

## CHAPTER - V INTERNAL CONTROL

*Audit Objective: To assess whether the existing system of Internal Control was effective.*

### 5 Internal Control

The importance of robust internal control mechanism for a trading organization like CSD cannot be overemphasized. Government rules and regulations provide for internal control mechanisms like accounting, internal audit, vigilance, control by Ministry and superior authorities. The status of these internal control mechanisms in CSD is as under:

#### 5.1 Accounting & Internal Audit

The Controller General of Defence Accounts (CGDA) is the Principal Accounting Officer and Controller of Defence Accounts (CDA) CSD is responsible for undertaking the accounting and internal audit of the CSD organization. The Local audits of depots is carried out by five Local Audit Offices working under the administrative control of CDA (CSD) and are located at Mumbai, Delhi, Chennai, B. D. Bari and Narangi. With effect from 1998, CDA also functions as the Internal Financial Advisor (IFA) to CSD.

The main functions of CDA (CSD) are to monitor and release funds as per the budget allotment, compilation of accounts under respective heads of account along with controlling the expenditure against budgetary allotments, Internal Audit of CSD and depots and to ensure that the commercial accounts of CSD are prepared correctly. Weaknesses observed in the existing system followed are discussed below:

##### 5.1.1 Compilation of accounts without supporting vouchers

As per the revised accounting procedure issued in 1989, all sales receipts will be remitted into CFI and CDA (CSD) based on the requisition by GM (CSD) will make available the required funds as Imprest for meeting the expenditure on monthly basis. GM (CSD) will have to submit the Imprest account to CDA (CSD) every month along with relevant vouchers. However, as CSD was not sending the vouchers/documents in support of the expenditure incurred from the Imprest released, CDA (CSD) in September 1989 brought out that apart from releasing the Imprest, it had no control over the expenditure as the receipt and payment<sup>18</sup> statements would always be received in arrears. It was also added that the system did not provide any effective in-built checks to watch that the expenditure was kept within the budget allotment and receipts.

We observed that despite the above reservations expressed, though the original paid vouchers were not submitted by CSD along with the Imprest account, CDA (CSD) continued to

<sup>18</sup> Accounts indicating actual Receipts and Payments during the year.

release the Imprest. This has affected the effective monitoring by CDA (CSD), resulting in repeated mismatch between the figures reflected in Receipt & Payment account (R&P) and the General Ledgers maintained by CSD. Despite the above mismatch, the annual certificate rendered by GM (CSD) that the accounts agree with the initial records maintained was also being accepted by CDA (CSD).

To an audit query on reasons for the above, CDA (CSD) confirmed (February 2016) that the supporting vouchers as required under the revised accounting procedures were not being furnished by CSD authorities along with the Monthly Receipt & Payment, due to which 100 *per cent* verification was not possible. It was also stated that as the certificate had to be rendered within the time frame, they had no option but to submit the same to CGDA office.

The reply furnished is not acceptable as the adherence to the revised accounting procedure by CSD should have been strictly monitored by CDA (CSD) and the lapses brought to the notice of higher authorities for taking suitable remedial action.

### **5.1.2 Certification of Annual Accounts**

The Annual Accounts of CSD are subjected to detailed scrutiny by CDA (CSD) before submission to CGDA. Only Internal Audit report of CDA (CSD) is attached to the Annual Accounts of CSD and not the Statutory Auditor's Report. Despite pointing out the significant discrepancies leading to overstatement of Net Profits in the accounts for the year 2012-13 to 2014-15 as discussed at Para 4.6.1 of Chapter IV of this report, CSD (HO) and CDA (CSD) failed to take corrective action in the matter. CDA (CSD) has also certified the above incorrect figures as the Audited figure to CSD based on which Ministry approved distribution of profits without considering the audit certificate rendered by DGADS.

### **5.1.3 Conflict of Interest resulting in weakened vigilance controls**

CSD, being a trading organization with an annual budget of over ₹ 15000 crore, has been contemplating creation of vigilance cell since 1997. However, CSD appointed (1997) the Joint General Manager, who was dealing with procurement activities as their Vigilance Officer (VO). Since the appointment of Procurement Officer as Vigilance Officer was in contravention of the CVC guideline, Ministry did not agree to such appointment. We observed that CSD did not propose any alternate appointments and post continues to be held by the Procurement Officer.

*Conclusion 14:*

*Compilation of accounts by CDA (CSD) without supporting vouchers weakened their control over expenditure. Further, Procurement Officer in CSD HO was acting as Vigilance officer in violation of CVC guidelines.*

## 5.2 Control over issue of Smart Cards

With a view to automating 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. An agreement was entered (April 2004) by Army Hqrs with a private firm M/s Smart Chip Ltd for issue of the smart cards. The application forms for Smart Card attested by head of the office of the applicant after screening and attestation by the Chairman of URC is forwarded to the firm M/s Smart Chip Ltd. for issue of new card. The cost of the card is borne by the beneficiary.

A mention was made in C&AG's Report No.14 of 2010-11 about issue of 44.48 lakh smart cards against total beneficiaries of 44.12 lakh as per details furnished by DDGCS. On calling for details of the total beneficiaries *vis-à-vis* smart cards issued during this Performance Audit, it was stated that CSD Directorate is not the repository for total number of beneficiaries and the same is held by concerned branch/directorate in three services and other beneficiary department. It was also stated that CSD Directorate is not mandated to account for such a large population which is dynamic in nature and keeps varying. It is based on the individual's request that a smart card is issued to the individual and eligible dependents. It was also stated that there are total 50,05,438 active primary Canteen Smart Cards. It was further stated that the onus is on the individual for correctly providing information, countersigning authority and URC Management for checking validity of an application and CSD Directorate is responsible for issuing of policy and advisories to prevent issue of such cards to ineligible beneficiaries/misuse of such facility.

The reply is not convincing as in the absence of adequate control at the issuing authority level, misuse of smart cards leading to pilferage of CSD stores cannot be ruled out as is evident from the following case of misuse of smart card reported by HQ SC Pune which was noticed during audit of DDGCS.

HQ Southern Command (HQ SC) Pune reported (July 2015) Dte Gen of Military Intelligence about racket involved in illegal purchase and sale of CSD items through tampered CSD smart cards. HQ SC Pune also recovered 800 Canteen Smart cards, One Master Card, Two Smart Card Readers and 15 CDs of Canteen related software and found that 16 CSD Civilian Staff, 11 Service Personnel, Five Ex Servicemen, Eight Civilian Touts and Four CIMS Technicians were involved. These smart cards were deposited by genuine users on being issued new cards. Technicians and Server Operators were allegedly tampering with the purchase history of smart cards by erasing the same and using card again for multiple transactions. The rank of card holder was also tampered with to enhance the purchase limit of the card.

In response to audit query, CSD Directorate (September 2015) stated that the matter was under investigation by Civil police Chennai and investigation report will be furnished on receipt from police authorities.

At present CSD does not have any system for communicating the intended beneficiary about details of purchase of CSD stores through his/her smart card. Such system *viz.* message over mobile phone regarding issue of medicines is being followed in Central Government Health Scheme (CGHS).

*Conclusion 15:*

*CSD Directorate lacked the system for control over misuse of smart card by non-intended beneficiaries.*

### **5.3 Pilferage of CSD stores to Civil market**

As stores purchased by CSD are meant for sale to the Defence Personnel and entitled Civil Personnel and in view of the fact that selling prices are lesser than the prevailing market prices, the leakage of CSD items into civil market needs to be monitored

However, we observed that though procedures for internal controls both at URC and Area Depot are laid down, yet at three stations the CSD stores were drawn from Depots by ineligible personnel and sold in civil market as detailed below:

- **CSD Depot Ahmedabad:** URC 43 ASC Coy collected stores from CSD Depot Ahmedabad for six months from January to June 2015, against which few payments were made by URC and large payments were made by third party against the indent of URC and the stores were collected by URC representative. Payment of stores worth ₹ 1.83 crore was made by third party through Cheques/DD. Based on a complaint, the matter was examined by Board of Officers under RM, CSD Depot. Finally the case was referred to MoD for getting it examined through CBI as three agencies namely URC, Area Depot and third party were involved.
- **CSD Depot Mumbai:** Stores worth ₹ 32.42 lakh was collected from Area Depot by an employee of URC of CSD (HO) in 2009-10 and 2010-11 and sold in civil market. Enquiry conducted by CSD (HO) found negligence on the part of staff and officers of the Area Depot, Mumbai as indent for stores were not endorsed by URC and payment for the stores also was made by the URC employee through his personal cheque.
- **CSD Depot Kolkata:** Forged and fabricated indents and authority letters purportedly shown as issued by URC MH Panagarh was noticed by CBI during investigation of case of pilferage of CSD stores based on written complaint by GOC Bengal Area. Stores worth ₹ 1.56 crore issued during April 2010 to June 2011 against these indents did not reach URC MH Panagarh.

Leakage of CSD stores to civil market as stated above indicate ineffective control and as such the existing provisions that the Depot Managers should confirm actual receipt of goods at URCs' end needs further strengthening.

*Conclusion 16:*

*CSD failed to detect leakage of stores from URC even after reconciling the quantum of stores issued from depot with reference to that accounted at URC end.*

#### 5.4 Exercise of powers by lower authorities beyond the limits delegated to them

Ministry of Defence, in January 2009 issued orders enhancing the financial powers for purchase orders in CSD according to which GM can place each order for purchase up to ₹ 20 lakh and orders above ₹ 20 lakh was to be approved by BoA. Further, the Depot Managers were also authorized for local purchase order (LPO) up to one month's requirement provided the inventory for that item does not exceed one month's average requirement.

We observed that purchase orders valuing more than ₹ 20 lakh were also placed under the powers of GM. Similarly Depot Managers were also placing LPOs beyond their delegated financial powers without any financial concurrence. Value of such orders placed during the period from 2010-11 to 2015-16 amounted to ₹ 17,791.54 crore (₹ 14,392.36 crore by GM + ₹ 3,399.18 crore by Depots). Approval of BoA for such orders was obtained subsequently after considerable delay of over two to eight months as a routine.

The placing of the purchase orders without approval of the competent authority was in violation of provisions of GFR that states that no authority may incur expenditure unless the same has been sanctioned by the competent authority.

CSD stated that if the order quantity of the item was restricted within the delegated value, the same would affect the consumer satisfaction. It was also stated that the case concurred by Rajya Raksha Mantri for increase in delegation of financial power taken up with Executive Committee is under progress.

#### **RECOMMENDATIONS:**

12. *Compilation of accounts by CDA (CSD) without supporting vouchers weakened the control over expenditure and hence supporting vouchers needs to be provided by CSD, as per the existing policy.*
13. *CSD being a Pan India organization running on commercial principles, Ministry should expeditiously create a robust vigilance wing in CSD (HO) with a dedicated Vigilance Officer keeping in view the CVC guidelines.*
14. *The issue/cancellation of smart cards needs to be centrally monitored by CSD Directorate so as to avoid possible misuse of the facility. The case of misuse of cards may be finalised urgently so as to set an example for others.*
15. *CSD may institute a mechanism to communicate with the beneficiary about their transaction through smart card so as to mitigate the risks of misuse of fraudulent purchases.*
16. *The existing mechanism of reconciliation of the stock issued by depots with that received by URCs needs to be further strengthened through a review by an independent agency i.e. CSD/CSD Directorate.*