

## 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.