

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)