Overview

OVERVIEW

This Report includes Information System (IS) Audits of e-Procurement Project and License Management, Liquor Production and Distribution System in Excise Department.

1. Chapter-I

Information System Audit of e-Procurement Project

The audit was undertaken to assess whether the e-Procurement system was effectively implemented and efficiently utilised to achieve its objectives of promoting competition, transparency, and accountability.

Significant findings

The implementation of the system was deficient due to non-execution of agreement with National Informatics Centre (NIC), ineffective functioning of Project Monitoring Unit (PMU), absence of critical functions/modules, inadequate monitoring, and insufficient training to the users as some of the activities were either not performed or performed offline, defeating the objectives of e-Procurement.

(Paragraphs 1.7.1 to 1.7.4 and 1.7.6)

The tendering process was found to be deficient as instances of inadequate bid publicity, insufficient time allowed for bid submission, non utilisation of tender-cum-auction functionality, lack of linkage between re-invited and original tenders, nomination of duplicate users for tender processing were noticed. Further, the system design was weak as business rules were not mapped regarding extension of time, duration of time for keeping the bid open, time given for grievance redressal, issue of corrigenda, etc. The system also lacked controls to prevent irregular practices such as extensions of tenders for short durations decryption of bids on different dates and out of sequence opening of bids.

(Paragraphs 1.8.2.1, 1.8.2.2, 1.8.2.4, 1.8.2.7, 1.8.3.1 to 1.8.3.3 and 1.8.4.7)

Instances indicative of collusive bidding and bid rigging were observed thereby undermining the fairness and competitiveness of the tendering process. Multiple bids were found to have been submitted from the same (Internet Protocol) IP address/procuring entity computers, within a close time interval suggesting manipulation or lack of adequate system control.

(Paragraphs 1.9, 1.9.1 and 1.9.3)

The effectiveness of the system was undermined by significant data integrity and Management Information System (MIS) deficiencies. Key issues noticed included non updation of tender stages, not uploading of evaluation summaries, anomalies in user data & profile management, and inconsistencies in award value & tender status etc. on the portal.

(Paragraphs 1.10.1, 1.10.1(iii), 1.10.5 and 1.10.7)

Non-compliance with financial rules were observed in respect of fees and earnest money deposit (EMD) as amounts were not transferred/adjusted properly, refunded erroneously or not-refunded. Instances were also noticed regarding short or excess charging of fee, non-reconciliation, and non charging/non remittance of Goods and Services Tax (GST) to the Government.

(Paragraphs 1.11.3, 1.11.5.1 to 1.11.5.2)

The system was prone to vulnerability related to user activity as audit found incomplete logs, actions performed without login and non-sequential login time stamp, raising concerns about data reliability. Discrepancies were also noticed in role creation and segregation of duties and absence of defined password policy.

(Paragraphs 1.12.2 to 1.12.4, 1.12.6 and 1.12.9)

Recommendations

The State Government may consider:

- *Entering into a formal agreement with NIC and also strengthening the PMU.*
- *Inclusion of indent management, catalogue management and contract management modules in the portal for covering the complete process of procurement in online mode.*
- *To impress upon the Tender Inviting Authorities (TIAs) for timely updation of tender stages and uploading of relevant documents on the portal. Training to the users may also be provided for efficient utilisation of the portal.*
- *Reconciliation of pool account periodically and monitor settlement of the failed transactions/pending fee of bidders.*
- *To incorporate functionalities for grievances redressal, technical and financial evaluation through system, negotiations, bid validity extension, deciding L-1 on receiving identical rates, issue of award of contract*

through system, real time alert generation for potential collusion/cartelization/bid rigging during tender/bid evaluation.

- *Monitoring action taken by NIC for issues related to incomplete logs, invalid data, missing controls for fields and to get the business rules mapped in the system.*

2. Chapter-II

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

The IS audit was conducted to assess whether the license management, liquor production and distribution modules of the Information Technology (IT) system implemented by the Excise Department complied with the provisions of the Excise Act, State Excise Policies, relevant rules and the System Requirements Specification (SRS); whether adequate application controls, including input, process and output controls were adequately embedded in the system and robust arrangements for Business Continuity Plan (BCP), Disaster Recovery Plan (DRP) and IS security were in place. The IS Audit covered the policy years 2015-16 to 2022-23, with analysis of data (pertaining to the period from December 2015 to June 2023) by using Computer Assisted Audit Techniques (CAAT) such as Interactive Data Extraction and Analysis (IDEA) and Tableau.

Significant findings

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.

(Paragraph 2.8.1)

The IT system was not designed to capture critical details for bar licenses such as hotel star ratings, additional operational points, permitted hours and extended timings. Consequently, the system could not validate applicable license fee or detect discrepancies between payable and paid amounts, leading to reliance on manual registers.

(Paragraph 2.8.3)

The system lacked controls to ensure adherence to timelines prescribed under the Right to Service Act (RTSA) for grant of temporary licenses, resulting in delays, pendency of applications and approvals even after scheduled events. Absence of escalation mechanisms undermined efficient service delivery.

(Paragraph 2.8.9.1)

Inadequate validation checks allowed grant of temporary licenses for unregistered commercial venues as well as approval of licenses after events had concluded. System deficiencies also resulted in assignment of license numbers to pending or rejected applications, increasing the risk of unauthorised liquor service.

(Paragraph 2.8.9.2)

Production processes at manufacturing units were not automated and critical records relating to Extra Neutral Alcohol (ENA) usage, production and wastage were maintained manually, increasing vulnerability to errors, manipulation, and misreporting. Further, permits and passes for movement of ENA were issued manually outside the IT system, and the handling of large quantities of ENA without automated controls or audit trails heightened the risk of diversion, misreporting, and consequent revenue loss.

(Paragraphs 2.9.1 to 2.9.2)

The system had not captured chemical examination report details of liquor batches, enabling dispatch of liquor prior to receipt of test results and thereby weakening quality assurance and regulatory oversight. No functionality existed to capture hologram serial numbers and map them with excise passes which limited the ability of enforcement agencies to verify authenticity of liquor in transit and increased the risk of diversion and counterfeit supply.

(Paragraphs 2.9.3 to 2.9.4)

Inadequate system validations and weak process controls led to short computation and realisation of bottling fee and export duty, causing a revenue loss of ₹ 2.41 crore and ₹ 22.26 lakh, respectively.

{Paragraph 2.9.6 (a)}

In the absence of validation checks and non-capture of bottling wastage data, the system allowed excess bottling wastage beyond permissible limits without levy of excise duty.

{Paragraph 2.9.6 (c)}

Historical information of the Ex-Distillery Price values of previous policy years was not retained in the system to verify correctness of the excise duty charged.

(Paragraph 2.10.1)

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 additional excise duty (AED) amounting to ₹ 10.37 crore.

(Paragraph 2.10.2)

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 Proof Litre (PL) of liquor thereby resulting in excise dues to the tune of ₹ 6.93 crore.

(Paragraph 2.10.3)

Passes were issued against cancelled or rejected permits, leading to non-levy of excise duty amounting to ₹ 33.19 lakh.

(Paragraph 2.10.6.4)

Inadequate policy enforcement and weak system controls in wholesale operations led to multiple irregularities, as inadmissible allowance of breakage was extended to wholesale licensees despite the absence of policy provisions during certain years, creating the risk of misclassification of shortages as breakage and diversion of liquor. Non-updation of liquor stock received by wholesale in the system in a timely manner, resulting in misleading stock balances and ineffective monitoring by excise authorities. Large quantities of liquor were issued on the last day of policy years, including approvals granted after working hours, raising concerns regarding potential evasion of transfer fee.

(Paragraphs 2.10.7.1 to 2.10.7.3)

Automated computation of stock transfer fee and differential excise duty was absent, resulting in manual errors and short levy of excise dues amounting to ₹ 0.82 crore. Further, neither the system computed penalties for short lifting of prescribed quotas by L-1BF and L-2BF licensees, leading to non-levy of penalties amounting to ₹ 17.27 crore, nor did it provide functionality to compute interest on delayed payments, necessitating error-prone and inconsistent manual calculations.

(Paragraphs 2.10.8.1 to 2.10.8.3)

Inspection processes were also not automated, resulting into short levy of minimum penalties amounting to ₹ 12.46 crore. No functionality existed to capture Export Verification Certificates (EVCs) for exported liquor. Absence of EVC tracking prevented assurance that exported liquor reached intended destinations.

(Paragraphs 2.10.8.5 & 2.10.8.8)

The system allowed set-off of excise levies in excess of funds available in licensees' corpus accounts, resulting in excess utilisation of ₹ 38.81 crore. Duplicate use of treasury challans was permitted, resulting in excess credit of ₹ 1.54 crore to licensees and consequent revenue loss. Benefit of ₹ 2.05 crore was extended against challans pending in e-GRAS, allowing utilisation of amounts not actually credited to the treasury. Excess credit of ₹ 12.19 crore exceeding actual treasury remittances was allowed due to weak validation controls, leading to improper set-off of excise liabilities. Challans pertaining to heads of account other than State Excise were accepted, enabling incorrect credit of ₹ 5.22 crore to licensees' corpus.

{Paragraphs 2.11.1(d), (e),(f),(g)& (h)}

Mandatory training of departmental technical personnel was not conducted, resulting in continued dependence on the system integrator; further, the Department failed to prepare a BCP and DRP in line with State guidelines, and did not furnish evidence of mandatory security audits or cyber security assessments, thereby exposing critical data and application security to significant operational and cyber risks.

(Paragraphs 2.11.2 to 2.11.4)

Recommendations

The Government may consider to:

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

- *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.*

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