

## 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

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

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.

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



**CSD Depot in Srinagar**

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.

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.

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.

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.

### 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<sup>2</sup> 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 31 <sup>st</sup> 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

<sup>2</sup> 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
<b>Total value of denials</b>			<b>186.54</b>	<b>172.34</b>	<b>184.61</b>	<b>263.69</b>	<b>314.83</b>	<b>1122.01</b>

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.