Preface

A preface in this Report has become essential.

2. Canteen Stores Department (CSD) is responsible for providing the service personnel and their families, with quality household goods at rates cheaper than the market rates. The Department sells these goods to the Unit Run Canteens (URCs), which are approximately 3600 in number. These Unit Run Canteens in turn sell the goods to the service personnel and civilians paid out of Defence Service Estimates. Thus CSD through its chain of one Base Depot and 34 Area Depots services as the wholesaler. The retail operations through which the stores reach the service personnel and their families are carried out through the Unit Run Canteens, which as the name suggests are under control of the local armed forces authorities. URCs draw the stores from the Area Depots and sell them to the beneficiaries. CSD's motto "Service to the Services" is in reality realized by the URCs only. The organization of the Canteen Stores Department is managed by the Board of Control, Canteen Services which is headed by the Raksha Mantri.

3. The rules for setting up of the URCs and their day to day management are laid down by Ministry of Defence and Army Headquarters. CSD also transfers money from the Consolidated Fund of India to the URCs. These transfers are on account of :

(i) Quantitative discount – which is distribution of stores free of cost to Unit Run Canteens – during the six years from 2002-03 to 2007-08, Rs.883 Crore was transferred to these URCs as Quantitative Discount alone.

(ii) CSD also provides soft loans at subsidized rates of interest varying from 4.5 to 6.5 per cent per annum for setting up these Canteens and to keep sufficient inventory. As on 31 March 2010, Rs.4.15 Crore was outstanding with URCs as subsidized loan.

(iii) The budgetary provision for operations of CSD was Rs.4138 Crore, Rs.4541 Crore and Rs.5420 Crore in 2005-06, 2006-07 and 2007-08.

Additionally, all Unit Run Canteens function from Government premises which are made available to them free of cost. Service Personnel are often assigned duties to these URCs. Transports quite often used for their operations are Defence vehicles.

4. From the aforementioned, it is evident that the operations of the URCs are totally funded from budgetary devolution and transfers from the Consolidated Fund of India.

5. On the premise that URCs are regimental institutions, it was believed that they were not subject to any Parliamentary oversight as would be applicable to any operations funded by Government. Hence no audit has ever been of these institutions earlier. However, in view of the facts narrated in Paragraph 3 above, it was decided to conduct a Performance audit of the functioning of Canteen Stores Department (CSD) covering transactions from 2003-04 to 2007-08. The objective was (i) to examine whether financial operations of CSD were carried out in accordance with the rules and principles as applicable to Government Organizations, (ii) whether consumer goods of high quality were being provided to service personnel and civilians paid out of Defence Service Estimates at a price cheaper than the market rates, (iii) whether consumer demand satisfaction was maintained at a desired level and (iv) whether the business operations of the CSD had been managed efficiently.

6. To get an idea of the magnitude of its operations; the gross turnover of CSD in 2008-09 – the last year up to which accounts are available – up to Depot level was approximately Rs.6900 Crore. Considering the URCs sell at a moderate profit and also receive Quantitative Discounts, it will be reasonable to assume that the turnover of the URCs will be even more.

7. The performance audit was conducted over a period of 5 months during June 2008 to October 2008 and the report was updated in November 2009 covering transactions of six years. Records of Ministry of Defence and Canteen Stores Department were scrutinized and observations have been made by audit on them. However, despite all efforts and despite directions of the Ministry of Defence access to Unit Run Canteens was denied by the Service headquarters. As such the efficiency and outcome of CSD operations relating to delivery of service to the service personnel and their families could not be assessed in audit.

8. The Report has been prepared for submission to the President under Article 151 of the Constitution.

Highlights

The present report contains the results of the performance audit of the Canteen Stores Department (CSD) under Ministry of Defence. The audit was conducted by the office of the Director General of Audit, Defence Services under the direction of the Comptroller and Auditor General of India. The audit was undertaken keeping in view of the large operational network of the Department. The audit objectives were to examine whether (i) financial operations of CSD were carried out in accordance with the rules and principles as applicable to Government Organisations (ii) the consumer goods of high quality were being provided to the beneficiaries at a price cheaper than the market rates and (iii) the business operations of the CSD had been managed efficiently.

Canteen Stores Department is responsible for providing the service personnel and their families with household goods at rates cheaper than the market rates. Evidence gathered in audit indicated that CSD had been able to provide household goods to the beneficiaries at prices cheaper than the prevailing rates in the market.

From a modest beginning six decades ago, CSD has also grown rapidly. The number of items of consumer goods available with CSD is more than 3000 and the sales have crossed Rs 6900 crore annually. The operations of CSD are carried out from its Head office in Mumbai and 5 Regional offices. It has a Base Depot in Mumbai and a chain of 34 Area Depots. About 3600 Unit Run Canteens (URCs), some of them located in extremely remote areas, cater to 44 lakh beneficiaries. CSD provides goods to these URCs against their indents and receives payment through cheques. Though the URCs are governed by guidelines framed by the Ministry, the operational jurisdiction of CSD does not extend to these URCs.

Considering the expanse of its operations and the remote areas served, CSD had been able to keep its supply chain well oiled. CSD also had largely been able to keep its operations commercially viable and had shown reasonable profits in each year.

Several areas could be identified during audit where there was scope for improvements in operations of CSD. Broadly, these areas were (i) financial operations (ii) pricing and quality of goods and (iii) business operations.

CSD and the Unit Run Canteens

CSD reaches out to the consumers through approximately 3600 Unit Run Canteens (URCs). URCs indent stores from the Base Depot or the accredited Area Depot under the Department. CSD also assists the URCs through soft loans and quantitative discounts.

Despite such assistance through CSD from Consolidated Fund of India and being the interface between CSD and the consumers, the URCs continue to remain outside the purview of the Parliamentary financial oversight as they are considered to be regimental institutions. Neither the budget documents nor the proforma accounts of CSD reflect the operations of the URCs. The URCs are also not subject to the accountability regime for operations funded by the Consolidated Fund of India.

Audit was denied access to records of URCs by Army Headquarters in spite of repeated requests. Even taking up the matter at the highest level in the Ministry of Defence could not ensure access of audit to the URCs.

In the interest of transparency and completeness, the operational results of the URCs should be disclosed in the proforma accounts of CSD after ensuring that all URCs follow uniform accounting principles. This would enable the financial statements of CSD to provide a true and fair view of the complete operations of the organisation.

(Chapter II)

Financial Operations of CSD

The gross turnover of CSD increased from Rs. 4481 crore in 2003-04 to Rs. 6955 crore in 2008-09 registering an increase of 55 *per cent*. But the gross and net profit had not shown commensurate increase during this period. This was mainly due to increase in cost of goods purchased for sale as also increase in quantitative discount given to the URCs.

Grants-in-Aid from the profits of CSD

Ministry of Defence had been reflecting approximately 50 *per cent* of the profits of CSD in the Demand for Grants as Contributions (earlier these amounts were reflected as Grants-in-Aid) and disbursing them to Services and other bodies as Grants-in-Aid. These grants were mostly transferred to the Non-Public Funds maintained by the Services. During 2002-03 to 2008-09, a sum of Rs. 601.88 crore was appropriated in this manner from the CFI. Out of this, Rs. 63.05 crore was distributed to various beneficiaries. The balance amount of Rs. 538.83 crore was shared by Services which were transferred to the Non Public Fund. Such Non-Public Funds commonly known as Regimental Funds are maintained by Armed Forces authorities and statedly, for welfare activities of service personnel and their families.

Instead of Grants-in-Aid, in 2005-06, Ministry of Defence created a new object head "Contribution" to disburse these profits. The new accounting practice further diluted financial controls as under the General Financial Rules, utilisation certificates could be insisted only for Grants-in-Aid. A significant change like this in the accounting of the financial transactions was made without any consultation with the Comptroller and Auditor General of India as was required under the Constitution of India. This change in the accounting treatment took away the audit jurisdiction of the C&AG over utilisation of these disbursements by the recipients.

Evidence gathered in audit indicated that grants given to the various organisations out of CSD profits did not follow the provisions of General Financial Rules (GFR) of the Government of India. Grants were given to organisations without even insisting on application for funds. Statement of accounts was never sought before sanctioning the grants. Receipt of utilisation certificates was not watched, as required under GFR. Utilisation certificates were never insisted from major recipients namely Army, Navy or Air Force for the grants provided. Only after the anomaly was pointed out in audit BOCCS in Feb 2010 replied that the requisite certificates were obtained before sanction of Grants in aid for the year 2008-09.

The proforma accounts prepared by the CSD though purporting to follow broad commercial principles like double entry system and accrual basis did not follow the generally accepted regimen of financial reporting.

Quantitative Discount (QD)

During the six years from 2002-2003 to 2007-08, Rs. 883.46 crore was transferred in the form of quantitative discount from the Consolidated Fund of India to the URCs. Evidence also indicated that benefit of QD was never passed to the consumer. Such discount could not be viewed as a trade discount as URCs operated in a captive market with pricing determined in accordance with the existing policies. QD was in fact another way of transferring money from CFI to non-public fund without conforming to the provisions of the General Financial Rules.

(Chapter III)

Pricing and Quality of Goods

Incorrect application of pricing policy in several cases

During audit, several cases of incorrect application of pricing policies were noticed. While in some cases CSD made undue profit at the cost of URCs and in turn of the customers, there were cases where CSD also incurred losses. Of particular significance was erratic implementation of provisions of Value Added Tax (VAT).

Quality Control

Evidence gathered in audit indicated that in the absence of relevant controls, there was a significant risk of sale of perished stores to the consumers. Test check in nine Area Depots indicated that the indent cum invoices for goods supplied to the URCs did not indicate the date of manufacture. Seven of the nine Depots selected were not maintaining stack cards, while in the remaining two the cards did not indicate the date of manufacture of the perishable stores.

From 2003 to 2009 (up to September 2009), out of 11254 samples referred to Composite Food Laboratories, 349 (3.1 *per cent*)samples were found unsatisfactory. It took about one to 13 months for groceries and two months for food items to obtain the test results from the laboratories. By that time, the stock of unfit items was sold. While CSD raised debit notes of Rs. 4.74 crore for these, the consumers were not compensated for goods of inferior quality. The penalty earned added to CSD profit.

Inability of Area Depots to supply all the items indented by the URCs

It was seen in audit that most of the Area Depots were not supplying the full range of items to the URCs under their jurisdiction. The inability of the Area Depot in issuing the item as demanded by the URC is termed as "Denial". In nine Area Depots, during 2004-05 to 2008-09, denials ranged from 4.48 *per cent* to 33.21 *per cent*. The denials were particularly high in Kirkee, Delhi, Jaipur, Dehradun and Bangalore areas.

Reasons for introduction and rejection of new items not recorded

69 to 87 *per cent* of the items offered by suppliers were not recommended by the Preliminary Screening Committee for introduction. However, the reasons for rejection or for that matter reasons for acceptance of the remaining, were not found on record and as such the basis on which an item was or was not recommended could not be ascertained. To that extent the process of introduction or rejection of an item lacked transparency.

(Chapter IV)

Business Operations of CSD

Functioning of Base Depot in Mumbai

The Base Depot, Mumbai functioned as a feeder Depot to all Area Depots. Stores were received in the Base Depot in bulk and then dispatched to all Area Depots by road as per the allocation of stores by Head Office. The total value of goods routed through Base Depot and expenditure incurred on transportation of the same from Base Depot to all Area Depots during the year 2003-04 to 2008-09 were Rs. 2844.43 crore and Rs. 63.04 crore respectively.

Rates of transportation paid by the Base Depot for transportation of stores to other parts of the country were exorbitantly high, when compared to the rates decided by Mumbai Sub Area.

Base Depot had not shifted to the new location even after 13 years of taking over the land at Taloja and continued to occupy the premises leased by Indian Navy from Mumbai Port Trust.

Audit examination of Base Depot operations indicated that due to wide availability of consumer goods in most of the areas served by CSD, the operations of the Base Depot had become uneconomical. The concept of maintaining a centralized Base Depot needed review.

Excess drawal of liquor

Evidence in audit indicated that several units under jurisdiction of five Area Depots were drawing liquor in excess of that authorized on the basis of the strength of the unit. CSD and the Army authorities allowed excess drawal of concessional liquor worth Rs 7.82 crore. The market value of the excess liquor was Rs 19.45 crore.

(Chapter V)

Some of the major recommendations made in the report are reproduced below.

Unit Run Canteens

The URCs should be recognized as the retail outlets integral to CSD. The operational results of the URCs should be disclosed in the proforma accounts of CSD to provide a true and fair view of the complete operations of the organisation. Ministry of Defence should also take immediate steps to bring the URCs under the accountability regime that is applicable to all operations funded by the Consolidated Fund of India.

(Paragraph 2.3)

Financial Operations

The Chief Accounting Authority should ensure that no change in the accounting policy is made without prior consultation with the Comptroller and Auditor General of India as required under Article 150 of Constitution of India. The disbursement of profit to eligible organisations should be made as Grants-in-Aid within the ambit of General Financial Rules. The use of the object head "Contribution" should be discontinued forthwith.

(Paragraph 3.5)

The regular and ad hoc Grants-in-Aid should be sanctioned in a transparent manner on the basis of detailed proposals and these grants should be used only for the welfare of service personnel as is set out as CSD's objectives. Ministry should issue suitable instructions in this regard to ensure compliance with the provisions of GFR.

(Paragraph 3.5)

Quantitative Discount should not be an instrument to transfer funds from public fund to non-public fund without accountability. Such transfers should be carried out in a transparent manner within the ambit of General Financial Rules.

(Paragraph 3.6)

CSD needs to closely monitor the timely credit of funds into its account. It should pursue with the Banks for payment of interest for delay in crediting amount telegraphically transferred by Area Depots' Banks and for indicating credit balances with details of cleared and uncleared cheques.

(Paragraph 3.7)

The accounting policies may be reviewed so that the income from non trading activities is correctly accounted for.

(Paragraph 3.7.3)

CSD and URCs should adopt a set of accounting standards with disclosure requirements akin to those adopted by Organisations having commercial operations.

(Paragraph 3.2)

Pricing and Quality Control

Ministry should take immediate steps to review the pricing policies and closely monitor its implementation. Prices should be fixed in a fair and transparent manner by correctly factoring actual costs incurred and accurately applying existing taxation provisions so that benefit accrues to the intended parties.

(Paragraph 4.2)

Ministry may put in place an effective mechanism to oversee strict implementation of the quality control measures at all levels of supply chain in CSD including URCs.

(Paragraph 4.3.1)

CSD HO should ensure speedy testing and reporting of test results so as to avoid sale of substandard items.

(Paragraph 4.3.2)

Reasons for acceptance or rejection of an item proposed for introduction in the CSD inventory should be recorded.

(Paragraph 4.4.1)

Business Operations

The concept of a centralized Base Depot needs to be reviewed.

(Paragraphs 5.1.1 to 5.1.5)

Computerized Management Information System, with automated documentation and control functions should be implemented early. This should include the operations of URCs.

(Paragraph 5.3)

Chapter I : Introduction

1.1 About CSD

Canteen Stores Department (CSD) came into being as a Department under the Ministry of Defence in January 1948. Its objective is to provide the service personnel and their families with consumer goods of high quality at prices cheaper than the market prices. The motto of CSD is "Service to Services". From a modest beginning made six decades ago, it has grown rapidly. It now caters to 44 lakh beneficiaries through a network of 3600 Unit Run Canteens, some of which are in remote areas. The number of items of consumer goods available with CSD was 3044 as of March 2009. The Sales of CSD were Rs. 6955.11 crore during the year 2008-09. It has been able to achieve significant progress in its operations as well as financial outcomes. It caters not only to Army, Navy and Air Force but also to other organisations like Coast Guard, DRDO, Border Roads Organisation, Assam Rifles, etc. Defence Civilians are also covered by CSD.

> In July 1942, Government of India took over the business of supplying household requirements of troops earlier managed by the Canteen Contractors Syndicate. "Canteen Services (India)" was formed and run on commercial lines and was expected to be self-supporting. After independence, Canteen Services (India) went into voluntary liquidation and CSD as a department of Ministry of Defence came into being.

1.2 Organisational structure

CSD at its apex level has the Board of Control, Canteen Services (BOCCS) with Raksha Mantri as the Chairman. The BOCCS lays down the overall policies of CSD and advises the Government on the disbursement of profits. The Board is assisted by an Executive Committee, which reviews the functioning of the Department once in a quarter.

The management of the CSD is vested in the Board of Administration with the General Manager (GM) as the Chairman and members representing Ministry of Defence (Finance), Army Headquarters (QMG's Branch) and other Services. The GM is responsible for day-to-day management and reports to the BOCCS through the QMG. The activities of the CSD are carried out from its Head Office in Mumbai through a chain of 34 Area Depots spread over the country, a Base Depot in Mumbai and five Regional Offices.

1.3 Service delivery mechanism of CSD

CSD procures approved consumer goods from listed vendors. The stores are received by the Base Depot in Mumbai/Area Depots. Goods are sold to the beneficiary consumers through the network of Unit Run Canteens (URCs), which collect such stores from the assigned Area Depots through Indent cum Invoice. The URCs are independent of CSD but their functioning is governed by policies laid down by the Ministry of Defence. The goods are introduced in the CSD inventory after detailed market survey and approval by the Board of Administration.

1.4 Scope of Audit

URCs had to be kept out of the scope of audit as access to URCs was denied by Army Headquarters on the ground of these being run from non-Public fund. This report does not, therefore, include any comment on the functioning or financial results of the URCs.

The Performance Audit covering transactions for the period 2003-04 to 2007-08 was carried out from June 2008 to October 2008 at BOCCS, New Delhi, CSD HQrs Mumbai, Base Depot Mumbai and nine[1] of the 34 Area Depots. The report has been updated to cover transactions upto 2008-09. The Area Depots were selected based on their sales volume and geographical location and only one Depot in a State was selected. The nine Depots catered to 941 URCs out of a total of 3600 in the country.

1.5 Audit Objectives

The Performance Audit was conducted to obtain reasonable assurance that:

- financial operations of the CSD were carried out in accordance with the financial and accounting rules and principles as applicable to Government Organisations;
- consumer goods of high quality were being provided to the service personnel, at a price cheaper than the prevailing market rates;
- consumer demand satisfaction was maintained; and
- business operations of CSD had been managed efficiently and effectively.

1.6 Audit Criteria

Audit criteria for evaluation of performance were derived from CSD Stores Manual, CSD Purchase Procedures, CSD Pricing Policy and URC manual. The distribution of profits as Grants-

[1] Agra, Bangalore, Dehradun, Delhi, Jaipur, Kirkee, Kochi, Kolkata and Secunderabad

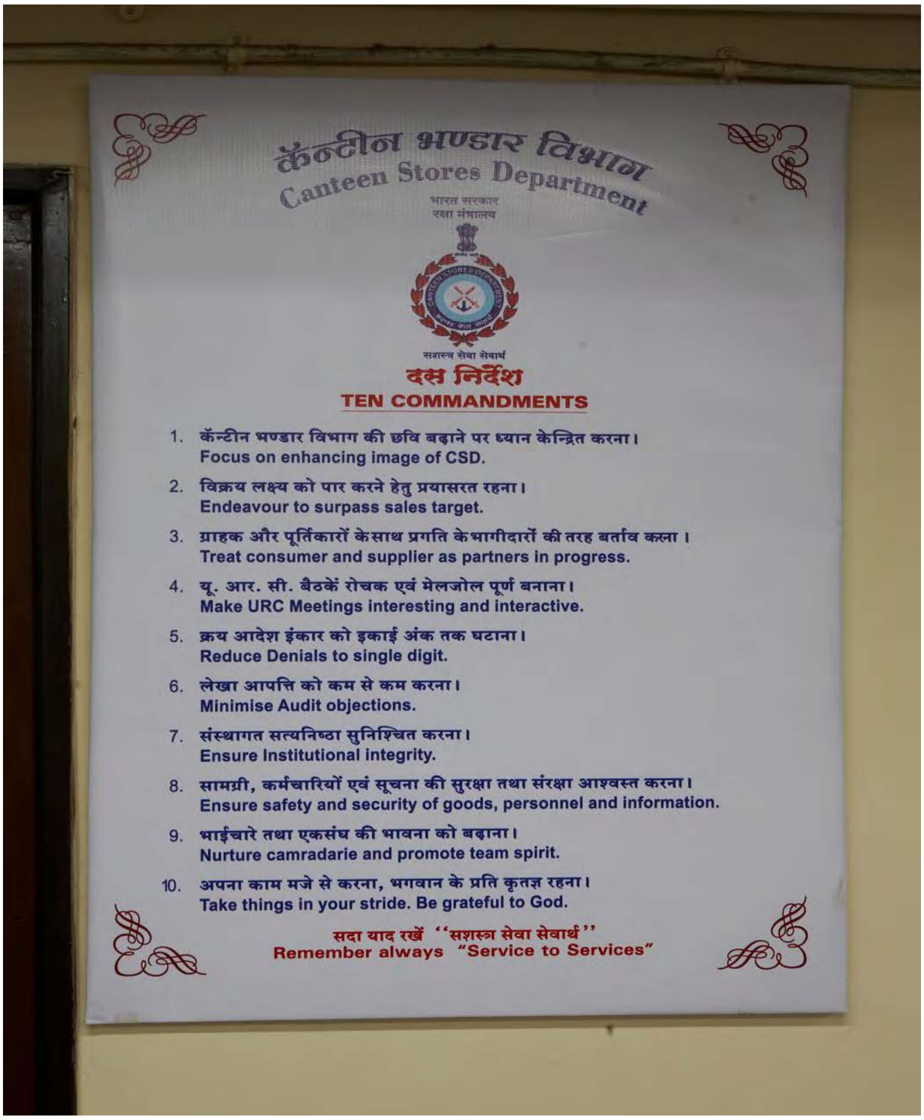
in-Aid was examined in the light of the General Financial Rules of the Government.

1.7 Audit Methodology

After a preliminary study to collect background information, the Performance Audit commenced with an entry Conference in the Ministry of Defence on 10 July 2008. Detailed audit scrutiny was conducted at the CSD Headquarters, selected Area Depots/Base Depot including BOCCS to evaluate the performance against the audit criteria. Audit findings were discussed with the Ministry of Defence on 5 February 2009. The reply of the CSD management had been taken into account in finalizing the report.

1.8 Acknowledgement

Officials of the Ministry of Defence, the General Manager, CSD and his officers and staff, and the Area Managers of all the nine Area Depots had extended full co-operation during the audit which is gratefully acknowledged.



Chapter II: Audit of Unit Run Canteens (URCs)

Audit Objective: To review the functioning of the Unit Run Canteens to assess the extent of consumer satisfaction achieved by the organisation.

2.1 Integration of CSD into Consolidated Fund of India

Based on the recommendations of Public Accounts Committee (1964-65), the finances of CSD up to Depot level only were brought within the ambit of Consolidated Fund of India (CFI) with effect from 01 April 1977. This, however, was not extended to the Unit Run Canteens (URCs), the retail outlets of the CSD. All expenditure and receipts of the CSD are booked to the Consolidated Fund of India. The operations of CSD which are to procure goods from the open market and sell them to the URCs for further sale to the consumers are funded from the Civil Grant of Ministry of Defence. Though the URCs are the retail face of the CSD and without the URCs, CSD cannot reach the consumers i.e. the service personnel, nevertheless, URCs continue to be treated as regimental institutions outside the purview of the parliamentary control. The URCs are also stated to be independent of the control of the CSD, though they are not, as explained in the succeeding paragraphs.

This has created an anomalous situation in as much as the operations and management of URCs are carried out as per instructions of the Ministry of Defence and Army Headquarters. The rules for creation/setting up of a URC and its day to day management are laid down in AHQ orders and CSD registers a URC only after the conditions enshrined in the AHQ orders ibid are fulfilled. The rates /prices of goods sold by URCs and profit margin which a Canteen is entitled to charge on goods sold are governed by orders issued by the Board of Control, Canteen Services of which Raksha Mantri is the Chairman.

These URCs operate on Government land and from Government buildings. Most often Government Transport is used and often the URCs are manned by Service personnel and the entire operations of URCs are supervised by the Unit Commanding Officer. In spite of all these facts, they are treated as private regimental institutions of the Services, outside the purview of the Parliament in relation to accountability mechanism. Indeed the URCs which are the retail outlets and face of CSD as regards the consumers are not accountable to the CSD or Parliament with regard to the quality and efficiency of the services to the consumers.

2.2 Financial assistance provided to the URCs from the Consolidated Fund of India

CSD provides significant assistance in the form of 'soft loans' at the subsidized rate of interest of 4.5 to 6.5 *per cent* per annum for setting up the canteens and to keep sufficient inventory. Additionally, temporary credit facility up to Rs. 2 lakh for a period of 30 days is admissible to them. They also get substantial assistance in the form of Quantitative discount as discussed in this report in Paragraph 3.6. During six years from 2002-03 to 2006-07, Rs 883 crore was transferred in the form of QD. In order to compensate for the expenditure incurred on transportation of goods from Area Depot to URCs, a provision has been made for its reimbursement. In certain areas, Service vehicles are also regularly used by the URCs for collection of stores from the Area Depots without payment of hire charges (Para 3.6.4 of C&AG's Report No. 4 of 2007-Performance Audit). Many commodities enjoy the benefit of non levy of local levies, which is also in the nature of financial assistance from CFI. Despite such assistance, the URCs continue to maintain their funds outside the Consolidated Fund of India and are not subject to budgetary controls, audit by the Comptroller & Auditor General of India and accountability to Parliament..

2.3 Achievement of the CSD could not be assessed fully due to denial of access.

Since the Performance Audit was expected to examine each aspect of the functioning of CSD, scrutiny of the records at

URCs was essential. The following efforts were made to access the records of the URCs:

In June 2008, request was made to Army Headquarters. It was clarified to AHQ that the examination by Performance Audit Teams would be limited to (i) examination of the pricing data, (ii) verification as to whether the URCs are selling goods at the rates prescribed by CSD, (iii) verification as to whether URCs are procuring a wide variety of goods and are not favouring any particular brand/supplier and (iv) assessment of consumer satisfaction.

In August 2008, BOCCS Secretariat agreed to provide limited access but it was withdrawn later.

In view of this refusal by the AHQ, the issue of access to URC records was demi officially taken up on a number of occasions with the Ministry of Defence. In January and March 2010, it was also taken up demi officially with the Defence Secretary.

In April 2010, the Comptroller & Auditor General of India took up the matter at the highest level explaining that to provide goods to the beneficiaries, the URCs are the only interface between the CSD and its consumers. Since the level of satisfaction of CSD consumers depends on the functioning of the URCs, an assessment of the functioning of Unit Run Canteens was thus essential in order to evaluate the extent of consumer satisfaction achieved by the organisation.

Ministry agreed with the audit contention and accordingly requested Army Headquarters in December 2009 and in February 2010 to arrange inspection of URC records by Audit. In spite of these directions from the Ministry, Army Headquarters did not provide access to the audit teams to visit the URCs.

This denial of access to URCs is inexplicable as URCs complete the supply chain of CSD. Significant amounts are transferred from Consolidated Fund of India to the URCs every year. These are located in government premises and often use government transports. Lack of any oversight has enabled the Services to continue the arbitrary separation of the finances of URCs and CSD despite transfer of considerable funds from Public Fund to run the URCs. This has enabled the Services to transfer profit earned from the operations funded by the CFI to non public funds of the Services. These non public funds are kept outside the purview of parliamentary control and public accountability.

As we were denied access to URC records while carrying out this Performance Audit, we are unable to assess the efficiency and outcome of CSD operations relating to delivery of service to the service personnel and other beneficiaries.

Recommendation 1

The URCs should be recognized as the retail outlets integral to CSD. The operational results of the URCs should be disclosed in the proforma accounts of CSD to provide a true and fair view of the complete operations of the organisation. Ministry of Defence should also take immediate steps to bring the URCs under the accountability regime that is applicable to all operations funded by the Consolidated Fund of India.

Chapter III : Financial Operations

Audit Objective: To assess whether the financial operations of the CSD are carried out in accordance with the financial and accounting rules and principles as applicable to Government Organisations.

3.1 Turnover and Profitability

The trends in the turnover and profitability according to the CSD proforma accounts during the six years under review were as follows:

Table 1: Financial Results of CSD

(Rs. in crore)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sale	4480.99	4749.42	4163.21	4791.72	5614.69	6955.11
Purchase	3850.90	4033.26	3525.71	4087.69	4898.52	6185.57
Trading Exp	308.48	380.47	329.53	331.98	320.25	392.42
Q D Provision	140.27	148.87	137.49	152.08	175.00	216.50
Staff Expense	38.03	45.51	43.25	46.28	48.10	72.98
Operating Exp	10.14	11.17	10.81	11.50	13.90	14.39
Gross Profit	243.90	208.42	196.58	242.50	234.15	282.34
Net Profit	196.73	154.76	146.23	183.65	168.88	203.69
Closing Stock	362.58	384.17	410.33	432.93	446.17	567.91

But for the year 2005-06, the CSD Sales had increased consistently during the last six years. The dip in sales in 2005-06 was mainly due to reduced price advantage as a result of imposition of VAT in many states, which was later withdrawn or reduced in case of many commodities.

Despite significant increase in sales from Rs.4481 crore in 2003-04 to Rs. 6955 crore in 2008-09 registering an increase of 55 *per cent* the gross and net profit had not been commensurate with the increase. This was mainly due to increase in cost of purchase of goods for sale as also steady increase in the closing stock. The closing stock had increased by 57 *per cent* during the last six years.

While CSD had been able to keep Trading and Operating Expenses under control, the increase in Quantitative Discount had also contributed to lower profits. The issue of Quantitative Discount has been discussed in detail in Paragraph 3.6 of this report.

3.2 Financial Reporting

CSD prepares Annual Accounts consisting of Trading and Profit & Loss Accounts and the Balance Sheet for each financial year. These accounts though purporting to follow broad commercial principles like double entry system and accrual basis do not follow the generally accepted regimen of financial reporting. There is no statement indicating the significant accounting policies followed nor are there proper explanatory notes regarding departure from such principles. There is also some ambiguity regarding the stewardship of accounts and the external auditor's certificate. It would be desirable to adopt the generally accepted set of accounting policies with the standard regimen of disclosure and certification akin to those adopted by organisations having commercial operations.

An internal audit report is attached to these accounts, which is signed by the official who is also the Controller of Defence Accounts and the Internal Financial Advisor. Internal audit of the organisation by the official who is also responsible for treasury control and financial advice compromises the independence of the internal audit function.

Recommendation 2

CSD and URCs should adopt a set of accounting policies with disclosure requirements akin to those adopted by Organisations having commercial operations.

3.3 Accounting of CSD Profits

Roughly 50 *per cent* of profits generated from operations of CSD are taken as CSD profits in the Demand for Grants for disbursement to various beneficiaries. In other words, even though the amount disbursed reflects half of the profits made in the CSD operations, the disbursement is made out of the Consolidated Fund of India.

In the 56th meeting of the BOCCS held in March 1986 it was decided that 50 *per cent* of the net trade surplus of CSD for a particular year would be distributed as 'Grants-in Aid' in the subsequent year from Consolidated Fund of India. The amount was distributed both as Regular grant and Ad hoc grant. Regular grants are given to a few organisations on a regular basis every year. In addition, in a given year, BOCCS provides grants to other organisations on an ad hoc basis. After distribution of these grants, the remaining part of the available budget was distributed amongst the Services in the ratio of Army 0.85, Air Force 0.10 and Navy 0.05. Till 2004-05, Ministry of Defence in their Demands for Grants reflected these disbursements as "Grants-in-Aid". From the year 2005-06, a new object head "Contribution" was introduced. Provision and booking of this expenditure under the object head 'Contribution' was incorrect as the nature of payment remained that of grants from the Consolidated Fund. It also diluted financial controls over utilisation of these amounts as under the General Financial Rules, utilisation certificates could be insisted only for Grants-in-Aid.

Such a significant change in the accounting policy was made without consultation with the Comptroller and Auditor General of India as required under the Constitution of India. It seriously diluted accountability of such disbursements. It was particularly significant as such disbursements percolated to the Units/formations and formed a part of the unit's Regimental Fund. The Grants-in-Aid were credited to Regimental Fund by the Services and treated as Non Public Fund in the hands of the recipients.

> The change of accounting treatment of such disbursements from grants-in-aid to Contributions takes away the audit jurisdiction of the Comptroller and Auditor General of India on utilisation of such amounts by the recipients.

3.4 Transfer of money from Consolidated Fund of India (CFI) to Non Public Fund as grants to Services

During 2002-03 to 2008-09, a sum of Rs.601.88 crore was appropriated from the CFI, being 50 *per cent* of the net trade surplus. Out of this, Rs. 63.05 crore was distributed to various beneficiaries. The balance amount of Rs. 538.83 crore was shared by Services which were transferred to the Non Public Fund. Such Non-Public Funds i.e. Regimental Funds are maintained by Armed Forces authorities for welfare activities of service personnel and their families. Despite substantial amount of Government Funds being transferred to these Non-Public Funds, access continues to be denied to audit and therefore, we are unable to provide assurance on the proper utilisation of these funds.

3.5 Regular and Ad hoc Grants-in-Aid/ Contributions to organisations

From examination of the papers relating to sanction of Grants-in-Aid available with the BOCCS, it was observed that in several cases, provisions of General Financial Rules were violated. The findings of audit are discussed in the subsequent paragraphs.

3.5.1 BOCCS and CSD sanctioned grants to themselves in violation of GFR

As per Rule 206 of General Financial Rules (GFR), Grants-in-Aid could be sanctioned to personnel or a public body or an institution having a distinct legal entity. CSD, a department in Government and BOCCS, a standing committee with fixed membership sanctioned grants to themselves, in violation of the proviso regarding distinct legal entity. Grants-in-Aid amounting to Rs. 7.85 crore were sanctioned to DDG (Canteen Services) in Delhi who acted as Secretariat to BOCCS and CSD HO during the period 2002-03 to 2008-09 as shown below.

Table 2: Grants-in-Aid to BOCCS and CSD

(Rupees in lakh)

Year	Sectt of BOCCS		CSD HO Mumbai		Total	
	Regular	Ad hoc	Regular	Ad hoc	Regular	Ad hoc
2002-03	0.97	1.00	65.79	10.00	66.76	11.00
2003-04	1.27	5.00	86.38	10.00	87.65	15.00
2004-05	1.00	2.00	67.95	10.00	68.95	12.00
2005-06	1.46	3.00	64.34	40.00	65.80	43.00
2006-07	1.84	5.00	80.81	160.00	82.65	165.00
2007-08	1.69	0.00	74.31	0.00	76.00	0.00
2008-09	2.04	0.00	89.62	0.00	91.66	0.00
Total	**10.27**	**16.00**	**529.20**	**230.00**	**539.47**	**246.00**
Grand Total						**785.47**

3.5.2 Grants-in-aid were sanctioned without adequate details as required under GFR

As per Rule 209 (1) of GFR, any Institution or Organisation seeking Grants-in-Aid would be required to submit an application which includes all relevant information such as Article of Association, bye laws, audited statement of accounts, sources and pattern of income & expenditure etc. to enable the sanctioning authority to assess the suitability of the Institution or Organisation seeking grant. The application should clearly spell out the need for seeking grant and should be submitted in such form as may be prescribed by the sanctioning authority. The Institution seeking Grants-in-Aid should also certify that it had not obtained or applied for grants for the same purpose or activity from any other Ministry or Department of the Government of India or State Government.

It was observed in audit that that no such application was prescribed by the BOCCS. During 2002-03 to 2006-07, regular and ad hoc Grants-in-Aid were sanctioned to 67 beneficiaries out of whom ad hoc beneficiaries were 38. Out of these, seven beneficiaries, mostly organisations related to Ministry of Defence, and which included RM Discretionary Fund, Ministry of Defence, Ministry of Defence (Finance) and Kendriya Sainik Board were recommended for ad hoc grant amounting to Rs. 1.85 crore by the Executive Committee and sanctioned by Ministry of Defence even though there was no demand from them, which was a pre-requisite for sanctioning the grants-in-aid.

3.5.3 Grants-in-aid sanctioned without utilisation certificate for previous grants

As per Rule 212 (1) of GFR, fresh grants were not to be sanctioned to institutions who failed to submit utilisation certificates. Confirmation was sought for from BOCCS by Audit that all the grants were sanctioned against demands from the organisation concerned and institutions who had failed to submit the utilisation certificate were not considered again for distribution of Grants-in-Aid. It was not provided to audit. However, BOCCS in February 2010 confirmed that for before sanction of grants for 2008-09 the utilization certificate in respect of the grants (contribution) for 2007-08 were being obtained.

3.5.4 Receipt of utilisation certificates and audited accounts of grants not monitored

As per Rule 212 (1) of GFR, in respect of grants to an Institution or Organisation, a certificate of actual utilisation of the grant received for the purpose for which it was sanctioned in the prescribed Form, should be insisted upon. The utilisation certificate should also disclose whether the specified quantified and qualitative targets had been reached against the amount utilised, and if not, the reasons therefor. The utilisation certificate should be submitted within twelve months of the closure of the financial year. Rules provided that receipt of such certificate should be scrutinized by the Ministry or Department concerned. Organisations/ Institutions who failed to submit the certificates along with other requisite details were not to be considered for allotment of grants for subsequent years.

At BOCCS, it was observed that receipt of utilisation certificates was not being watched up to 2007-08, as required under Rule 212(1) of GFR. No utilisation certificate was ever insisted from Army, Navy or Air Force for their share of grants. In 13 cases of other grants amounting to Rs. 31.95 crore, information for which was made available to audit, it was observed that utilisation certificates received were single line certificates stating that the grant allotted had been utilized. One such beneficiary was CSD HO itself. In four other cases, utilisation certificates were called for from the beneficiaries after a decade, only when the same were asked for by Audit.

It was observed that the beneficiaries were not submitting the audited statement of accounts with the utilisation certificates as per Rule 210 of the GFR up to 2007-08.

3.5.5 Grants were given without specific details or for doubtful purposes

Rule 209 (3) of GFR stipulated that award of grants should be considered only on the basis of viable and specific schemes drawn up in sufficient detail by the Institutions or Organisations. The budget for such schemes should disclose, *inter alia*, the specific quantified targets likely to be attained against the outlay. As demands for the ad hoc grants were not supported by detailed proposals from the recipient institutions, which was contrary to the provision, the method of sanction of grants did not reflect adherence to any systematic procedure. As the minutes of the meetings of BOCCS were silent on this issue, it could not be ascertained on what basis ad hoc grants were allocated. Several such cases came to the notice of Audit.

(i) Grants-in-Aid aggregating Rs. 16.20 crore were allotted to Defence Service Officers Welfare Fund (DSOWF) from 2003-04 to 2006-07. The amount was utilized in a staggered manner up to May 2007. In the meanwhile, the amount was kept in fixed deposit for various periods which earned interest of Rs. 73.16 lakh. The interest earned was not disclosed in the utilisation certificate rendered to the sanctioning authority.

(ii) It was observed that an amount of Rs. 75 lakh was sanctioned to Headquarters, Southern Command Military World Games Secretariat to meet unforeseen expenditure during the Military World Games. Details of the expenditure could not be produced to audit.

(iii) During 2002-03 to 2006-07, an amount of Rs. 1 crore was allocated to the Services Golf course. Though the Grants-in-Aid were allocated to the Services Golf course, the utilisation certificate was furnished by the Army Environmental Park and Training Area. It was also observed that the 'Receipt and Payment' accounts of the grantee for that year did not account for the grants-in-aid received.

(iv) During 2003-04, CSD HO received an amount of Rs. 96.38 lakh as Grants-in-Aid. However, the utilisation certificate was for Rs. 86.38 lakh while the amount actually transferred to non public fund was Rs. 124.03 lakh. Similarly, for 2004-05 and 2005-06, the amounts of Grants-in-Aid received were Rs. 77.94 lakh and Rs. 104.34 lakh, respectively, whereas the amounts credited to non-public fund were Rs. 94.90 lakh and Rs. 105.77 lakh, respectively. CSD HO stated that the amounts disbursed include loans and financial assistance given to the staff for various welfare activities. It further stated that these amounts were later recovered in installments and as a result, over a period of time such grants got accumulated and again utilized. From the reply it became apparent that CSD HO has created a fund from which loans are disbursed but interest earned on these loans had not been disclosed while seeking fresh grants.

Recommendation 3

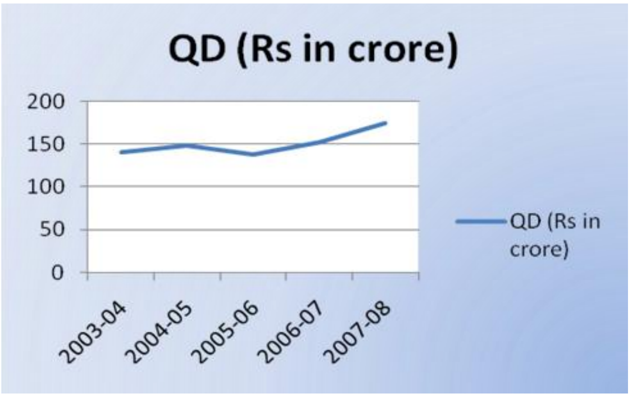
The Chief Accounting Authority should ensure that no change in the accounting policy is made without prior consultation with the Comptroller and Auditor General of India as required under Article 150 of Constitution of India. The disbursement of profit to eligible organisation should be made as grants-in-aid within the ambit of General Financial Rules and further use of the object head "Contribution" should be discontinued forthwith.

Recommendation 4

The regular and ad hoc Grants-in-Aid should be sanctioned in a transparent manner on the basis of detailed proposals and these grants should be used only for welfare of service personnel as is set out as CSD's objectives. Ministry should issue suitable instructions in this regard to ensure compliance with the provisions of GFR.

3.6 Transfer to Non Public Fund through Quantitative Discount (QD)

CSD provides Quantitative Discount (QD) in the form of free stores to all the URCs. It is disbursed through the budgetary grant of the Ministry of Defence. QD is calculated at 4.5 *per cent* in respect of goods on which CSD loads a profit margin of six *per cent* and 3.5 *per cent* in respect of goods on which CSD loads a profit of five *per cent*. The amount so calculated is included in the subsequent year's budget under the head "Supplies and Materials".



CSD operates a Government funded monopoly selling in a closed market with pre determined prices with captive consumers having monetary ceiling on purchases. It was noted in audit that benefit of such QDs was not passed to the customers and added to the profits of URCs. The incentive in the form of QD, therefore, could not be viewed as a trade discount as reflected in the CSD proforma accounts. It was in fact transfer from CFI to non-public fund without conforming to the provisions of the General Financial Rules. During the six years from 2002-2003 to 2007-2008, Rs. 883.46 crore was transferred in the form of QD.

Such transfer in the form of trade discount also affected adversely the profitability of the CSD and resultantly, Government revenues. Since 50 *per* *cent* of the CSD profit should accrue to the Government, treating QD as a charge to the trade understated the profit and thereby deprived Government of India of revenue. The table below indicates the revenue loss to Government.

Table 3: Loss of revenue on account of Quantitative Discount in 2002-08

(Rupees in crore)

Year	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
QD Paid	131.74	139.21	148.18	137.37	152.01	174.95
Net Profit	149.81	196.73	154.76	146.23	183.65	168.88
Actual profit	281.55	335.94	302.94	283.60	335.66	343.83
Share of Govt	140.78	167.97	151.47	141.80	167.83	171.92
Share deposited	74.91	98.37	77.38	73.12	91.83	84.44
Loss of Revenue to Govt	65.87	69.60	74.09	68.68	76.00	87.48
Total Shortfall to Govt						441.73

Recommendation 5

Quantitative Discount should not be an instrument to transfer funds from public fund to non-public fund without accountability. Such transfers should be carried out in a transparent manner within the ambit of General Financial Rules.

3.7 Banking Arrangements: Delay in credit of funds to CSD Accounts.

3.7.1 Delay in transfer of surplus funds from Depot Bank Accounts to CSD HO Account

Cheques received from URCs on account of sales are deposited into Area Depot Public Fund Account in the respective branches of the Banks. As per CSD instructions, Banks have to afford credit in the Area Depot Accounts within four days in case of local cheques and within 14 days in case of outstation cheques. In case of delay, penal interest is leviable on the Bank at the Savings Account rate plus two *per cent*. Further, the Banks are required to transfer the funds in excess of Rs. 5000 standing at the credit of the Area Depot Account to CSD Head Office (HO) Public Account Main on a day-to-day basis through telegraphic transfer (TT).

The Cash Statements and Bank Statements at five Area Depots for the year 2007-08 were scrutinized. It was observed that amounts in excess of Rs. 5000 were not transferred to CSD HO Account through TT on a regular basis. Details are reflected in the table.

Table 4: Average bank balance in the Area Depot Account
(in Rupees)

Depot	Average balance in Bank Account in 2007-08	
	Monthly Average Balance	Average Interest for one year
Kolkata	12236484	978919
Agra	34988256	2799060
Jaipur	32769291	2621543
Kirkee	63635604	5090848
Secunderabad	26678389	2134271
Total penal interest foregone		13624641

On non transmittal of Area Depot amount to CSD HO account, CSD stated that these amounts represented uncleared cheques. However, the Depots did not have the details of date of clearance of cheques, in the absence of which they were unable to exercise control over timely clearance of cheques by the bank. Under the circumstances, the correctness of the penal interest charged for late clearance of the cheques could not be verified also. CSD stated that efforts were on to ascertain the cleared/uncleared balances in the Depot bank accounts.

3.7.2 Delay in crediting Area Depot Accounts surplus to CSD HO Account

There were also delays ranging from 1 to 440 days in affording credit by the banks (Punjab National Bank and State Bank of India) to the CSD HO Account after the Area Depot Banks had transferred the amount through TT. We calculated that as a result of such delay during the period 2003-04 to 2007-08, the banks held CSD funds of Rs. 31.00 crore for the entire period without payment of interest. Interestingly, while penal interest could be claimed from the Banks for delayed credit of cheques of URCs to Area Depot Accounts, no such provision existed for delay in affording credit of the amount telegraphically transferred to CSD HO Account. It was estimated in audit that interest at the rate of eight *per cent* in respect of delay beyond three days in affording credit in such cases during the period 2003-04 to 2007-08 worked out to Rs. 2.48 crore.

CSD stated that delay had mainly occurred in the Eastern and Northern regions due to difficult working environment and poor connectivity in these areas. However, it was observed that delay had occurred in Western and Southern regions also. Delays of up to 440 days in according credit indicate poor monitoring and lack of control by CSD in the management of funds.

3.7.3 Penal interest not treated as Government Revenue

During the period 2003-04 to 2008-09, CSD received Rs. 1.81 crore on account of penal interest for delayed credit of URC cheques by Banks. This was accounted for as 'Other Receipts' in the Profit & Loss Account. As the said interest was levied due to late remittance of money to the Consolidated Fund of India (CFI), penal interest arising from such late credit should rightly have been treated as the revenue of the Government of India. As such, its credit to Profit & Loss Account and further distribution as profit had occasioned a loss of Rs. 0.90 crore to the Government. CSD stated that the case would be referred to Ministry of Defence/Controller General of Defence Accounts for clarification based on which the procedure would be modified in future.

Recommendation 6

CSD needs to closely monitor the timely credit of funds into its account. It should pursue with the Banks for payment of interest for delay in crediting amount telegraphically transferred by Area Depots' Banks and for indicating credit balances with details of cleared and uncleared cheques.

Recommendation 7

The accounting policies may be reviewed so that the income from non trading activities is correctly accounted for.

3.8 Outstanding Creditors and Debtors

3.8.1 Outstanding Creditors

CSD was to settle the accounts of creditors pertaining to the period 2003-04 to 2007-08 amounting to Rs. 22.18 crore as of March 2009. There was a substantial reduction in the outstanding creditors during the year 2004-05 due to provision of additional funds for clearance of the suppliers' bills. The details as of 31st March for each year are given in the following table.

Table 5: Outstanding Creditors

(Rupees in crore)

Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Total Purchases	3850.90	4033.26	3525.71	4087.69	4898.52	6185.57
Less AFD Purchases	780.04	831.62	498.25	668.79	800.24	1034.63
Net Purchases	3070.86	3201.64	3027.46	3418.90	4098.28	5150.94
Creditors as on 31st March.	938.87	233.44	296.93	444.38	640.22	1155.60
Percentage of creditors to Purchases	30.57	7.29	9.81	13.00	15.62	22.43

The percentage of creditors to purchases which was 30.57 *per cent* in 2003-04 came down to 7.29 *per cent* in 2004-05 due to provision of additional funds for payment to creditors. However, creditors were on an increasing trend since then which indicated that CSD had been unable to manage its purchases within the allotment of funds under the head 'Supplies and Materials'.

CSD stated that bills pertaining to the period 2003-04 to 2007-08 could not be cleared due to certain observations by CDA and payment of bills earlier to 2003-04 was made only after processing the case on file. As the availability of records relating to such old transactions was itself doubtful, in such cases the liability needed to be written back to the Profit and Loss Account in accordance with the commercial accounting principles.

3.8.2 Outstanding Debits

As of 31 March 2009, 11964 Debit Notes amounting to Rs. 11.21 crore were outstanding for recovery from various suppliers, of which 1460 Debit Notes valuing Rs2.54 crore pertained to the period prior to 2004-05.

Inability to recover debts due for more than five years implied that such recoveries were doubtful. The debtors prior to 2002 were also not covered with proper Bank Guarantee (BG). Hence possibility of recovery was remote.

Recommendation 8

CSD should take immediate action to clear the old outstanding credit and debit items. The cases where records relating to purchases are not available and creditors are not demanding payment should be written back to the profit in accordance with the commercial accounting principles.

Recommendation 9

CSD needs to take expeditious action to recover the amounts outstanding for more than five years or write off the same as per laid down procedure.

Chapter IV : Pricing and Quality of Goods

Audit Objective: To assess whether consumer goods are being provided to the service personnel at a price cheaper than the prevailing market rates; and Consumer demand satisfaction was maintained

4.1 Cheaper Prices

The pricing policies of CSD items are determined by BOCCS. The rate at which the stores are issued to the URCs includes an element of profit. The selling prices of items to the consumers through the URCs, which again include an element of profit, are fixed based on "into warehouse cost". Gross profit of approximately one to six *per cent* is provided on general stores and if the Super Bazar rates are lower than the CSD prices, the profit margin is suitably adjusted. The selling prices of all the items are uniform throughout the country. Local Taxes like sales tax and octroi duty, where applicable, are charged in addition to the listed price.

> CSD has largely been able to provide consumer goods to its beneficiaries at rates cheaper than the market rates.

A review of price catalogue of CSD as also examination of more than 100 contracts indicated that CSD had been able to provide goods to the consumers at rates cheaper than the market rates. The difference between the market price and CSD price varied from item to item and in case of some items it was quite significant.

4.2 Inconsistent application of pricing policies and Value Added Tax (VAT)

Several cases of incorrect application of pricing policies came to the notice during audit. While in some cases CSD made undue profit at the cost of URCs and in turn the customers, there were cases where CSD also incurred losses.

4.2.1 Gain to CSD due to incorrect pricing

4.2.1.1 Insurance charges

According to the pricing policy issued by the Ministry in October 1977, the basis for working of selling prices should be "into warehouse cost" which would include the elements of Inward freight, Transportation charges, Insurance and other incidentals. The element of insurance included in the selling prices is 0.10 *per cent*. During the period 2003-04 to 2008-09, CSD had collected an amount of Rs. 21.98 crore on account of Insurance charges while no cost was incurred on this account.

CSD stated that adding 0.10 *per cent* in the price structure towards insurance was to cover all kinds of incidental expenses like fraud, theft, floods, fire, claim on carrier, etc which were unavoidable in commercial activities. It was however observed that in reality no expenditure was incurred on this account during the period scrutinized and in any case, for losses of this nature, provision is to be made in the annual accounts which had not been done. Inclusion of normative element of Insurance in the selling prices resulted in sale of stores at higher rates leading to generation of profit for CSD at the cost of consumers.

4.2.1.2 Delay in ratification of price reduction

On reduction of prices by the suppliers, a provisional price circular effecting the downward reduction is issued by CSD Headquarters at the earliest. The provisional circular is ratified by the Price Revision Committee (PRC) after conduct of market survey. In the event of prices being found lower in the market than the offer, the prices are reduced further while issuing the regularization circular. The difference in price during the period from the date of provisional circular till its regularization is recovered from the supplier by issue of Debit Note.

CSD Depot in Srinagar

Audit examined 112 price revision cases and observed that there was delay ranging from 3.5 to 50 months in ratification of the circulars. Due to such delay the benefit of further price reduction amounting to Rs. 25.84 crore was not passed on to the consumers and thus, became the profit of CSD.

4.2.1.3 Inadmissible recovery of VAT

In 11 Area Depots out of 34, it was observed that though the percentage of tax in respect of Transfer invoices received from Base Depot was "Nil", VAT at the rate of four *per cent* was added to the wholesale rate. This had resulted in recovery of Rs. 7.45 crore from URCs due to issue of stores at higher rates. We further noticed that even the Depots which were adding four *per cent* VAT on the basis of CSD HO policy letter of May 2005 were charging it on the wholesale rate instead of the procurement rate which further increased the burden on the consumers. CSD stated that the issue was being reviewed and if cases of excess charges made by various Area Depots were found they would be stopped henceforth.

4.2.2 Loss to CSD due to incorrect pricing

4.2.2.1 Failure to indicate VAT for goods procured from Maharashtra based suppliers

CSD HO in May 2005 issued guidelines which provided that Base Depot, Mumbai, while dispatching goods to Area Depots would indicate in the transfer invoices, an amount equivalent to four *per cent* of value of goods procured from Maharashtra based suppliers, equivalent to VAT paid. The Depots were required to add the amount of four *per cent* to the wholesale rate. Our examination indicated that in 12 Depots, the amount equivalent to four *per cent* of the cost of stores was not being added to the wholesale rate resulting in under recovery of Rs. 5.93 crore from URCs. The case indicated that the Depots were not following the required procedure and inaction on the part of CSD HO to inform the Depots of the correct procedure indicated poor monitoring.

4.2.2.2 Loss due to delayed recovery of VAT

Rajasthan Government vide its notification of April 2006 exempted VAT in excess of three *per cent* on the sale of any goods by a registered dealer to CSD. Scrutiny of suppliers' bills indicated that local dealers charged VAT at three *per cent* from April 2006 onwards. However, the VAT element was added by Area Depot Jaipur on supplies to URCs only from the month of March 2007. Thus failure to charge VAT from May 2006 to February 2007 by Area Depot Jaipur resulted in loss of Rs. 3.10 crore.

In several States, such as Maharashtra, Gujarat, Madhya Pradesh & Delhi, VAT is exempted only at the time of sale to URCs. Area Depot Kirkee, Mumbai and Ahmedabad paid VAT and submitted claim for refund of Rs.12.83 crore, Rs.24.77 crore and Rs.36.01 crore for the year 2006-07, 2007-08 and 2008-09 respectively. Of which refund of Rs.50.25 crore is still awaited as of September 2009. Similarly Area Depot Delhi and Jabalpur had also claimed refund of VAT for the year 2008-09 amounting to Rs.12.54 crore and Rs.7.98 crore respectively, which is also awaited as of September 2009. This VAT exemption had already been passed on to the consumers. These claims were not reflected in the Annual Accounts of respective years except during the year 2008-09.

It was also observed that Area Depots at Jaipur and Bikaner, during the years 2005-06 to 2007-08, recovered Rs. 6.48 lakh at the rate of Re 0.50 per case from the URCs towards liquor licence fee while the amount paid to the State government on this account was Rs. 2.33 crore. This resulted in a loss of Rs. 2.27 crore.

Recommendation 10

Ministry should take immediate steps to review the pricing policies and closely monitor their implementation. Prices should be fixed in a fair and transparent manner by correctly factoring actual costs incurred and accurately applying existing taxation provisions so that benefit accrues to the intended parties.

4.3 Quality Control

4.3.1 Weak controls over issue of Perishable stores

According to the quality control policy of CSD in force, no perishable item having less than 50 *per cent* of shelf life can be issued to the URCs. To ensure this, the date of manufacture of the stock issued to the URCs was to be invariably indicated in the remarks column of the indent cum invoice. Further, the policy also stipulated the need for maintenance of 'Stack Cards' so that stock received first could be issued first.

Test check in nine Area Depots indicated that the indent cum invoices of the URCs did not indicate the date of manufacture. It was also noticed that seven of the nine Depots selected were not maintaining Stack Cards, while in the remaining two; the Cards did not indicate the manufacturing date of perishable stores. In the absence of such vital controls, the risk of issue of perished stores to the consumers could not be ruled out.

4.3.2 Issue of Substandard stores

In order to avoid substandard items in CSD's inventory range, rules stipulated several quality control measures such as testing of all the batches of food and liquor items received by specified Depots at the Composite Food Laboratories (CFLs) and visual check of General Stores by comparing with master sample. In case any batch was found unfit by CFL, the entire cost of the quantity supplied is to be debited to the supplier. In addition, at least five *per cent* of the total value of the affected batch was to be recovered as penalty.

CSD nominated 13 Area Depots in view of their proximity to CFLs to arrange testing of food and liquor on half yearly basis in such a manner that 100 *per cent* testing of such items would be possible during the year. However, it was observed that no records were maintained at CSD HO or at Area Depots to ascertain whether food items and liquor were indeed tested at least once in a year.

During 2003-10*, 11254 samples of various items were referred to laboratories of which 349 samples (3.10 *per cent*)were found unsatisfactory for which CSD had raised debit notes of Rs. 4.74 crore. During test check it was seen that it took about one to 13 months for grocery items and two months for food items to obtain the test results from the laboratories. By the time the test results were available, stock of unfit item got issued. Thus while the consumer was not compensated for goods of inferior quality, the penalty recovered added to CSD profit (* up to September 2009).

CSD HO, based on customer complaints also instructed all the Area Depots to suspend the sale of batch number of the affected goods. While the sale suspension order called for the details of the total quantity supplied to the Depot under particular batch, it was noticed that in every instance the Depot had intimated the stock as 'Nil' in that particular batch. Thus, the order of sale suspension became a formality and did not act as a deterrent for erring suppliers. This was so since the details of quantity supplied under a particular batch by the firms were neither maintained at Depot nor intimated to CSD HO.

Recommendation 11

Ministry may put in place an effective mechanism to oversee strict implementation of the quality control measures at all levels of supply chain in CSD and URCs.

Recommendation 12

CSD HO should ensure speedy testing and reporting of test results so as to avoid sale of substandard items to the consumers.

4.4 Satisfaction of Consumer Demand

4.4.1 Reasons for acceptance or rejection of new items not on record

All offers by suppliers for new items in CSD are initially screened by the Preliminary Screening Committee (PSC) of the Board of Administration (BOA) from the point of view of desirability of having the item in the CSD range. If the decision is positive, a market survey is carried out by the CSD (Management Services Branch) and the matter is passed on to the Price Negotiation Committee (PNC) for obtaining maximum price advantage and finalization of terms. Thereafter the case is put up for consideration and approval of the Board of Administration.

During the period covered by audit, the number of items which were offered by suppliers, recommended by the PSC and introduced by the BOA was as shown in the Table 6 ..

Table 6: Introduction of New Items

Year	Items offered by suppliers	Items recommended by PSC	Items introduced by BOA	Percentage of items not recommended by the PSC
2003-04	1759	468	250	73.39
2004-05	2255	689	523	69.45
2005-06	2008	362	431	81.97
2006-07	1666	219	182	86.85
2007-08	2761	670	350	75.73
2008-09	1717	453	447	73.62
2009-10*	2136	584	353	72.66

*Till September 2009

As would be seen, 69 to 87 *per cent* of the items offered by suppliers were not recommended by the PSC for introduction. However, the reasons for acceptance/rejection were not found on record and as such the basis on which an item was recommended or not recommended could not be ascertained. To that extent the process of introduction of new items in the CSD inventory lacked transparency.

Recommendation 13

Reasons for acceptance or rejection of an item proposed for introduction in the CSD inventory should be recorded.

4.4.2 Discrepancy between Items listed by CSD HO and Area Depots

Each item listed in CSD has an independent identification number called 'Index Number'. CSD HO publishes a monthly bulletin which contains information about newly introduced items, deletion of items, gift offers, one to one replacement and other matters of consumer interest.

Area Depots in their Monthly Information Reports indicate the total number of items listed and that held with them. The number of items listed in the CSD should be uniform in the reports of all Area Depots. However, comparison of data compiled from the Monthly Information Reports furnished by Depots and CSD HO, other than AFD[2] items, indicated that the number of listed items varied as shown in the following table. It would appear that the Depots are not aware of the full range of items enlisted by CSD HO.

Table 7: Discrepancy in Listed Items

Area Depot/HO	Total number of items listed as on 31st March					
	2004	2005	2006	2007	2008	2009
CSD HO	1636	2011	2379	2550	2819	3044
Kirkee	1702	2211	2383	2369	2792	3077
Kolkata	1988	2691	2686	4015	2990	2684
Agra	1697	2187	2385	2033	1946	2317
Delhi	2145	2402	2425	2436	2566	2991
Secunderabad	2054	2352	2626	2720	2832	3101
Dehradun	2015	1993	3066	2574	2470	2616
Bangalore	2054	2352	2626	2720	2832	3278
Jaipur	3145	3713	4184	4502	4813	3049
Kochi	2074	3547	3304	3561	3673	2478

This indicated that most of the Area Depots were not supplying full range of items to the URCs functioning under their jurisdiction.

4.4.3 High percentage of Denials

One of the objectives of CSD is to ensure that the satisfaction of consumer demands is maintained at the maximum. URC submits demands for stores through 'Indent'. The inability of the Area Depot in issuing the item as demanded by the URC is termed as 'Denial'. The total value of denials during

[2] Against firm demand

the period 2004-05 to 2008-09 was Rs.2915.13 crore. Audit analysis in nine Area Depots for the period 2005-06 to 2007-08 indicated that the denials ranged between 4.48 and 33.21 *per cent*, while the value of denials in these nine Area Depots during the five years from 2004-05 to 2008-09 amounted to Rs. 1122.01 crore as shown in the Table.

Table 8: Percentage of Denials

Sl	Name of Depot	Percentage of Denials	Value of denials (Rupees in crore)					Total value
			2004-05	2005-06	2006-07	2007-	2008-	
1	Secunderabad	7.33 to 23.89	22.71	8.67	15.68	15.1	19.4	81.56
2	Kochi	4.92 to 30.20	6.7	7.44	12.9	19.67	26.81	73.52
3	Dehradun	8.92 to 26	22.33	16.85	18.33	40.06	45.25	143.36
4	Kirkee	6 to 30	78.5	70.37	26.75	39.02	59.05	273.69
5	Delhi	4.48 to 33.21	23.84	22.68	28.00	37.85	52.45	164.82
6	Kolkata	6.41 to 27	NA	NA	20.47	38.49	24.30	83.26
7	Agra	6.64 to 23.71	2.84	9.44	8.73	5.74	12.99	39.74
8	Bangalore	6 to 18.97	10.22	13.87	25.06	30.68	39.99	119.82
9	Jaipur	8 to 28	19.40	23.02	28.69	36.54	34.59	142.24
Total value of denials			186.54	172.34	184.61	263.69	314.83	1122.01

Highest number of denials was noticed in Kirkee, Delhi, Jaipur, Dehradun and Bangalore areas.

One of the reasons for the high percentage of denials was non-holding of all the items listed in the CSD range by the Depots. In the nine Area Depots audited, the holding of the items ranged between 40 and 92 *per cent* during 2004-05 to 2008-09. The large prevalence of denials had not only resulted in low consumer satisfaction but also loss of sale and profit.

4.4.4 Monitoring of gift schemes

At the time of introduction of their products, suppliers give an undertaking to the Department that any gift/sales promotion scheme subsequently introduced by them in the civil market would be made applicable to the CSD clientele as well. In case the supplier has introduced any scheme anywhere in the country without informing the CSD well in advance, the entire cost of the item offered as free gift is to be recovered from the suppliers. The recoverable amount is calculated on the quantity of the stock of the item held in the Depots at the end of the previous month and the orders placed for the item during the relevant period. A further five *per cent* of the value of the goods is levied as penalty.

However, it was noticed in audit that in 24 Area Depots the suppliers could not offer the gift schemes in time and Debit Notes amounting to Rs. 1.69 crore were raised on the suppliers. Though the suppliers who failed to extend the gift scheme in time were penalized, the consumers were deprived of the free gift benefit due to them. CSD accepted the audit observation and stated that in order to get 100 *per cent* benefit of the gift schemes offered by the suppliers, a special drive was being undertaken.

The consumer satisfaction could not be ascertained by Audit due to denial of access to URCs.

Chapter V : Business Operations

Audit Objective: To assess whether the business operations of CSD have been managed efficiently and effectively

5.1 Functioning of Base Depot, Mumbai

The Base Depot, Mumbai functions as a feeder Depot to all Area Depots for stores other than those which are dispatched directly to the Area Depots by the suppliers or are locally purchased. It thus plays a pivotal role in the business operations of CSD. Stores are received in the Base Depot in bulk and are then dispatched to all Area Depots by road as per the allocation of stores by Head Office. The value of goods routed through Base Depot and expenditure incurred on transportation of the same from Base Depot to all Area Depots during the year 2003-04 to 2008-09 was Rs. 2844.43 crore and Rs. 63.04 crore respectively. Audit scrutiny of the functioning of the Base Depot led to the following findings:

Inside Base Depot Mumbai

5.1.1 Uneconomical supply of stores ex-base Depot Mumbai due to transportation cost

For supply of goods ex-Base Depot Mumbai, some of the suppliers offered freight rebate to CSD. The percentage of rebate offered by vendors in most of the cases ranged from one to 3.5 *per cent*, while in a few cases, it was four to 9.2 *per cent* of the value of goods supplied.

37 consignments consisting of 588 items were checked in audit and it was seen that while the expenditure on transportation of these goods to Area Depots by Base Depot was Rs. 14.30 lakh, freight rebate received against these supplies was only Rs. 3.80 lakh. Since CSD maintained uniform selling prices throughout the country, the expenditure incurred on transportation of stores from Base Depot to the Area Depots was absorbed by CSD. Thus in allowing suppliers to supply goods through Base Depot, CSD was indirectly affording subsidy to the suppliers. Further, the imposition of VAT in Maharashtra had resulted in blocking of funds as CSD had to first pay VAT while procuring the items from the firms based in Maharashtra and after transfer of the stores to Depots located out of Maharashtra, CSD was to submit a set off claim for obtaining refund of the VAT paid.

In spite of the loss inherent in routing items through Base Depot, the number of items supplied through the Base Depot increased from 786 in 2003-04 to 1600 in 2008-09. About 50 *per cent* of the items listed in the CSD inventory were supplied through the Base Depot. As such, in the current scenario of extensive transport network and also in view of the fact that CSD was dealing in products commonly available in the civil market all over the country, supply of stores ex-Base Depot needed review.

CSD stated that if an average rate of freight rebate of three percent is assumed, the freight rebate availed of during the last five years would be Rs. 69.59 crore. It further stated that in the present market scenario and criticality of items to the service personnel serving at far flung areas it was not possible for majority of the suppliers to deliver items to Area Depots.

The reply furnished was not tenable as the CSD MIS did not capture the actual rebate received. The average of three percent worked was a hypothetical figure and was not borne out by the invoices that were actually checked in audit. Further, the contention of CSD that it was not possible for majority of suppliers to deliver items to Area Depots located at far flung areas was also not tenable as CSD had not attempted to segregate Base Depot supply between far flung and well located Area Depots.

The CSD accounts and management information system did not provide for recording of quantum of rebate received against Base Depot supplies and as such it was not possible to work out the exact amount of loss in its functioning. However, in view of incurring an amount of Rs. 63.04 crore on transportation of stores from Base Depot to Area Depots as compared to the meager amount received towards freight rebate, as also the expenditure being incurred on Depot operations, continuance of Base Depot appeared to be uneconomical.

5.1.2 Unnecessary procurement of stores through Base Depot

Examination in audit indicated that certain items supplied ex-Base Depot such as Shoes, Juicer/ Blender/ Grinder, Flexo Chappals, Nylon Socks, Iron, Mixi, Sandwich Toaster, Studd Helmet, Adidas Sportswear Floor Wiper/Duster, Basket Ball/ Football/ Tennis Ball/ Volley Ball etc., were manufactured by the suppliers based in North India. These items were received in the Base Depot and again transported to Area Depots located in the same region thereby incurring avoidable expenditure. Similarly some of the Fast Moving Consumer Goods (FMCG) viz Tooth Paste, Tooth Brush, Toilet Requisites, Sanitary Napkins manufactured by FMCG companies like Colgate Palmolive, Emami Ltd, Godrej Consumer goods, Malhotra and Sons, J K Helene Curtis etc which had a pan India supply chain were also procured at the Base Depot and then transported to Area Depots.

During test check, 55 such items were identified and CSD was requested to provide economic rationale for supply of these items ex-Base Depot. CSD chose to cite an example of dispatch of Reebok shoes from Base Depot to Area Depot Delhi, where the rebate obtained from supplier was more than the expenditure incurred on transportation by Base Depot. But that was a one off case. CSD agreed there is need to cross check the freight rebate obtained versus actual payment on transportation.

5.1.3 Higher rates of Transportation contracts compared to those of Mumbai Sub Area

HQ Mumbai Sub Area (HQMSA) every year concludes contracts for civil hired transport with the concurrence of Principal CDA SC Pune for transportation of stores by the Units/ Formations located in Mumbai Station. A scrutiny of contracts concluded by them during the period 2003-04 to 2009-10 (up to September 2009) for load carriers Truck 9 Ton and 16 Ton indicated that the rates of contracts concluded by Base Depot Mumbai were exorbitantly higher when compared to the rates of contracts concluded by HQMSA. In some of the contracts, rates accepted by the Base Depot were higher by Rs. 15113.04, Rs. 16126.80, Rs. 17368.63, Rs. 18531.86 and Rs. 34718/- when compared with the rates of contracts concluded by HQMSA/ Army formation at Mumbai station. Even after ignoring the cases where the rates were higher up to Rs. 999/-, the extra expenditure incurred due to acceptance of contracts at higher rates in rest of the cases worked out to Rs. 7.46 crore.

CSD stated that contracts were concluded in consonance with the laid down rules and CVC guidelines and open tender system was resorted to obtain lowest and fair price. CSD, while stating that the facts as regards Headquarters Mumbai Sub Area (HQ MSA) were not known, contended that HQ MSA entered into contract for transportation on a much smaller scale and therefore the rates were not comparable. However, the reply overlooked the fact that for transportation on larger scale, lower rates were expected but rates accepted by Base Depot were consistently higher during last five years when compared to the rates of transport contracts concluded by HQ MSA.

5.1.4 Discrepancies in inventory balances

Base Depot furnishes a Monthly Information Report (MIR) to CSD HO indicating opening balance of inventory, inventory received, inventory dispatched and closing balance of inventory held at the end of the month. Similarly, Base Depot maintains a Monthly Receipts Stores Report (MRSR) wherein all stores received during the month are reflected along with the value. In addition, Monthly Transfer Invoice Report (MTIR) which indicates all issues made to Area Depots together with value of stores is also maintained.

Scrutiny of MIRs of March for the years 2003-04 to 2007-08 indicated that stores actually received, dispatched and held at the end of the Month did not tally with the quantity reflected in the Monthly Transfer Invoice Report (MTIR), Monthly Receipts Stores Report (MRSR) and Physical Stock Verification Report (PSVR). The difference in stores dispatched as reflected in MTIR and that reflected in MIR ranged from Rs. 0.95 crore to Rs. 2.17 crore, whereas the difference in respect of stores received as per MRSR was between Rs. 0.15 crore and Rs. 1.89 crore. The difference between Physical Stock Verification and Stock reflected in MIR ranged from Rs. 0.10 crore to Rs. 0.26 crore.

Interestingly, the closing balance of Rs. 2.75 crore as on 28 February 2007, was incorrectly carried forward as Rs. 4.22 crore as opening balance of March 2007. In case the correct figure of Rs. 2.75 crore had been considered as opening balance, after adding receipts of Rs. 7.12 crore the value of total stock available for dispatch during March 2007, would be Rs. 9.87 crore against which dispatches were reflected as Rs. 10.09 crore which was not possible.

No reconciliation of the discrepant figures was made available and CSD did not give any clear reply in this regard.

5.1.5 Deficiencies in submission of VAT returns by Base Depot.

As per relaxation given by the Government of Maharashtra from August 2006, all sales by the CSD to the URCs for resale to the members of the Armed Forces of India are exempted from payment of Value Added Tax except for liquor, Electric and Electronic goods, Motor vehicles, etc. Further, CSD was entitled to a set-off of VAT paid in excess of four *per cent* on consignment of tax paid goods to CSD Depots located in other states. The government reduced this to three percent with effect from April 2007 and further to two percent with effect from June 2008.

Examination in audit of the set-off claims by CSD indicated that Base Depot did not submit returns for set off claim for 2006-07 and 2007-08. On the basis of the data of Base Depot transactions, the set-off claim worked out in audit for the years 2006-07 and 2007-08 was Rs. 16.95 crore and Rs. 27.30 crore, respectively. On being pointed out in audit, CSD submitted the set off claim to state government for the year 2006-07 and 2007-08 in March 2009. Further set off claim for the year 2008-09 for an amount of Rs.22.61 crore was also submitted in November 2009. With introduction of VAT in the State CSD had to block funds to the extent of Rs.66.86 crore awaiting refund from the state government due to delay in filing VAT returns.

Recommendation 14:

With the uneconomical transportation of items, meager receipt of rebate amount and blockage of funds towards VAT, the concept of a centralized Base Depot needs to be reviewed. In the present scenario CSD has to block the funds in terms of VAT paid for the items routed through Base Depot to other States.

5.1.6 Delay in shifting of Base Depot to new location

Base Depot CSD is functioning at Sewree, Mumbai since 1971 on land taken on lease by Indian Navy from Bombay Port Trust (BPT). In 1988, Indian Navy required this land for their operational needs and accordingly asked CSD to vacate the land.

CSD obtained by July 1992, 80,000 Sqm. of land at Taloja for Base Depot and 9,666 Sqm. at Kalamboli for residential complex on a 60 year lease on payment of Rs. 6.12 crore to City and Industrial Development Corporation of Maharashtra Ltd (CIDCO). The agreement for lease was executed in March 1993 and the physical possession of the land was taken over by CSD in October 1996 (Kalamboli) and February 1997(Taloja). Even after 13 years of taking possession of the land, the Depot is still functioning from its old location.

Audit examination indicated that

(a) As per the Board of Officers convened in December 1999, for obtaining Government sanction for construction work, the actual requirement of land was worked out to 47589 Sqm for the Base Depot and 1888 Sqm for staff quarters, thereby rendering surplus 32411 Sqm of land at Taloja and 7778 Sqm of land at Kalamboli. The cost of excess land was Rs. 2.85 crore.

(b) CSD was required to submit building plans to CIDCO within six months of lease agreement and the construction was to be completed within four years of date of lease agreement i.e. by March 1997. Thereafter service charges at the rates fixed by CIDCO were payable by CSD. For any delay in adhering to the time frame, CSD was liable to pay penal charges.


Land at Taloja

Government sanction was issued only in May 2002 and December 2002 for construction works at Taloja and Kalamboli. When CSD approached CIDCO it did not grant permission as the permissible time limit for construction had expired in 1997. The plans also did not meet the requisite FSI. Subsequently, in August 2005 CIDCO agreed to waive the penalty charges provided CSD met the stipulated Floor Space Index (FSI) and surrendered vacant land in its possession. However, service charges amounting to Rs. 41.68 lakh (up to March 2003) and Rs. 10.63 lakh (up to March 2005) were paid in March 2003 and March 2005 respectively.

(c) To bring the plinth area of the construction within the stipulated FSI requirement, CSD in January 2004 put up a proposal to Army Headquarters for shifting the staff quarters also to Taloja and surrender 6000 Sqm of land at Kalamboli to CIDCO. The Army Headquarters approved the proposal in June 2004.

As of February 2007, extension for a period of four years from the date of grant of permission for construction by CIDCO had been sought by CSD and a Board of Officers had been ordered to be convened to reassess the requirement of Base Depot as well as Area Depot along with its residential accommodation.

The work awaits Government sanction pending finalization of Board of Officers. Despite spending Rs 6.12 crore, even after 13 years, the proposal to shift the location of the Base Depot is yet to fructify.

5.2 Unauthorized extension of CSD Benefits

5.2.1 Discrepancies in issue of Smart Cards

With a view to automating the URCs, facilitating better inventory management and arresting the misuse of the Canteen facilities, the Canteen Inventory Management Services (CIMS) interfaced with Smart card was developed in April 2004. It was observed that as against 44.12 lakh beneficiaries, 44.48 lakh smart cards had been issued. BOCCS stated that the 36482 excess cards were Silver, Bronze and Steel Smart Cards which have been issued to institutions and not to any individual. We could not verify the correctness of issue of such cards at BOCCS as the details of beneficiaries to whom these cards were issued were not made available.

5.2.2 Benefits of CSD accruing to ineligible beneficiaries

(i) As per Army Order 19 of 2003 sanction to operate a canteen could be accorded by Brigade /Sub Area or Formation Commander to only the units having requisite strength. Notwithstanding the above, we observed that Officers' Messes, Institutes etc. were allowed to register as URCs and groceries and liquor were issued.

(ii) Extension counters could not draw stores directly from the Area Depot but had to rely on the parent URC as a separate registration number could not be given to them. However, we came across extension counters given separate URC registration number leading to drawal of stores.

(iii) As per policy in vogue, requirement of liquor in respect of institute/ clubs was to be met from the authorization of the unit to which it belonged. However, we noticed that liquor was being issued to such Institutes.

One of the Area Depots stated that these units were registered as URCs and their indents were countersigned by the respective Sub Area Commanders. CSD stated that currently neither any Club/Mess nor any Extension counter was given URC registration number. The reply was not tenable as institutes could not be registered as URCs and the existing URCs registered in the name of Clubs and Officers Messes still continued unauthorized drawal of liquor.

5.2.3 Issue of liquor in excess of authorization

In view of the numerous complaints regarding CSD liquor finding its way to the civil market, AHQ in 1971 had directed all formations to issue necessary instructions to avoid abuse of CSD facility. Further, rules stipulated that every liquor indent, based on which Area Depot issued liquor, was required to be signed by an officer holding the rank of Lt. Col. /equivalent or above and should bear a certificate from the Sub Area/ Administrative Commandant concerned to the effect that the quantity had been indented correctly based on the strength of the unit. The Unit Commanders would also send the specimen signature of the indenting officer to the CSD Area Depot in advance to verify the authenticity of the indenting authority. Army Headquarters in September 1962 had also issued instructions that stock of liquor at the end of each month was to be taken in to account for assessing the requirements for the following month. It was noticed that the URCs were not complying with this instruction while placing the indents which had resulted in excess issue of liquor to URCs. The quantum of excess issue due to this failure could not be ascertained in the absence of details of closing stocks held by the URCs.

Inside a URC

In five Area Depots, we observed that units were drawing liquor in excess of that authorized on the strength of the unit. The value of such excess drawal of concessional liquor was Rs 7.82 crore. The market value of the excess liquor was Rs 19.45 crore. The units responsible for the overdrawal were mainly Station HQ Dehu Road, Rajputana Rifle Regiment Centre, Delhi, Station HQ Jabalpur. Of the Rs 5.26 crore worth of liquor overdrawn at Delhi, Rajputana Rifle Regiment Centre, Delhi alone had overdrawn 57076 cases of liquor valuing Rs.4.79 crore. Besides, Station HQ Dehu Road had overdrawn 26259 cases valuing Rs.1.75 crore.

Several instances of drawal of liquor in excess of authorization based on the unit strength came to notice of audit. These are highlighted in the box above.

Recommendation 15

CSD and the Services should ensure that liquor is demanded by and issued to the URCs strictly as per their authorization to prevent its leakage into the civil market.

5.3 Time and Cost overrun in Implementation of Inventory Management System

Ministry in April 1993 accorded sanction for the computerization of CSD on a turnkey basis in two phases for Rs. 7.11 crore. Phase I of the project envisaged developing application software, related hardware and system software for its implementation in CSD HO, Base Depot and two Area Depots. Phase II of the project envisaged development of comprehensive module to implement the computerization concept across all 40 nodes of the CSD so as to achieve an effective and efficient Inventory Control and Management System. Contract for Phase I was concluded in June 1998 with M/s Tata InfoTech at a cost of Rs. 2.12 crore. The contract envisaged to be completed by December 1998 was however completed only in June 2001.

MOD accorded sanction in May 2003, for Phase –II of the Computerization for Rs. 4.99 crore which consisted of procurement of hardware, software, networking, training, site preparation, installation of software at all CSD Depots and inter-connecting them through CSD owned Intranet. Supply order for Rs. 7.00 crore was placed on M/s Wipro Ltd., in August 2006 only with period of completion as 52 weeks from the date of commencement of contract. As the firm could not complete the job as per the original delivery schedule, extension was granted up to 21.06.08. The firm could not complete the work even by the extended schedule and hence asked for extension up to end of November 2008 which was not granted. Though no further extension was granted the work was completed and handed over to CSD HO only on 01.9.2009. However, the project is in the process of implementation and yet to be fully functional.

Even after 17 years of initial sanction of the project by the Ministry and incurring an expenditure of Rs.2.12 crore and committing an expenditure of Rs. 7.00 crore, it is yet to be completed and made fully operational. Such abnormal delay highlights inefficient project execution and lack of effective monitoring affecting timely modernization of inventory management in CSD.

Recommendation 16

Computerized Management Information System, with automated documentation and control functions should be implemented early. This should included operations of URCs.

The findings were referred to the Secretary Ministry of Defence on 30 December 2008. The reply of the Ministry was awaited as of June 2010.

(Gautam Guha)
Director General of Audit
Defence Services

New Delhi
Dated July 2010

Countersigned

(Vinod Rai)
Comptroller and Auditor General of India

New Delhi
Dated July 2010