the respective licensees revealed that in case of 939 licensees, the amount payable on account of excise levies (₹ 377.51 crore) was more than the amount successfully paid as miscellaneous fee (₹ 338.70 crore). In the absence of adequate validation controls in the system, excise levies amounting to ₹ 38.81 crore were set off in excess of the advance amount available in the corpus of these licensees, and the system had not restricted the submission of related transactions.

The Department stated (May 2025) that currently system does not allow submission of permit requests without availability of funds in corpus. Further, department claimed that out of ₹ 38.81 crore amount of ₹ 21.76 crore recovered/reconciled and recovery status in respect of balance amount of ₹ 17.05 crore would be updated. However, in absence of granular data of the recovery amount the contention of the department remains unverifiable.

(e) Multiple use of same challan

As per the process laid down by the State Government, each payment made to the Consolidated Fund of the State is to be remitted in the respective district treasury or cyber treasury by generating an e-challan. Treasury challans

[15] Excise Duty, Permit Fee, Bottling Fee, Assessment Fee, Import Fee, Export Fee, Additional Excise Duty, Covid Cess, Retail Permit Fee, Brand Registration Fees, Label Registration Fees etc.

generated on the e-GRAS portal assigned a Government Revenue Number (GRN) to maintain the uniqueness of each challan.

Analysis of payment transactions available for the period December 2015 to June 2023 revealed that the system had not restricted the repeated (ranging between two and eleven times) processing of 68 challans for 152 payment transactions. An amount of ₹ 2.79 crore was credited to the ledger of 52 licensees as miscellaneous fee, to set-off the dues arisen on account of excise levies, against the actual amount of ₹ 1.25 crore deposited to State exchequer through these challans. Thus, due to the absence of adequate input validation checks on the GRN column, system could not restrict the acceptance of duplicate GRN, resulting in excess credit of ₹ 1.54 crore to the licensees causing loss of revenue to the Government.

The Department stated (May 2025) that recovery/reconciliation of ₹ 0.96 crore out of ₹ 1.54 crore had been made and efforts were being made to recover the balance amount of ₹ 0.58 crore.

(f) Grant of benefit against pending challans

Analysis of the payment details available in the departmental database with e-GRAS data obtained from the Treasuries & Accounts Department revealed that the payment status of 121 GRNs in the departmental database was shown as "Successful", however, as per e-GRAS database, payment status was shown as "Pending". Further analysis of these transactions revealed that ₹ 2.05 crore was credited to ledgers of 31 licensees as Miscellaneous fee. This erroneous update of payment status in the departmental database led to utilisation of this amount towards setting off liability arisen on account of excise levies payable by these licensees.

The Department admitted the facts and stated (May 2025) that ₹ 1.41 crore had been recovered/adjusted out of the total recoverable amount of ₹ 2.05 crore and efforts were being made to recover the remaining ₹ 0.64 crore.

(g) Allowance of credit more than the amount remitted into treasury

Analysis of the payment data (December 2015 to June 2023) revealed that ₹ 16.37 crore was credited to the ledgers of 18 licensees against 79 challans for setting off their excise levy liabilities. However, a cross-verification of these challans with the values recorded in the e-GRAS database showed an actual recorded value of only ₹ 4.18 crore. This lack of adequate controls in the payment validation process through the e-GRAS portal resulted in an excess credit of ₹ 12.19 crore to the ledgers of these licensees, allowing them to incorrectly offset their excise liabilities.

The Department admitted the facts and stated (May 2025) that in DETC (Excise) Panchkula, excess amount were credited to the Licensees' corpus but remained unutilised. The reply was not tenable no corpus report was provided to verify non-utilisation of the amount.

Further, the claim of Department in case of DETC (Excise) Panchkula that no excess credit was given was incorrect, as ₹ 7.08 lakh was credited against a ₹ 5,000 fee received on account of temporary license fees. In DETC (Excise) Sonipat, ₹ 2.85 crore excess credit was acknowledged for one licensee of which ₹ 1.31 crore was recovered. No details were provided for the remaining ₹ 1.54 crore. In DETC (Excise) Faridabad, ₹ 3.50 crore out of ₹ 6.56 crore excess credit was claimed as received, but ₹ 2.30 crore of that could not be substantiated due to lack of supporting documents. Department further stated that efforts to recover the remaining ₹ 3.06 crore was under process under Land Revenue Act.

(h) Acceptance of challans for amount credited under other head of accounts

In the list of major and minor heads of account of Union and States, different major heads are prescribed according to the functions of the Government. As per the list of major and minor heads of account, major head "0039-Excise Duties" is assigned for remittance of all the receipts of the excise wing of the department.

Analysis of the data of IT system in relation to deposits received and corresponding information available on the e-GRAS portal revealed that the system implemented in the department had not restricted the acceptance of 34 challan transactions pertaining to major heads other than[16] "0039-Excise Duties". An amount of ₹ 5.22 crore was credited to the advance corpus of 31 licensees through these 34 challans, enabling the licensees to set off their liabilities arisen on account of excise levies. Payment received through these challans was on account of unrelated reasons i.e. HSSC Application Fee, Surcharge on Sales Tax, Payment of Road Tax, etc. Thus, owing to inadequate validation checks, system had not restricted the processing of challans meant for remission of dues under the major heads other than "0039-State Excise".

The Department stated (May 2025) that adequate validation checks has been incorporated in the system from 2023 to restrict the acceptance of challan credited under other head of accounts. Further, it was also stated that recovery/re-conciliation for ₹ 39.41 lakh has been verified. However, recovery/re-conciliation of ₹ 23.28 lakh could not be admitted as these

[16] 0029-₹ 1.08 lakh; 0030-₹ 1.02 lakh; 0040-₹ 137.60 lakh; 0041-₹ 67.88 lakh; 0051-₹ 291.20 lakh; 0055-₹ 8.10 lakh and in four cases invalid GRN mentioned for ₹ 15.25 lakh.

amounts were already utilised towards creation of corpus and payment of security fees. However for the remaining amount of ₹ 4.59 crore, the departmental reply was silent.

(i) Partial use of payment module

A comparative analysis of the payment data for 2021-22 revealed that the actual receipt reported in budget document was ₹ 7,933.42 crore under Major Head 0039-State Excise, whereas only ₹ 6,915.54 crore was recorded in the department's IT system as per payment data table which shows that payments were remitted directly to the state exchequer through treasury challans generated from the e-GRAS portal instead of being processed through the department's IT system payment module. This indicates the partial use of payment module of the IT system. Payment of License dues could not be effectively reconciled in the absence of complete utilisation of payment module.

The Department admitted the facts and assured (May 2025) that functionality to capture all type of payments would be incorporated in the new IT system.

2.11.2 Capacity Building-Non-compliance with training requirements

As per Section-IV (Scope of work) included in RFP document, the selected bidder had to provide training to six types of user groups (i) Executive leadership; (ii) Departmental employees from record keeper and above; (iii) Training for trainers; (iv) Reporting users; (v) Administrator and (vi) all staff members. Under User Group No. 5, the department had to nominate staff to handle the technical aspects.

During audit, it was observed that the training/refresher courses necessary for the key technology personnel had not been provided as specified in the contract. Owing to adequate lack of training, the department continuously remained dependent on SI for database, network and server management besides troubleshooting.

The Department in its reply (May 2025), stated that extensive training had been provided. However, details regarding personnels trained to handle the tasks such as Database management, Network and server management, Troubleshooting etc. was not provided.

2.11.3 Business Continuity Plan, Disaster Recovery Plan and Information Technology Security

In the State of Haryana, the Information Security Management Office (ISMO) was created by the Apex IT Committee of the state to address the issues of information/cyber security. ISMO had published a Data Backup & Recovery Management Policy laying down processes and procedures to be followed for data backup and recovery management of the electronically stored information by the organization dealing/handling the IT Systems implemented in the State of Haryana for timely resumption of services in case of any disaster. Policy also provides that backup frequency must be defined depending on the criticality of the available information, and backup shall be tested regularly to ensure that information can be restored and to identify the restoration constraints.

Audit observed that business continuity and disaster recovery plan prescribing procedures to be followed to safeguard the information available in the IT system was not prepared by the department. In the absence of a document recovery plan, critical departmental data remains vulnerable to loss or corruption of data during system failure or hardware malfunction.

The Department in its reply (May 2025), stated that a DC/DR drill is conducted on quarterly basis and business continuity plan submitted by SI is followed. However, the BCP/DRP plan prepared by department in accordance with the policy guidelines *ibid* was not provided. Neither any record maintained for the drills conducted under BCP/DRP nor details of any shortcomings noticed during such drills was made available to audit.

2.11.4 Security Audit/Cyber Security

To address the issues of information/cyber security in the State of Haryana, as per the Application Security Audit Policy of ISMO, every application within Haryana State domain would be required to be audited by ISMO or through Indian Computer Emergency Response Team (CERT-In) empanelled information security auditing organisation before Public Hosting.

Audit sought details of the security audit conducted by the department. However, no details were made available to Audit.

Department in its reply (May 2025), stated that comprehensive security audit was conducted prior to go-live (2018) of the application. However, copy of security audit report and any subsequent audits conducted during the six years since go-live was not made available to the audit.

2.12 Conclusion

The H-eCT system implemented at an expense of ₹ 104.86 crore was plagued by service deficiencies such as non-provision of critical functionalities, inadequate controls to protect financial interests of the Government and deficient reporting to prevent risks of misreporting/diversion, etc. The department could not exercise proper supervision/ guidance over the IT implementation. The system was not fully aligned with the established objectives of transparency, efficiency, and accountability as defined by the

State's excise policies and IT system's requirements. Due to absence of end-to-end functionality to process all types of license in the system, complete audit trails of user actions for licenses granted/renewed for other than retail vends could not be reviewed/monitored. As a result, the improvement in service delivery efficiency envisaged under the computerisation project could not be measured. The seamless process was not designed for remission of money received in the form of participation fees and EMD into government account. Facility was not designed to create a repository of blacklisted liquor licensees for review by departmental authorities prior to grant of license. Absence of geo-tagging of liquor vends reduces the ability to ensure compliance to provisions contained in excise policies. The system lacks functionality to automate the licensing process for all types of liquor licenses issued by the department.

Functionalities were also not found in the system to facilitate digitisation of various types of registers prescribed by the department to keep track of the liquor production process and for recording the chemical examination results in respect of liquor samples sent to designated laboratories so as to ensure that liquor was dispatched only after receipt of examination reports.

The process for computation of penalty on account of stock transfer fee, short lifting of liquor quota, inspection/appeal, etc. remained manual in the absence of automated functionalities. Weak application controls in the system lead to erroneous calculation of excise levies like bottling fees, export duty, AED, etc. resulting in financial loss to state exchequer. There was absence of functionality to map hologram series with batch wise liquor stock approved.

The process for approval of permits/passes for dispatch of ENA was not automated. Inadequate controls failed to restrict the movement of liquor quantity through excise passes in excess of the quantity approved in respective permits and approval of excise passes against cancelled permits.

Absence of adequate validation controls in the payment module led to acceptance of same GRN for treasury challans at multiple times, acceptance of treasury challans having value different than recorded at e-GRAS portal, allowance of credit against challans with pending status at e-GRAS portal. Missing records in critical transaction tables, other inconsistencies in transaction data and lack of historical information compromise the reliability of the system. Similarly, the absence of any documentation of retention policy/training also increased dependency on the developer. The Department did not have BCP/DRPs in case of system failures or security breaches.

2.13 Recommendations

The Government may consider to:

1. *Introduce functionalities/ complete automation of*

   (i) *the licensing process for all categories of liquor licenses issued by the department;*

   (ii) *timely remission of participation fees and EMD into the government account;*

   (iii) *approval workflows for the dispatch of ENA and other liquor-related permits/passes;*

   (iv) *calculation of penalties for short lifting, stock transfer fee, inspection appeals, etc.*

2. *Develop a centralised digital repository of blacklisted liquor licensees for real-time access during license issuance and introducing geo-tagging of liquor outlets to monitor policy compliance and enhance field-level tracking.*

3. *Incorporate modules for digital maintenance of mandatory registers and ensure linking of chemical analysis results with dispatch permissions.*

4. *Fix logic flaws causing erroneous levy calculations (e.g., bottling fees, export duty) to avoid revenue loss, retaining of historical records and establish robust logging system to prevent missing/altered transaction data.*

5. *Preparation and maintenance of system documentation and manual including training manual and drawing up an IT security policy, DRP and BCP.*

6. *The Department, learning from the shortcomings in the IT system implemented by the SI may consider the following in any new IT system being envisaged:-*

   (i) the user requirement specifications may include all the government rules and regulations related to State excise/ excise policies and be fully mapped with the FRS. Go-live of any new system may only be given after full user acceptance testing with fully documented sign-off procedures.

   (ii) The department, for any new IT system, may constitute a Post Implementation Review Committee comprising departmental officers to assess whether the IT system fully incorporates all

functionalities mandated by departmental business rules. The committee should also ensure that UATs for all functionalities were duly conducted and approved by the department.

(iii) For any serious flaw in the new IT system such as non-provision of required functionalities, inadequate input/processing controls, insufficient MIS and DSS capabilities, red-flagging/timely alert generation, deficient cyber security etc. joint responsibility of the SI and the concerned department officials may be assigned to enforce accountability.

Chandigarh **(ASHUTOSH SHARMA)**
Date: 23 July 2026 **Principal Accountant General (Audit), Haryana**

Countersigned

New Delhi **(K. SANJAY MURTHY)**
Date: 05 August 2026 **Comptroller and Auditor General of India**