

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.