Performance Audit of Working of Canteen Stores Department (CSD) Union Government (Ministry of Defence)

Comptroller & Auditor General of India
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The Constitution of India has provided a framework for accountability of the Executive to the Legislature through the institution of the Comptroller and Auditor General (C&AG) of India. The C&AG discharges this responsibility through the auditing functions which include financial audit, regularity audit and performance audit.

Performance audit is an independent assessment or examination of the extent to which an organisation, programme or scheme operates economically, efficiently and effectively.

This Performance Audit report was laid in both the Houses of the Parliament on 10 March 2016. This booklet brings out salient audit findings and related recommendations contained in the audit report.
Introduction

Canteen Stores Department (CSD) is responsible for providing quality consumer goods at rates cheaper than the market rates to the Service Personnel and defence civilians.

From a modest beginning six decades ago, CSD has grown rapidly with an annual turnover of over ₹ 15,000 crore during 2015-16. The CSD through its chain of one Base Depot and 34 Area Depots serves as the wholesaler and the retail operations are carried out through about 4000 Unit Run Canteens (URC).
Why we took up this Performance Audit

Last Performance Audit of CSD was carried out during 2008-09 and was reported in C&AG’s Audit Report No.14 of 2010-11.

The important issues highlighted in the report included deficiencies in business operations and financial management, improper pricing policies and inadequate storage.

Based on the report, Public Accounts Committee (PAC) of the Parliament gave its recommendations in its 48th and 75th Report.

In order to assess the status of implementation of assurances given by the Ministry of Defence to the PAC and in their Action Taken Notes to the report, we decided to take up the present Performance Audit.
Audit Scope

The Audit was carried out from July 2015 to November 2015 at Ministry of Defence, Board of Control Canteen Services, New Delhi, CSD (Head Office), Mumbai, Base Depot Mumbai, three Regional Managers Offices at BD Bari, Lucknow and Delhi and 11 selected Area Depots, which included Seven Extra Large, One Large, Two Medium and One Small Depot and covered the transactions for the period 2010-11 to 2015-16.

The Area Depots were selected based on their sales volume and geographical location so as to cover a representative sample. 37 URCs out of total 1354 URCs dependent on the above selected depots were also audited based on quantum of Quantitative Discount received.
MAJOR AUDIT FINDINGS
Introduction of Items

CSD items are introduced generally at the request of Suppliers. However, CSD failed to show whether the needs and choice of the consumer requirement was ascertained before introducing the items. Imported items were introduced without conducting market survey and quality checks and without ensuring availability of agreement between the importer and the principal manufacturer.
One of the objectives of CSD is to ensure that the satisfaction of consumer demands is maintained at the maximum. The inability of the Area Depot in issuing the item as demanded by the Unit Run Canteen is termed as ‘Denial’.

Analysis in 11 Area Depots for the period 2010-11 to 2015-16 indicated that denials of items demanded by Unit Run canteens ranged from 7.17 per cent to 25.42 per cent thereby affecting consumer satisfaction.
Fixing the price of the goods/articles in an unfair manner

CSD was loading various incidentals like Insurance charges, freight charges and clearing charges in the pricing structure in excess of the amount incurred leading to reduction in the benefit of cheaper rates to that extent.

Further, CSD was also loading profit on excise duty on liquor which is a local levy, due to which the uniformity of selling prices excluding local levies throughout the country as envisaged in the pricing policy was not being achieved.
Irregularities in price revisions resulting in extra burden on consumers

As no specific mechanism was laid down or procedures evolved to monitor the price variation of the products held in CSD inventory, the Suppliers managed to evade the passage of benefit of reduction of prices to CSD.

Further, due to delay in finalization/approval of price revision offered by suppliers, the benefit of price reduction amounting to ₹ 6.61 crore recovered could not be passed on to the consumers.

Similarly due to delay in acceptance of one to one replacement of Against Firm Demand (AFD) items, the benefit of the latest/improved versions with price reduction amounting to ₹ 2.63 crore was not available to the consumers.
Failure on the part of CSD to carry out quality tests as per laid down policy on account of limiting the tests to the co-located Composite Food Laboratories and non-identification of additional accredited labs for quality testing of goods, despite assurance to the PAC resulted in non-testing of items supplied to CSD at the laid down cycle.

Further, CSD also failed to monitor and ensure the timely receipt of test reports thereby defeating the purpose of testing.
Distribution of Grants-in-Aid from Canteen Trade Surplus (CTS)

- Distribution of CTS without Audit Certificate
  - Incorrect depiction of net profit in the accounts for the year 2012-13 to 2014-15 was pointed out in the Audit certificate rendered by Director General of Audit, Defence Services (DGADS). However, the Canteen Trade Surplus sanctioned by the Ministry were not based on the accounts certified by DGADS leading to distribution of overstated Canteen Trade Surplus among the Services.

- Non observance of guidelines General Financial Rules (GFR) in disbursement of CTS
  - Though Ministry issued guidelines for disbursing the Grants-in-Aid to be utilised primarily for welfare of Service personnel in accordance with GFR, cases of non-observance of the guidelines/GFR were noticed in Audit.
Discrepancies in implementation of VAT notifications of various State Governments resulted in blockage of Government funds on account of long outstanding VAT refund claims (₹1001.97 crore) and disallowance of VAT by State Governments (₹43.47 crore), due to non-submission of the requisite documents by CSD and purchase confirmation from suppliers, levy of penalty for incorrect submission of VAT returns and non-implementation of VAT notification properly (₹ 23.77 crore).

Further, CSD failed to include VAT amount while working out the wholesale price which resulted in loss of ₹ 43.78 crore.
Conflict of Interest resulting in weakened vigilance controls

CSD, being a trading organization with an annual budget of over ₹ 15,000 crore, contemplated creation of vigilance cell since 1997 and appointed Joint General Manager, who was dealing with procurement activities as its Vigilance Officer. Since, this was in contravention of Central Vigilance Commission guidelines, Ministry did not agree to such appointment. However, CSD did not propose any alternate appointment and post continues to be held by the Procurement Officer.
Uneconomical functioning of Base Depot

The CSD Base Depot, Mumbai functions as a feeder depot to all CSD Area Depots for all the stores except those which are despatched directly by the suppliers to the area depots or local supply items. Items procured from outside State attract Central Sales Tax (CST).

Had the items been directly delivered to the concerned Area Depots by the suppliers, the tax loaded on the supplies would have been only two per cent of CST instead of the four per cent under Rule 53(3) of Maharashtra VAT Act. Such additional burden passed to the consumers due to increasing reliance on the Base Depot during the period from 2010-11 to 2015-16 worked out to ₹ 43.89 crore.
Annual revision of freight rebate from the suppliers which is to be carried out on or before 30 June was to be effective from 01 April of the same year. However, we observed that revision of freight rebate applicable with effect from 01 April was carried out only in October-December. Further, the arrears of the freight rebate due from 01 April till date of revision was not recovered from the concerned suppliers from January 2012 to May 2013. The arrears on this account worked out to ₹ 2.11 crore for 02 years.
Irregularities in accounting of Quantitative Discount

Quantitative Discount (QD) is a trade related incentive discount provided by CSD to the Unit Run Canteens in the form of free stores and is calculated as a percentage of the total value of stores purchased by the Unit Run Canteens in the previous year. QD was being sanctioned without adhering to the General Financial Rules and was not being used as per the guidelines like transfer of ₹ 29.49 crore to higher formations; furnishing Utilization Certificate without fully utilizing the fund and retaining the unspent amount in their accounts (₹ 10.11 crore).
During the Performance Audit in 2008-09, excess drawal of liquor by the URCs was observed.

Ministry in the Action Taken Note had stated that by resorting to several measures, effective control was being exercised to prevent the leakage of Defence liquor into civilian market.

We noticed that 20 out of 35 URCs had drawn liquor in excess of their entitlement. Such excess drawal was worked out to 5,14,369 units of liquor. Even with a minimum base price of ₹ 100/- per bottle of Rum, the total cost of such excess drawn liquor worked out to ₹ 5.14 crore.
Since CSD is holding an inventory of 5548 items, which includes 3035 items introduced in last 06 years, there is an urgent need for a comprehensive policy for introduction of new items, factoring in the consumer requirement and the popularity of the product.

Utility of having a centralized Base Depot needs to be reviewed due to its uneconomical functioning and in the light of advancements in logistics as well as in communication and information technology.

Ministry may put in place an effective mechanism to ensure effective implementation of the quality control measures at all levels of supply chain in CSD and Unit Run Canteens so as to meet its commitment to the Food Safety and Standards Authority of India and ultimately to the Consumers.
CSD being a commercial organization should adopt a set of accounting policies with disclosure requirements akin to those adopted by Organizations having commercial operations. Ministry should consider Audit Certificate issued by Statutory Auditor on Annual Accounts of CSD before sanctioning distribution of Canteen Trade Surplus.

The sanctioning of regular and ad-hoc Grants-in-Aid should be transparent and on the basis of detailed proposals as envisaged in General Financial Regulations. These grants should be utilized only for the welfare of the beneficiaries and any deviation or misuse of these grants should make the recipient ineligible for further grants from Ministry.
- CSD being a Pan India organization running on commercial principles, Ministry should expeditiously create a robust vigilance wing in CSD (Head Office) with a dedicated Vigilance Officer keeping in view the guidelines of Central Vigilance Commission.

- The issue/cancellation of smart cards needs to be centrally monitored by CSD Directorate so as to avoid possible misuse of the facility. The case of misuse of cards may be finalised urgently so as to set an example for others. Further CSD may institute a mechanism to communicate the beneficiary about their transaction through smart card so as to mitigate the risks of fraudulent purchases.

- Controller of Defence Accounts (CDA), CSD should ensure that the Pension contribution, General Provident Fund (GPF) subscription and Central Government Employees Group Insurance Scheme (CGEGIS) should be deposited with the Government. Pension and other retirement benefits should be disbursed through the Treasuries/ Defence Pension Disbursing Officers (DPDOs) or the Banks as per the approved accounting procedure only.
● As financial assistance in the form of Quantitative Discount, support from the Defence Services by deployment of Service personnel and accommodation at nominal rent/rent free is provided to Unit Run Canteens, the recommendation in the last Performance Audit to bring the Unit Run Canteens under the accountability regime of Parliament is restated.

● Ministry/CSD should strengthen mechanism to ensure that liquor against authorized strength only is sold to the Unit Run canteens to prevent its leakage and the demand should match the limit permitted by the Excise department. In addition, the liquor license may be taken on the basis of actual posting and not on the sanctioned strength.