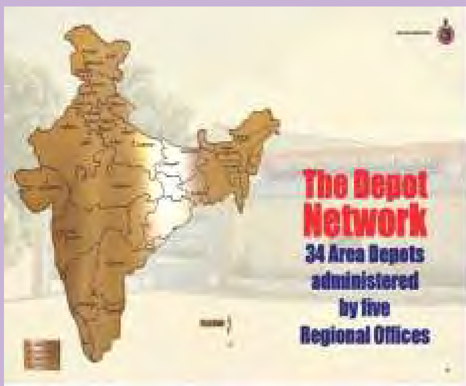

सत्यमेव जयते

Report of the Comptroller and Auditor General of India

on

Working of Canteen Stores Department

भारतीय लेखापरीक्षा और लेखा विभाग

INDIAN AUDIT AND ACCOUNTS DEPARTMENT

Union Government (Defence Services - Army) Report No. 38 of 2016 (Performance Audit)

Report of the
Comptroller and Auditor General of India

on

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for the year ended March 2016

Union Government
(Defence Services-Army)
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PREFACE

Canteen Stores Department (CSD) is responsible for providing quality consumer goods at rates cheaper than the market rates to the Service Personnel and defence civilians. From a modest beginning six decades ago, CSD has grown rapidly with annual turnover of over ₹ 15000 crore during 2015-16. The number of items of consumer goods registered with CSD as of today is more than 5500. The CSD through its chain of one Base Depot and 34 Area Depots serves as the Wholesaler and the retail operations are carried out through about 4000 Unit Run Canteens (URCs). These URCs, some of which are in remote areas, in turn sell these goods to the ultimate beneficiaries.

Keeping in view the mandate and responsibility of the department, the Performance Audit of functioning of "Canteen Stores Department" was conducted during July 2015 to November 2015 to seek an assurance that CSD was able to fulfill its motto with maximum consumer demand satisfaction. By highlighting the systemic weaknesses and recommending remedial measures, this report seeks to bring about overall improvements in the operations of Depots and URCs.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India and the report has been prepared for submission to the President under Article 151 of the Constitution of India.

EXECUTIVE SUMMARY

1. Purpose of this Performance Audit

The last Performance Audit of Canteen Stores Department (CSD) was carried out during 2008-09 and was reported in C&AG's Audit Report No. 14 of 2010-11. The important issues highlighted in the report included deficiencies in Business Operations and Financial Management, improper pricing policies and inadequate storage. The functioning of the Unit Run Canteens, the extended arm of CSD, could not be assessed, due to denial of records to Audit. Public Accounts Committee (PAC) gave its recommendations based on this Performance Audit in its 48th and 75th report.

This Performance Audit of "Canteen Stores Department" was taken up to assess the status of implementation of assurances given by the Ministry to PAC and in their Action Taken Notes. Besides examining Business Operations, Financial Management, Procurement and Pricing of stores by CSD, we also looked into adequacy of Internal Controls and functioning of URCs *vis-a-vis* CSD operations.

2. Key Findings

Introduction of items

CSD items are introduced generally at the request of Suppliers. However, CSD failed to show whether the needs and choice of the consumer requirement was ascertained before introducing the items. Imported items were introduced without conducting market survey and quality checks & without ensuring availability of agreement between the importer and the principal manufacturer. **(Paragraph 2.1 & 2.1.1)**

Uneconomical functioning of Base Depot

PAC had desired that an amicable solution be arrived at so that neither the entire supply chain management was adversely affected nor the payment of Value Added Tax (VAT) blocked or delayed. We observed that the business operations of Base depot continued to be uneconomical. Blockage of VAT refunds of ₹ 485.47 crore and an additional burden of ₹ 43.89 crore on ultimate consumers was attributable to increasing reliance on the Base Depot.

(Paragraph 2.2 to 2.2.3)

High percentage of Denials

An analysis in 11 Area Depots for the period 2010-11 to 2015-16 indicated that denials of items demanded by Unit Run Canteens (URCs) ranged from 7.17 to 25.42 *per cent* thereby affecting consumer satisfaction. **(Paragraph 2.3.1)**

Fixing of Price of the goods/articles in an unfair manner

CSD was loading various incidentals like Insurance charges, freight charges and clearing charges in the pricing structure in excess of the amount incurred leading to reduction in the benefit of cheaper rates to that extent. Further CSD was also loading profit on excise duty on liquor which is a local levy, while working out the CSD profit, due to which the uniformity of selling prices excluding local levies throughout the country as envisaged in the pricing policy was not being achieved.

(Paragraph 3.1 to 3.1.2)

Irregularities in price revisions resulting in extra burden on consumers

As no specific mechanism was laid down or procedures evolved to monitor the price variation of the products held in CSD inventory, the Suppliers managed to evade the passage of benefit of reduction of prices to CSD. Further, due to delay in finalization/ approval of price revision offered by suppliers, the benefit of price reduction amounting to ₹ 6.61 crore recovered could not be passed on to the consumers. Similarly, due to delay in acceptance of one to one replacement of Against Firm Demand (AFD) items, the benefit of the latest/improved versions with price reduction amounting to ₹ 2.63 crore was not available to the consumers.

(Paragraph 3.2.1 to 3.2.3)

Quality Control

Failure on the part of CSD to carry out quality tests as per laid down policy on account of limiting the tests to the co-located Composite Food Laboratories (CFLs) and non-identification of additional accredited labs for quality testing of goods, despite assurance to the PAC resulted in non-testing of items supplied to CSD at the laid down cycle. Further, CSD also failed to monitor and ensure the timely receipt of test reports thereby defeating the purpose of testing. CSD's assurance on the commitment to the Food Safety and Standards Authority of India (FSSAI) for ensuring that all Unit Run Canteens (URCs) under their respective control adhere to all the provisions of FSSA, Rules and Regulations are itself doubtful as the Depots themselves have not been able to maintain the stipulated quality checks.

(Paragraph 3.3 to 3.3.4)

Distribution of Grants-in aid from Canteen Trade Surplus

Though Ministry issued guidelines for disbursing the Grants-in-Aid to be utilised primarily for welfare of Service personnel in accordance with General Financial Rules (GFR) provisions, cases of non-observance of the guidelines/GFR, such as sanction to Government departments *viz.* CSD, Board of Control Canteen Services (BOCCS) & Ministry of Defence, use of grants for purposes other than those laid down in the guidelines, issue of incorrect certificates by the beneficiaries to avail funds, non-refund of unutilized grants *etc.* were noticed in Audit. Further, incorrect depiction of Net Profit in the accounts for the year 2012-13 to 2014-15 was pointed out in the Audit certificate rendered by Director General of Audit, Defence Services (DGADS). However, the

Canteen Trade Surplus (CTS) sanctioned by the Ministry were not based on the accounts certified by DGADS leading to distribution of overstated CTS among the Services

(Paragraph 4.6 & 4.6.1)

Unauthorized Payment of Pension and Retirement benefits by CSD

CSD paid pension and retirement benefits to its employees in violation of the accepted accounting procedure of 1989 and the same were reflected as 'Receivables' from the Government. Further, CSD also reflected the interest on GPF subscription recovered from employees as due from Government.

(Paragraph 4.7)

Management of VAT

Discrepancies in implementation of VAT notifications of various State Governments resulted in blockage of Government funds due to long outstanding VAT refund claims (₹ 1001.97 crore), disallowance of VAT by State Governments (₹ 43.47 crore), levy of penalty for incorrect submission of VAT returns and non-implementation of VAT notification properly (₹ 23.77 crore). Further, CSD failed to include VAT amount while working out the wholesale price which resulted in loss of ₹ 43.78 crore.

(Paragraph 4.8)

Conflict of Interest resulting in weakened vigilance controls

In violation of Central Vigilance Commission (CVC) guidelines, Procurement Officer in CSD HO was acting as Vigilance officer. 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.

(Paragraph 5.1.3 & 5.3)

Discrepancies in application of VAT by URCs

Several discrepancies in application of VAT such as non-registration with State Commercial Tax Department, collection of VAT on exempt items and non-implementation of VAT were observed.

(Paragraph 6.2)

Irregularities in accounting of Quantitative Discount (QD)

QD amount is being sanctioned without adhering to the General Financial Rules (GFR) provisions and is not being used as per the guidelines like transfer of ₹ 29.49 crore to higher formations; furnishing Utilization Certificate (UC) without fully utilizing the fund and retaining the unspent amount in their account (₹ 10.11 crore).

(Paragraph 6.3 & 6.3.1)

Irregularities in drawal of liquor

Excess drawal of liquor than the entitlement to the extent of 5,14,369 units valuing ₹ 5.14 crore at a minimum base price of ₹ 100 per bottle of Rum was observed in 20 URCs which may find way to illegal sale in open market.

(Paragraph 6.4)

Key Recommendations:

1. Since CSD is holding an inventory of 5548 items, which includes 3035 items introduced in last six years, there is an urgent need for a comprehensive policy for introduction of new items, factoring in the consumer requirement and the popularity of the product.

2. Utility of having a centralized Base Depot needs to be reviewed due to its uneconomical functioning and in the light of advancements in logistics as well as in communication and information technology.

3. Ministry may put in place an effective mechanism to ensure effective implementation of the quality control measures at all levels of supply chain in CSD and Unit Run Canteens (URCs) so as to meet its commitment to the Food Safety and Standards Authority of India (FSSAI) and ultimately to the Consumers.

4. CSD being a commercial organization should adopt a set of accounting policies with disclosure requirements akin to those adopted by Organizations having commercial operations. Ministry should consider Audit Certificate issued by Statutory Auditor on Annual Accounts of CSD before sanctioning distribution of Canteen Trade Surplus (CTS).

5. Instead of sharing the profit as Quantitative Discount (QD), Ministry may direct the CSD (Head Office) to reduce its profit margin so that the ultimate consumer is benefited.

6. The sanctioning of regular and ad-hoc Grants-in-Aid should be transparent and on the basis of detailed proposals as envisaged in General Financial Rules. These grants should be utilized only for the welfare of the beneficiaries and any deviation or misuse of these grants should make the recipient ineligible for further grants from Ministry.

7. Controller of Defence Accounts (CDA), CSD should ensure that the Pension contribution, General Provident Fund (GPF) subscription and Central Government Employees Group Insurance Scheme (CGEGIS) should be deposited with the Government. Pension and other retirement benefits should be disbursed through the Treasuries/ Defence Pension Disbursing Officers (DPDOs) or the Banks as per the approved accounting procedure only.

8. CSD being a Pan India organization running on commercial principles, Ministry should expeditiously create a robust vigilance wing in CSD (Head Office) with a dedicated Vigilance Officer keeping in view the guidelines of Central Vigilance Commission.

9. 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. Further, CSD may institute a mechanism to communicate the beneficiary about their transaction through smart card so as to mitigate the risks of fraudulent purchases.

10. As financial assistance in the form of Quantitative Discount (QD), support from the Defence Services by deployment of Service personnel and accommodation at nominal rent/rent free is provided to URCs, the recommendation in the last Performance Audit to bring the URCs under the accountability regime of Parliament is restated.

11. Ministry/CSD should strengthen mechanism to ensure that liquor against authorized strength only is sold to the URCs to prevent its leakage into the civil market and the demand should match the limit permitted by the Excise department. In addition, liquor license may be taken on the basis of actual posting and not on the sanctioned strength.

CHAPTER - I
INTRODUCTION

1 Introduction

With the onset of World War II, Government took over and established the Canteen Services on 1 July 1942 which was renamed as Canteen Stores Department (CSD) in 1948. As the retail trade was being run by contractors, a case was made out jointly by the three Services for taking over the contractor run Canteens by Units or Formations, so that profits from the sale of canteen stores could be retained within the Unit/Formation for welfare of the troops. Government agreed to the proposal and the concept of Unit Run Canteens (URCs), thus came into being. CSD funds were merged with the Consolidated Fund of India (CFI) and CSD became a full-fledged organization under the Ministry of Defence (MoD) from 1 April 1977.

To meet its financial obligations, CSD receives budget allotment, every financial year from MoD under various 'Heads' and the funds are released on weekly basis through Controller of Defence Accounts (CDA),CSD. The sale proceeds of CSD are deposited into CFI by the Area Depots on daily basis. To enable the depots to incur expenditure towards commercial activities and administration, the Depot Manager is provided with an Imprest, based on requirement out of the funds provided by CDA (CSD). The summarized position of allotment and expenditure during the last six years was as detailed in Table 1 below:

Table 1: Details of Allotment & Expenditure of CSD during last six years (₹ in crore)

Year	Budget Estimates (BE)	Revised Estimates (RE)	Modified Appropriation (MA)	Actual Expenditure (AE)	Unspent provisions (MA-AE)
2010-11	8568.85	8570.03	8581.03	8198.51	382.52
2011-12	8573.92	10466.18	10366.81	10327.55	39.26
2012-13	11509.41	10795.23	10791.01	10769.65	21.36
2013-14	11910.88	12336.07	12336.07	12291.54	44.53
2014-15	11256.49	14255.92	14252.55	14203.83	48.72
2015-16	14306.06	17386.28	14232.90	14215.87	17.03

The role of CSD is to provide quality consumer goods at rates cheaper than the market rates to the Service Personnel, defence civilians and other beneficiaries[1] with the motto "Service to Services". CSD caters to all its beneficiaries through a network of 4167 Unit Run Canteens (URCs), some of which are in remote areas. The number of consumer goods listed with CSD was 5548 as of March 2016. The sales of CSD during the year 2015-16 were ₹ 15781.37 crore.

[1] Other beneficiaries: Coast Guard, Defence Research & Development Organisation, Border Road Organisation and Assam Rifles.

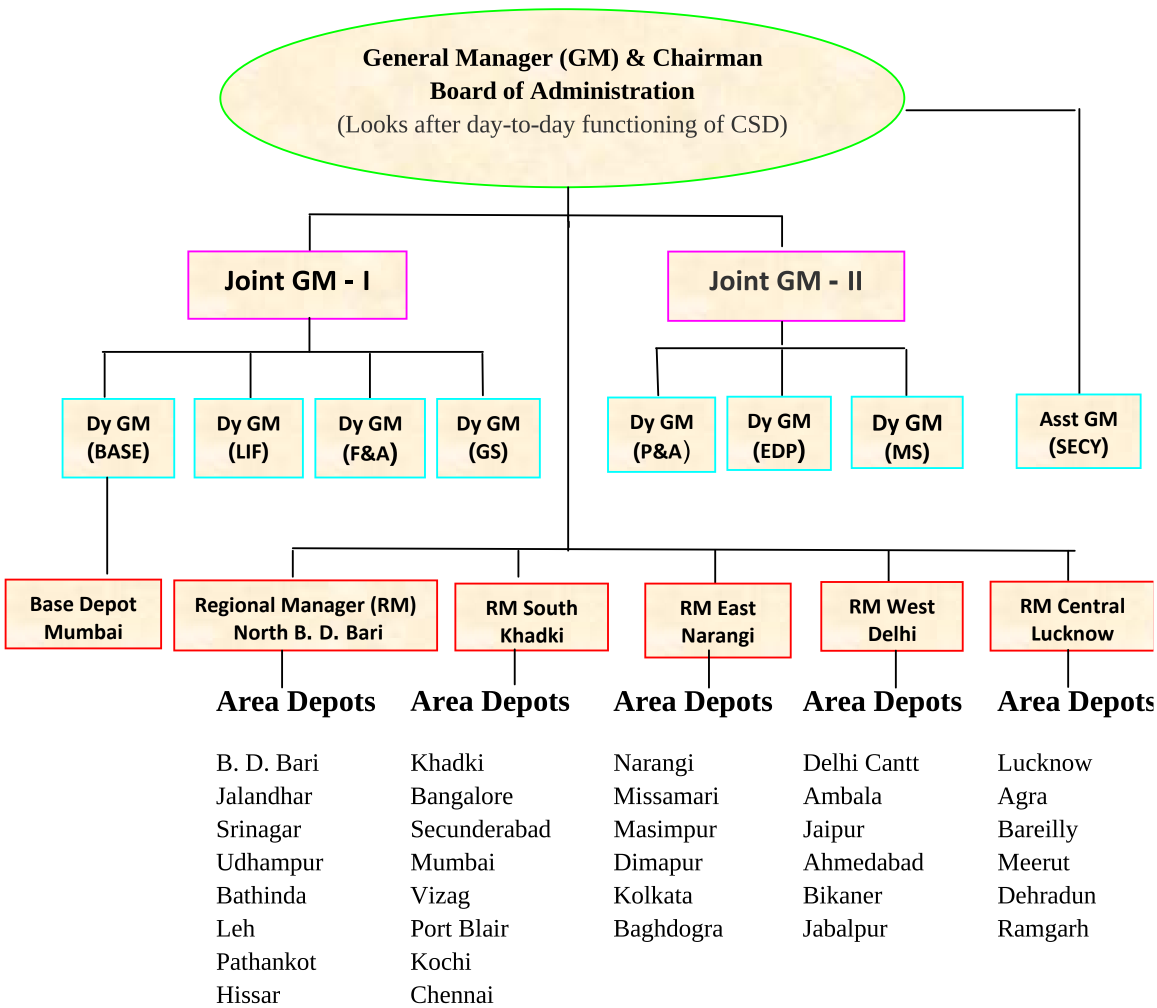
1.1 Organisational Structure

The organisation at its apex has the Board of Control, Canteen Services (BOCCS) with Raksha Mantri as the Chairman. The BOCCS lays down the overall policies of CSD and advises the Government on the disbursement of profits. The Board is assisted by an Executive Committee, which reviews the functioning of the CSD quarterly.

The Management of the CSD is vested with the Board of Administration (BoA) with the General Manager (GM) as Chairman and representatives from the Ministry of Defence (Finance), Army Headquarters (Quarter Master General (QMG) Branch), Air Force and Navy as members.

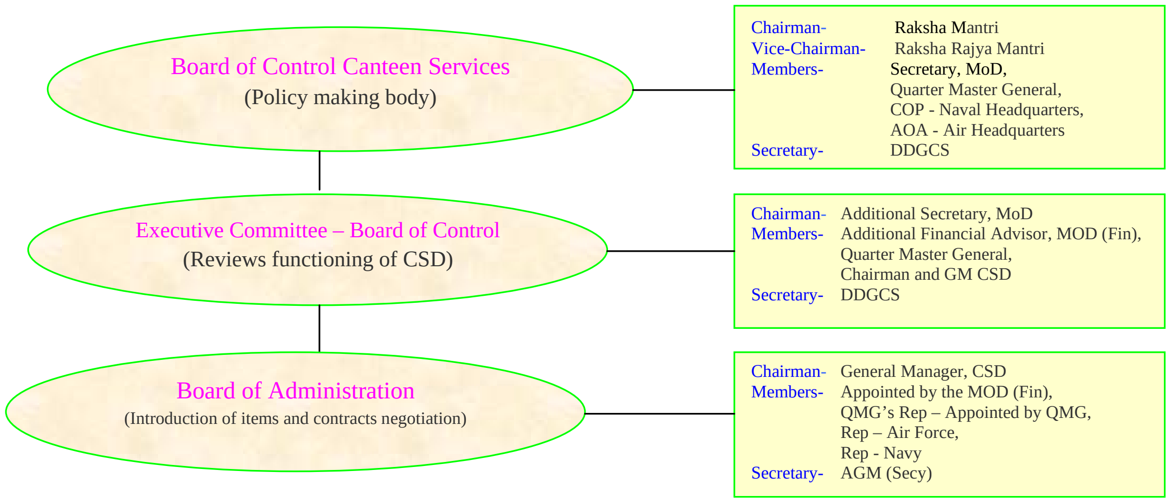
The GM is responsible for the day to day management and reports to the BOCCS through the QMG. The operations of CSD are carried out from its Head Office (CSD HO) in Mumbai with five Regional Offices through a chain of 34 Area Depots spread over the country and a Base Depot at Mumbai as depicted in Chart 1 below:

Chart 1: Organisational Structure of CSD



The framing of policies and review of the functioning of the CSD is managed through a three tier committee structure. The role, responsibility and composition of these committees are summarized in Chart 2 below:

Chart 2: Role, responsibility and composition of committees



1.2 Business Operations and Network of CSD

The consumer goods classified as General Store (GS) items, Liquor, Food and Against Firm Demand (AFD)[2] items are introduced in the CSD inventory after detailed market survey and after approval of the BoA. CSD procures the approved goods from respective vendors. The stores are received at Base Depot, Mumbai and 34 Area Depots. Goods are sold to the beneficiaries through the network of URCs, which collect the goods from their linked Area Depots through Indent cum Invoice. The functioning of URC is governed by policies laid down by the Ministry/Army formations.

1.3 Scope of Audit

The Performance Audit covering the transactions for the period 2010-11 to 2014-15 was carried out from July 2015 to November 2015 at Ministry of Defence, BOCCS, New Delhi, CSD (Head Office) Mumbai, Base Depot Mumbai, three Regional Managers (RM) Offices at BD Bari, Lucknow and Delhi and 11[3] selected Area Depots amongst 34 Area Depots. The Area Depots were selected based on their sales volume and geographical location so as to cover a representative sample. Seven Extra Large, One Large, Two Medium and One Small Depot were selected for audit. 37 URCs (**Annexure 'A'**) out

[2] Items which are procured only against the firm demand received from customers.
[3] Baghdogra, Bangalore, Bikaner, B D Bari, Delhi, Hissar, Jabalpur, Jalandhar, Khadki, Lucknow and Masimpur.

of total 1354 URCs dependent on the above selected depots were also audited based on quantum of Quantitative Discount (QD)[4] received.[5]

The data for the year 2015-16 was incorporated and report updated upto March 2016. Though transactions for the period 2010-11 to 2015-16 were covered under the audit, VAT cases pertaining to older period wherein realization of refund and payment of penal charges were received during the period covered under audit are also included in this report.

1.4 Audit Objectives

The audit objectives were to assess whether:

- business operations were managed efficiently and effectively;
- items of good quality at a price cheaper than the market rates with adequate consumer demand satisfaction were being provided to the service personnel;
- financial operations of the CSD were carried out in accordance with the laid down financial and accounting rules, standards and procedures;
- existing system of internal controls was effective;
- Unit Run Canteens, being the extended arm of CSD were supporting CSD in achieving its motto.

Besides the Performance Audit was conducted with the aim to verify the compliance to the accepted recommendations of PAC, which were made on the basis of C&AG Report No. 14 of 2010-11 and adopted by the PAC in March 2013.

1.5 Audit Criteria

Audit criteria for evaluation of performance were derived from CSD Stores Manual, CSD Purchase Procedures, CSD Pricing Policy and URC Manual. The distribution of Canteen Trade Surplus and Quantitative Discount as Grants-in-Aid was examined with reference to the guidelines formulated by Ministry of Defence (MoD) and General Financial Rules (GFR).

1.6 Audit Methodology

The Performance Audit commenced with an Entry Conference on 24 August 2015, chaired by QMG (AHQ) along with representatives of MoD, wherein the objectives, scope and methodology of audit were discussed and criteria agreed upon. Detailed audit was conducted at units selected for audit as per scope, in order to evaluate the performance against the audit criteria. Field audit included examination of records, collection of information through proforma, issue of audit observations and replies thereto. Exit conference, chaired by QMG AHQ, was held on 27 June 2016, wherein the important aspects brought out in the report were discussed. Subsequently, the report was updated for the period ending 31 March 2016.

[4] Quantitative Discount (QD) is a trade related incentive provided by CSD to the URCs in the form of free stores and is calculated as a percentage of the total value of stores purchased by the URCs in the previous year.

[5] > ₹ 100 lakh (75% audited), ₹ 50-100 lakh (25% audited), ₹ 25-50 lakh (10% audited) and < ₹ 25 lakh (1% audited).

Replies to the audit observations wherever furnished by the CSD management were considered while finalising the report. However, reply from Ministry was awaited (November 2016).

1.7 Acknowledgement

We gratefully acknowledge the co-operation of officials from the Ministry of Defence, BOCCS, CSD as well as officers from selected URCs during the Performance Audit.

CHAPTER - II
BUSINESS OPERATIONS

Audit Objective: To assess whether the business operations of CSD were managed efficiently and effectively.

2 Business Activities

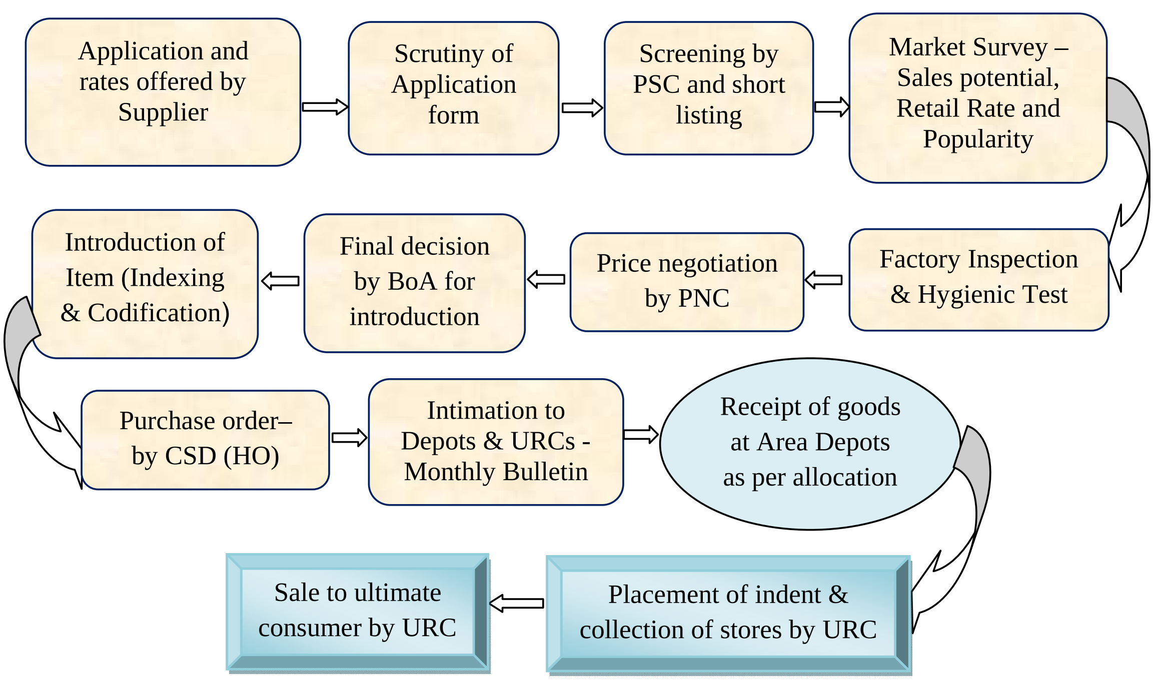
Business operations of CSD including introduction of items, functioning of Base Depot and Area depots are covered in this chapter.

2.1 Introduction of items

CSD has a three-tier system for introduction of a new item. All offers are initially screened by the Preliminary Screening Committee (PSC) of the BoA from the point of view of desirability. If the decision is positive, it is passed on to the Price Negotiation Committee (PNC). After the market survey is carried out, PNC negotiates with the manufacturer for the maximum price advantage and finalization of terms. Thereafter, the case is put up for approval of the BoA. Once an item is introduced, it is indexed and codified for procurement, storage, distribution and sale. Generic code is awarded to similar types of items and items introduced are accordingly placed under that generic code.

The procedure of introduction of items in CSD is summarised in flow Chart 3 below:

Chart 3: Procedure of introduction of item in CSD



As per the prevalent practice new items are considered for introduction only at the request of the suppliers. During the period under review, a total number of 9134 items were offered by the suppliers, of which 3234 items i.e.35.40 *per cent* were recommended by the PSC for introduction and finally 3035 items i.e.33.23 *per cent* were introduced in CSD. Of these 3035 items, 1733 items i.e. 57.10 *per cent* were introduced during last two years.The items introduced added to the variety of the already available items. Further, there was nothing on record to show whether the user requirement (consumer demand) was being considered and accepted before introducing a new item. Even these new items were not categorized as Vital, Essential and Desirable (VED) as laid down in URC manual.

2.1.1 Introduction of imported items

As per the procurement policy, CSD was to carry out its procurement only from the manufacturer so as to obtain maximum discount thereby eliminating the middle man's profit and also ensure genuineness of the goods. If manufacturer does not undertake marketing itself, all India sole selling agent/distributor appointed by manufacturer can be opted. BoA, in September 2012 brought out that since CSD took a decision in the past to enlist the products from Brand Owners and Importers besides Manufacturers and All India Sole Selling Agents/Distributors, sole importers on all India basis were also considered for supply to CSD for the products found to be popular and competing with the comparable local products.

We observed (December 2015) that a number of regular use items like Chappals[6], Blankets[7], Door Mat, Rain Suit[8], Fabric conditioner[9], Handbags[10] *etc.*that are locally available were introduced in CSD which were imported from China by the suppliers (Instances given in the footnote). Scrutiny of records revealed that no exercise was carried out by CSD to confirm if the said goods are locally manufactured, popular and competing with comparable products except that market surveys were conducted to verify the rates offered by the supplier/importer. In some of the cases, the percentage of market share of the said products was also not available on record.

For instance, a firm registered with CSD as manufacturer of perfumes was introduced as supplier of imported slippers from China.The tax invoice furnished to support their trade prices indicated excisable goods as fabric perfume. Further, as per the terms of introduction, though it was mandatory to furnish a copy of the agreement between the principal manufacturer and Importer, indicating the terms of trading, validity *etc*. along with the Introduction form, unsigned agreement on stamp paper obtained in February 2015 was accepted though the firm contended that the items were introduced in civil market in May 2011. This indicated lack of proper scrutiny of the documents in respect of imported items by CSD.

Since the Government is encouraging domestic Small Scale Industries, introduction of daily use items imported from China lacked justification and defeats the initiative of the Government.

[6] 'Evera' brand Chappals imported by M/s Mayuri Kum Kum
[7] Blankets and door mats imported by M/s Hastimal Textiles
[8] Rain Suit imported by Eskay Global
[9] Downy fabric conditioner imported by Universal Corporation
[10] 'Lavie' brand Ladies Handbags imported by M/s Bagzone Life Style Pvt Ltd

Further, independent quality inspection of the imported items introduced by CSD was not carried out to ensure quality standard of the goods *vis-a-vis* comparable products produced in India.

In reply, CSD stated (July 2016) that imported items were introduced as there was no ban on importing items from China and importing items by medium enterprises contribute to economy and providing employment to Indian people.

The reply furnished did not answer audit observation about failure of CSD to ensure itself of the popularity of the items, market share and agreement between the importer and the principal manufacturer as required before introduction of the new items.

Conclusion 1:

CSD items are introduced generally at the request of Supplier. However, there was nothing on record to show whether the needs and the choice of the consumer or the popularity of the product available in civil market was ascertained before introducing the item. Imported items were introduced without conducting market survey and quality checks & without ensuring availability of agreement between the importer and the principal manufacturer.

2.2 Uneconomical functioning of Base Depot, Mumbai

The CSD Base Depot, Mumbai functions as a feeder depot to all CSD Area Depots for all the stores except those which are despatched directly by the suppliers to the Area Depots or local supply items. Stores are received in the Base Depot in bulk and are then transferred to all the Area Depots by road as per the allocation of stores by CSD (HO) Mumbai.

Uneconomical functioning of the Base Depot due to the meagre receipt of rebate amount from the suppliers and blockage of funds towards VAT refund claims for the items routed through Base Depot was commented upon in C&AG Report No.14 of 2010-11. In response to the Audit suggestion, Ministry had stated that they would initiate suitable action as required. PAC in its 48th report had also desired that an amicable solution be arrived at so that neither the entire supply chain management was adversely affected nor the payment of VAT blocked or delayed.

Besides the increasing VAT refund claim from ₹ 66.86 crore in March 2009 to ₹ 485.47 crore in March 2016 **(Annexure D)**, we examined the functioning of the Base Depot and found that the business operations of Base Depot continue to be uneconomical as enumerated below:

2.2.1 Extra burden of tax on CSD consumers due to transportation of goods through Base Depot

The items procured from outside State attract Central Sales Tax. Therefore, two *per cent* CST which is levied by suppliers is recovered by the Area Depots from the URCs.

As per Government of Maharashtra, Finance Department, Mumbai letter issued in August 2006, as and when CSD in Maharashtra effects consignments of the tax paid goods to CSD depots located in other states, in such an eventuality, by virtue of Rule 53(3) of Maharashtra VAT Act, the set off in excess of four *per cent* of the taxes paid on purchases shall be admissible to CSD. Since Base Depot Mumbai, located in the State of Maharashtra transfers the goods to various Area Depots under Transfer Invoices, it can claim the refund of VAT paid over and above four *per cent* from the Maharashtra State Government. Base Depot accordingly indicates applicable tax of four *per cent* in the transfer invoices forwarded to various Area Depots located outside Maharashtra who in turn load the same on the whole sale price while selling the goods to URCs.

Had the items been directly delivered to the concerned Area Depots by the suppliers, the tax loaded on the supplies would have been only two *per cent* CST instead of the four *per cent* now being loaded. Hence, due to the routing of goods through Base Depot, the ultimate consumers have to bear a burden of additional two *per cent* of cost of the goods. Such additional burden passed on to the consumers during the last six years worked out to ₹ 43.89 crore as detailed in Table 2 below:

Table 2: Value of goods received with rate of VAT as 4 *per cent* & above (₹ in crore)

Year	Goods purchased within Maharashtra	Goods transferred to depots in other states	Two *per cent* additional tax on goods transferred to other depots
2010-11	437.14	387.63	7.75
2011-12	452.31	428.70	8.57
2012-13	486.36	365.95	7.32
2013-14	386.55	266.99	5.34
2014-15	440.63	374.43	7.49
2015-16	397.95	370.99	7.42
Total			**43.89**

CSD (July 2016) stated that Maharashtra State Government has increased CST element on inter depot transfer from two to four *per cent* only with effect from 1 April 2012, hence the additional burden of two *per cent* exist from 2010-11 as brought out by Audit was not correct. It was also assured that concerted efforts have been initiated to move the majority of companies from Base Depot to direct supply.

The reply is factually incorrect as the Transfer Invoices of Base Depot itself indicate that four *per cent* CST on Maharashtra based supply has been charged since April 2010. Further, the levy of additional two *per cent* on the consumers defeats the very motto of providing items at cheaper price.

2.2.2 Delay in receipt of Form 'F' for Inter Depot Transfer (IDT) resulting in blockage of VAT refund claims

In respect of transfers carried out by Base Depot to other Area Depots, the receiving depots are required to forward Form 'F' to Base Depot in acknowledging the receipt of items, which forms the basis for the Base Depot to claim VAT refund. We, however, observed that Area Depots were not prompt in forwarding the original Form 'F' to Base Depot. The value of such outstanding Form 'F' as on 31 March 2016 was ₹ 983.07 crore which pertained to the period 2007-08 to 2015-16. The non-receipt of Form 'F' resulted in disallowance of VAT refund claims worth ₹ 64.26 crore for the period 2007-08 to 2010-11, as seen from the records maintained by Base Depot. Assessment for the period 2011-12 onwards was still in progress and therefore the amount of such disallowance of VAT could be even more.

2.2.3 Non-recovery of arrears of freight rebate from the suppliers

According to CSD policy circular of November 2011, annual revision of freight rebate is to be carried out on or before 30 June to be effective from 1 April of the same year. However, we observed that revision of freight rebate applicable with effect from 1st April was carried out only in October-December. Further, though the revision of freight rebate was made applicable with effect from 1 April, the arrears of the freight rebate due from 1 April till date of revision was not recovered from the concerned suppliers from January 2012 to May 2013. The arrears on this account worked out to ₹ 2.11 crore for 2 years.

In reply to the reasons for delay in revision of freight rebate, Army HQ (QMG's Br) stated (July 2016) that under recovery of freight rebate is worked out and being recovered from the respective companies dependent on Base Depot.

Conclusion 2:

PAC had desired that an amicable solution be arrived at so that neither the entire supply chain management was adversely affected nor the payment of VAT blocked or delayed. We observed that the business operations of Base depot continued to be uneconomical. Blockage of VAT refunds of ₹ 485.47 crore and additional burden of ₹ 43.89 crore on ultimate consumers was attributable to increasing reliance on the Base Depot.

2.2.4 Non-utilization of land acquired at ₹ 6.12 crore

Mention was made in C&AG Report No.14 of 2010-11 (AR) regarding delay in shifting of Base Depot at Sewree, Mumbai to a new location despite acquisition of land on lease at a total cost of ₹ 6.12 crore in July 1992. Delay in construction by CSD had resulted in a liability of ₹ 99.53 crore as additional Lease Premium. Besides, an amount of ₹ 52.31 lakh had also been paid as service charges up to March 2005 and a provision of ₹ 4.47 crore has been made in the annual accounts for the year 2014-15 towards further charges payable till March 2015.

It was assured by the Ministry in their Action Taken Note (May 2015) on AR that the construction will be carried out after obtaining waiver of penalty and approval for extension of construction period from CIDCO. We, however, observed that despite the assurance given by the Ministry, CSD failed to construct new accommodation for its Base Depot even after 23 years of acquisition of land. However, in view of uneconomical working of Base Depot pointed out here-in-before and CSD's stated efforts to move majority of companies from Base Depot to direct supply, CSD should review its plan for construction of Base Depot.

2.3 Area Depots unaware of items listed with CSD

Area Depots in their Monthly Information Reports (MIR) indicate the total number of items listed and held with them. The number of items listed in the CSD should be uniform in all

Area Depots. However, comparison of data compiled from the MIR furnished by Depots and CSD (HO) indicated that the number of listed items varied at all depots as detailed in the Table 3 below:

Table 3: Total number of items held against items listed

CSD Depot	Total number of items held against listed as on 31 March											
	2011		2012		2013		2014		2015		2016	
	Listed	Held	Listed	Held	Listed	Held	Listed	Held	Listed	Held	Listed	Held
CSD (HO)	4314	-	4423	-	4413	-	4444	-	4604	-	5548	-
BD Bari	3509	2714	3386	2202	3386	2162	3387	2428	3513	2807	4208	3177
Jabalpur	4230	3629	4651	2308	4173	2944	4242	3129	4314	3255	4858	4521
Bikaner	3811	2253	4152	1711	4252	2001	4211	1894	4347	2125	5184	2775
Hissar	3298	2007	3687	1964	3737	2247	3737	2157	3737	2239	3739	3131
Jalandhar	4567	1926	5011	1904	5087	2147	5106	1830	5469	2512	6083	2965
Bangalore	4215	2151	3715	2040	4123	2441	3678	1901	4374	1956	5316	2626
Khadki	2641	1965	4440	1986	3715	2192	3715	2192	3543	2438	4314	2815
Delhi	3094	1961	4315	2099	4553	2597	4577	2360	4577	2676	5069	4253
Masimpur	2480	2073	2357	2032	2204	1795	2046	1722	2969	2171	3474	2456
Lucknow	4176	2015	4667	1565	4685	2432	4799	2108	4961	2355	4603	2433
Baghdogra	*	*	*	*	*	*	3107	2281	2926	2459	3525	2854

***Data not furnished**

It can be seen from the above details that the items reported as listed by the Area Depots were grossly at variance with those listed by CSD (HO). The listing at Depots was either short by an extent up to 54 *per cent* or even higher by upto 19 *per cent*. This indicated that the range of items listed with Depots was faulty. Further, the number of items held was also less than items listed as per Depots records resulting in non-availability of items to URCs. Non availability of items compounded with faulty listing resulted in denials to the dependent URCs as highlighted in subsequent paragraph.

We observed that though the information of the items listed by depots were being furnished in the monthly returns to CSD (HO), reasons for the wide variation with reference to the items listed by CSD (HO) were not called for from the depot, indicating lack of proper monitoring at CSD (HO).

CSD stated (July 2016) that Area Depots have been advised to obtain total number of items listed in inventory from EDP Branch of Head office and complete automation will nullify this problem as the database will be uniform throughout. CSD, however, did not provide any time frame for complete automation.

2.3.1 High percentage of Denials

One of the objectives of CSD is to ensure that the satisfaction of consumer demands is maintained at the maximum. The inability of the Area Depot in issuing the item as demanded by the URC is termed as ‘Denial’. In view of the large number of denials observed during the previous Audit, PAC had impressed upon the Ministry to strengthen the measures already initiated besides innovating other appropriate measures to effectively address the impediments in the supply of all indented stores to the jawans. Our analysis in the 11 Area Depots for the period 2010-11 to 2015-16 however, indicated that denials ranged from 7.17

to 25.42 *per cent* and the value of denials amounted to ₹ 3866.34 crore as detailed in the Table 4 below:

Table 4: Average percentage of denials

Sl. No.	CSD Area Depot	Average percentage of denials						Total value of denial (₹ in crore)
		2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
1	Baghdogra	DNF	DNF	DNF	11.83	10.90	7.82	73.15
2	Lucknow	11.06	14.48	14.82	16.42	16.70	14.86	544.32
3	Delhi	9.35	10.67	14.99	11.75	9.24	13.13	575.27
4	Masimpur	7.92	8.25	9.17	8.50	8.00	**7.17**	343.77
5	BD Bari	14.21	16.50	23.93	19.21	16.11	13.25	258.25
6	Jabalpur	15.06	10.16	15.37	13.25	10.40	9.49	266.67
7	Bikaner	15.60	14.67	18.06	16.59	16.11	15.41	155.12
8	Hissar	8.51	15.13	9.48	10.66	11.64	14.90	107.18
9	Jalandhar	24.83	23.08	**25.42**	20.00	19.50	9.79	567.79
10	Bangalore	14.17	14.67	13.42	11.63	14.38	12.35	464.45
11	Khadki	DNF	11.58	11.25	10.00	7.83	16.04	510.37
Total value of denials during last six years								**3866.34**

DNF = Data not furnished

The highest number of denials was noticed at Jalandhar & Bikaner and the percentage of denials was increasing at Area Depots Lucknow and Hissar indicating that adequate measures were not taken by CSD to reduce the denials.

One of the reasons for high percentage of denial was non-holding of all the items by the depots which is evident from the fact that 11 selected depots were holding items ranging between 33.53 *per cent* and 93.06 *per cent* against listed, during 2010-11 to 2015-16. This denial was further compounded by the fact that depots' listing was itself incomplete and inaccurate as brought out in Table 3 above.

CSD stated (July 2016) that the denials occurred due to warehousing constraints, non-supply/short supply of items by firms, delayed delivery of items etc. Measures such as reduction in lead time for delivery and improvement in warehouse spaces to overcome shortage of spaces have been taken to avoid the denials.

Reply is not acceptable as against denial of stores commented during last performance audit of CSD, PAC had impressed upon the Ministry to strengthen the measures already initiated to effectively address the impediments in the supply of all indented stores to the jawans. However, denials upto 25 *per cent* still continued affecting the consumer satisfaction.

Conclusion 3:

Listing of items at Depots was at variance with those listed by CSD (HO). There were denials of items to URC ranging from 7.17 to 25.42 per cent thereby affecting the consumer satisfaction.

2.4 Inordinate delay in completion of Integrated Canteen Stores Department System (ICSDS)

A mention was made in AR on 'Time and Cost overrun in implementation of Inventory Management System' of CSD on turnkey basis. Appraising the Public Accounts Committee of the action taken in this regard, the Ministry stated that system was being implemented at the earliest. However, we observed that CSD is yet (March 2016) to fully implement the system. Details of the case are discussed below:

Computerisation of CSD in two phases at a total investment of ₹ 7.11 crore was sanctioned by Ministry in April 1993. Phase-I was completed by M/s Tata Infotech Ltd, New Delhi at a cost of ₹ 2.12 crore in June 2001. Phase-II was contracted to M/s Wipro Limited, Bangalore for ₹ 7.00 crore in August 2006 against a sanctioned amount of ₹ 4.99 crore with period of completion as 52 weeks from the date of commencement of the contract. M/s Wipro could not complete the work as per the schedule (September 2007) and handed over the system to CSD in July/September 2009. Although CSD had gone 'live' with the project in October 2009, during its application users continued to report various issues/bugs on regular basis along with serious connectivity issue at almost all locations. It was also observed that due to non-implementation of Phase-II, the continued dependence on the existing Fox-pro programme also affected the working of Finance & Account (F&A) Branch leading to generation of inaccurate data and erroneous reports to audit.

While intimating the progress made in implementation of the project, CSD stated (July 2016) that ICSDS Phase II is running in seven depots (July 2016) and all sections of Head Office. It was also brought out that as the hardware have become outdated, the same needs upgradation and once the sanction for upgradation is accorded by Ministry, the project will be completed by October 2016.

The reply is only partially correct as F&A Branch at CSD (HO) is continuing to use the existing FoxPro system for its day to day activities. Thus, even after 22 years of initial sanction by the Ministry and incurring an expenditure of ₹ 2.12 crore (Phase-I) and committing an expenditure of ₹ 7.00 crore (Phase-II) against which no expenditure has been incurred, the project was yet to be completed (March 2016) and made fully operational.

Conclusion 4:

There was abnormal delay in getting completed the ICSDS Phase II affecting the inventory management and financial reporting system in CSD.

RECOMMENDATIONS:

1. *Since CSD is holding an inventory of 5548 items, which includes 3035 items introduced in last six years, there is an urgent need for a comprehensive policy for introduction of new items, factoring in the consumer requirement and the popularity of the product.*

2. *Utility of having a centralized Base Depot needs to be reviewed due to its uneconomical functioning and in the light of advancements in logistics as well as in communication and information technology.*

3. *To enhance consumer satisfaction there is a need to analyse the denials and identify the URC/area wise items whose availability needs to be augmented. Slow-moving and non-moving items, if any, should also be identified and their procurement be scaled down.*

4. *Ministry and CSD should expedite the implementation of ICSDS Phase II for better management of the inventory, accounts and finances.*

CHAPTER - III
PRICING POLICIES AND QUALITY OF GOODS

***Audit Objective:** To assess whether items of good quality at a price cheaper than the market rates with maximum consumer demand satisfaction were being provided to the service personnel.*

3 Pricing policy

The main objective of CSD is to provide consumer goods of high quality to the troops at a price cheaper than the prevailing market rates. As per the pricing policy issued by the Ministry in October 1977, the selling price is based on "Into Warehouse Cost" which should include the inward freight, transportation charges, insurance and other incidentals besides the profit of approximately one to 12 *per cent*. A pictorial price-list containing photographs and the prices of the items is published twice a year by CSD**.** A review of the price catalogue indicated that CSD was able to provide goods to the consumers at rates cheaper than market rates. However, several cases of incorrect application of pricing policies came to notice during the audit as discussed below:

3.1 Fixing the price of the goods/articles in an unfair manner

In C&AG's Performance Audit report, several cases of incorrect application of pricing policies were noticed. Taking note of the shortcomings/deficiencies pointed out by Audit, PAC in its 48th report, recommended that the Ministry should impress upon CSD to fix the prices of goods/article in a fair and transparent manner taking into consideration the actual cost incurred and the existing taxation provisions so that the intended benefits accrued are passed on to the beneficiaries.

Accordingly, CSD in January 2013 proposed reduction of freight and packaging element in the pricing structure, which was concurred by CDA (CSD) in January 2014 as detailed in Table 5 below:

Table 5: Statement indicating details of pricing elements proposed for reduction

Sl. No.	Element	Existing	Recommended by CSD	Concurred by CDA (CSD)
1	Freight			
a)	GS	1%	0.50%	0.50%
b)	Liquor	₹ 25.10 per case	₹ 10.00 per case	₹ 11.00 per case
2	Packaging (Liquor item)	₹ 1.50 per case	Nil	Not mentioned

We, however, observed that the above proposal of reduction is yet (March 2016) to be approved by BOCCS, resulting in continued excess charging from the consumers. Besides, CSD was also including an element of insurance @ 0.10 *per cent* in the pricing structure, without incurring any amount on the same. Details of such amounts charged in excess during 2010-11 to 2015-16 worked out to ₹ 419.00 crore as detailed in Table 6 below:

Table 6: Details of excess amount collected due to delay in approval of revised rates (2010-11 to 2015-16) **(₹ in crore)**

Sl. No.	Pricing element	Amount collected	Amount concurred by CDA to be charged	Excess amount collected
1	Insurance	54.28	0	54.28
2	Freight charges on G S	464.92	232.46	232.46
3	Freight charges on Liquor	214.01	93.79	120.22
4	Packaging charges on Beer	0.50	0	0.50
5	Packaging charges on other liquor	11.54	0	11.54
	Total			**419.00**

In reply (July 2016) Army HQ QMG's Br. stated that after getting the approval from BOCCS/MoD, the above additional elements will be removed from the pricing structure. The delay in approval has led to a continued overcharging from customers.

3.1.1 Clearing charges

The terms of supply of items to CSD are 'FOR destination' which indicates that the transportation and unloading charges will be borne by the supplier. It was, however, observed that despite the above terms of delivery, CSD incurred an amount of ₹ 8.64 crore on unloading of stores received from suppliers during 2010-11 to 2014-15. While such expenditure was actually the liability of the supplier, CSD offloaded a part of it by charging the consumer @ ₹ 0.30 per case thereby collecting an amount of ₹ 2.13 crore during the last five years ending 2014-15.

In reply, CSD stated (December 2015) that the labour contracts in depots had been discontinued with effect from 1 April 2015 and the cost of unloading at depots is borne by the suppliers. However, we observed that CSD continued with charging of ₹ 0.30 per case towards clearing charges and collected an amount of ₹ 42.51 lakh during 2015-16.This loading of clearing charges without incurring any expenditure as the same is borne by the supplier is unwarranted burden on the ultimate consumers.

DDGCS stated (July 2016) that case for abolition of clearing charges has been taken up and is awaiting the approval of BOCCS/MoD. The delay in approval has led to a continued overcharging from customers.

Conclusion 5:

Loading of insurance charges, freight charges, clearing charges in the pricing structure in excess of the amount incurred led to reduction in the benefit of cheaper rates to that extent.

3.1.2 Irregular fixation of prices for liquor in CSD

Several State Governments have allowed concessional rates of excise duty on liquor supplies to CSD. Excise duty is payable as per the notifications of State Government either by supplier, CSD or by URC. States in which excise duty is payable at different stages are detailed below:

Excise duty by Suppliers	-	Uttar Pradesh
Excise duty by URCs	-	Himachal Pradesh, Karnataka, Assam and Madhya Pradesh
Excise duty by CSD Depots	-	Remaining States

As per the pricing policy issued by MoD in October 1977, the basic price of all items including liquor is to be same all over India and local taxes like excise, sales tax and Octroi duty would be charged in addition to the listed price. We observed wide disparity in the prices of liquor among various depots. Such variation in prices in respect of five selected items as of March 2016 ranged between 2.35 and 212.87 *per cent* as detailed in Table 7 below:

Table 7: Wholesale and retail prices of the liquor items fixed by CSD

Index No. & Nomenclature	State[11]	Whole Sale Rate per bottle					Retail rate per bottle				
		J&K	Mah	TN	UP	Kerala	J&K	Mah	TN	UP	Kerala
79194 Whisky Royal Challenge	*Rate*	262.53	335.25	205.06	393.60	167.85	288.80	368.80	225.60	433.00	184.60
	% variation	56.41	99.73	22.17	134.50	L	56.45	99.78	22.21	134.56	L
78172 Rum McDowell XXX	*Rate*	123.61	63.50	60.77	189.98	62.23	136.00	69.90	66.80	209.00	68.50
	% variation	103.41	4.49	L	212.62	**2.35**	103.59	4.64	L	**212.87**	2.54
79230 Whisky Blenders Pride	*Rate*	287.73	371.73	230.08	541.94	193.13	316.60	408.90	253.10	596.10	212.40
	% variation	49.03	92.48	19.13	180.61	L	49.06	92.51	19.16	180.65	L
76010 S/Whisky Teachers Highland	*Rate*	550.85	743.55	492.63	910.26	458.33	605.90	817.90	541.90	1001.30	504.20
	% variation	20.19	62.23	7.48	98.60	L	20.17	62.22	7.48	98.59	L
79061Brandy Honey Bee	*Rate*	129.82	115.79	91.86	197.70	66.25	142.80	127.40	101.00	217.50	72.90
	% variation	74.78	49.54	38.66	198.42	L	95.88	74.76	38.55	198.35	L

L- Lowest rate with respect to which variations are calculated

While one of the reasons is attributed to the varied rates of excise duty by the State Governments, the variation is further compounded by the levy of CSD profit (12 *per cent*) and URC profit (effective profit of 11.2 *per cent*) on the excise duty paid. This loading of profit on the duties and taxes resulted in excess burden on the ultimate consumers. Had the excise element not been taken into account while arriving at the profit, the end consumer would have paid 0.55 to 14.46 *per cent* less as detailed in the Table 8 below:

[11] States wherein excise duty is paid by URCs have not been considered.

Table 8: Overcharging on liquor items due to charging profit on Excise duty

Index	Retail Rate* fixed by CSD	Retail rate worked out in Audit	Excess Amount charged	Over charging (*per cent*)	Destination State
79194 Whisky Royal Challenge	288.80	267.90	20.90	7.24	J&K
	368.80	329.94	38.86	10.54	Maharashtra
	225.60	214.47	11.13	4.93	Tamilnadu
	433.00	381.94	51.06	11.79	UP
	184.60	181.89	2.71	1.47	Kerala
78172 Rum McDowell XXX	136.00	121.61	14.39	10.58	J&K
	69.90	65.94	3.96	5.67	Maharashtra
	66.80	63.97	2.83	4.24	Tamilnadu
	209.00	178.77	30.23	**14.46**	UP
	68.50	65.71	2.79	4.07	Kerala
79230 Whisky Blenders Pride	316.60	295.74	20.86	6.59	J&K
	408.90	367.65	41.25	10.09	Maharashtra
	253.10	242.00	13.10	5.18	Tamilnadu
	596.10	519.62	76.48	12.83	UP
	212.40	209.70	2.70	1.27	Kerala
76010 S/Whisky Teachers Highland	605.90	585.06	20.84	3.44	J&K
	817.90	756.10	61.80	7.56	Maharashtra
	541.90	530.79	11.11	2.05	Tamilnadu
	1001.30	904.11	97.19	9.71	UP
	504.20	501.42	2.78	**0.55**	Kerala
79061 Brandy Honey Bee	142.80	128.44	14.36	10.06	J&K
	127.40	113.42	13.98	10.97	Maharashtra
	101.00	92.56	8.44	8.36	Tamilnadu
	217.50	186.45	31.05	14.28	UP
	72.90	70.13	2.77	3.80	Kerala

***per bottle**

Such loading of profit element on local levy (excise duty) has resulted in extra burden of ₹ 680.31 crore during the period 2010-11 to 2015-16. Of this, an amount of ₹ 351.89 crore were accounted in the accounts of CSD as Trade Surplus and balance amount of ₹ 328.42 crore became the canteen profit of URC transferred to Regimental fund as detailed in Table 9 below:

Table 9: Showing details of profit charged by CSD and URC on Excise duty

(₹ in crore)

Year	Excise Duty paid	CSD profit @ 12 *per cent* profit charged on excise duty	Effective URC profit @ 11.2 *per cent* profit loaded on the duty amount
2010-11	347.87	41.74	38.96
2011-12	430.86	51.70	48.26
2012-13	462.54	55.50	51.80
2013-14	521.98	62.64	58.46
2014-15	548.97	65.88	61.48
2015-16	620.22	74.43	69.46
Total	2932.44	351.89	328.42

Incidentally, in those States wherein excise duty is being paid by the URCs, it was seen that selling price was fixed without adding profit on excise duty paid by URCs, leading to discriminatory pricing.

CSD in reply noted the audit contention on loading of profit on excise duty, however, stated that re-working of selling prices for all brands, compilation and issue of Price Revision Circulars would involve considerable time as pricing of liquor is calculated State wise for each brand. As the issue involves giving goods to the beneficiaries at cheaper price, CSD needs to expedite the change in pricing structure of liquor.

Conclusion 6:

Due to inclusion of excise duty which is a local levy and varies widely from State to State while working out the CSD profit, the uniformity of selling prices throughout the country excluding local levies as envisaged in the pricing policy is not being achieved. Hence in order to reduce the wide disparity in prices, the levy of profit on excise duty needs review.

3.2 Irregularities in price revisions resulting in extra burden on consumers

Cases of discrepancies in price revision noticed during the audit and its impact on the consumers is discussed below:

3.2.1 Absence of mechanism to monitor price variations

As per the pricing policy of CSD, if the price of a product is reduced in civil market, such reduction will automatically be applicable to supplies made to CSD with effect from the date of reduction in civil market and the difference amount will be debited to the supplier. In the case of price increase, the same will be granted only after one year of introduction of the item. Further, the Regional Managers and Depot Managers are responsible to keep watch on the civil market prices and report to Head Office any disparity of adverse nature for remedial action.

We, however, observed that no specific mechanism has been laid down or procedures evolved to monitor the price variation of the products held in CSD inventory. In the absence of any such defined procedure, we found that periodic verification of prevailing prices in civil market was not being carried out. As a result the reduction of prices was revealed only on receipt of complaints from customers or voluntarily offered by the suppliers.

Four cases where complaints were received and CSD failed to detect the price reduction in time are as discussed below:

- Price in respect of Scotch Whisky Teachers Highland Cream & Teachers 50 (Index No.76010 & 76012) was reduced in the civil market effective from March 2012. The firm, however, continued to charge higher rates from CSD and latter also could not notice the reduction in price. It was only on receipt of a complaint in November 2013 that the price was refixed and an amount of ₹ 4.50 crore, for the period March 2012 to June 2014, recovered from the supplier. During this period consumers continued to pay higher prices.

  Further examination of the case revealed that even the previous revision in rates granted in 2005/2008 was incorrect as they were based on inflated trade rates furnished by the firm. As a result the supplier had been paid an excess amount of ₹ 8.82 crore on the quantities supplied from January 2005 and July 2008 to February 2012 for Index No.76010 and 76012 respectively which is yet to be recovered.

- Price reduction of the items Gowardhan Premium Ghee (Pet jar 1 Ltr & Round Tin 1Ltr) and Gulab Jamun Mix 200 grams in civil market with effect from August 2011 and August 2009 respectively was revealed on the basis of complaint received from a CSD customer in November 2012. Subsequently, an amount of ₹ 76.72 lakh for the supplies made during the above period was recovered from the firm in March 2015.

- A complaint was received in September 2014 that M/s Dabur India Ltd were giving their product Dabur Chyawanprash 1Kg to CSD at rates higher than to the stockist. On examination of the complaint, it was found that the firm had applied for price revision on the basis of inflated trade invoices resulting in undue benefit of ₹ 1.15 crore on the quantity supplied up to 31/12/2014 which was recovered from the firm along with a penalty of ₹ 11.55 lakh.

- Price reduction of item Scotch Whisky Johnnie Walker Black label and Red label (Index Nos 76025 & 76026) with effect from April 2010 were observed by CSD during grant of subsequent revision in February 2011. An amount of ₹ 16.14 lakh for the supplies received from April 2010 to April 2011 was accordingly recovered in March 2014.

DDGCS (July 2016) stated that a revised system is also being explored to identify the market prices independently in addition to company's declaration.

Thus, due to the absence of a defined mechanism for monitoring of price variations, the Suppliers managed to evade the passage of benefit of reduced prices to CSD. While CSD could effect some recovery from suppliers, CSD consumers were ultimate sufferers.

3.2.2 Delay in finalization of price reduction offered by the suppliers

CSD (HO) reiterated its price revision procedure in May 2001, according to which all price revision cases should be completed within 45 days from the receipt of the price revision request. On reduction of prices by suppliers, a provisional price circular effecting the downward reduction is issued by CSD (HO) at the earliest which is ratified by the Price Revision Committee (PRC) after conduct of market survey.

We, however, observed (March 2016) that in 25 cases, CSD (HO) took nine to 177 days for reducing the prices provisionally and 45 to 3100 days for final ratification. Due to such delays, the benefit of price reduction amounting to ₹ 11.09 crore, of which ₹ 6.61 crore was recovered subsequently from the suppliers, could not be passed on to the consumers thereby defeating the motto of CSD.

3.2.3 Delay in approval of price reduction/ one to one replacement of items in CSD

In view of the frequent launch of new electronic and consumer durable items with improved features, CSD in 2009 approved the acceptance of one to one replacement of all AFD-I items with new/improved versions on the existing or improved rate of discount without conducting market survey. It was also stated that such cases of one to one replacement with change in price had to be put up to the PRC expeditiously and all such cases should be decided within 45 days to avoid inconvenience to the customer.

A test check of the cases relating to price reductions/one to one replacement of AFD-I and GS items revealed that out of the total 854 cases of price revisions granted during the period from 2010-11 to 2015-16, in 83 cases, there was considerable delay of 48 to 395 days in approval by CSD (HO). As a result, the benefit of the latest/improved versions with price reduction amounting to ₹ 2.63 crore was not available to the consumers.

CSD did not furnish reasons for the delay in implementing price reduction offered by the suppliers.

Conclusion 7:

As no specific mechanism was laid down or procedures evolved to monitor the price variation of the products held in CSD inventory, the Suppliers managed to evade the passage of benefit of reduction of prices to CSD. Further, due to delay in finalization/approval of price revision offered by suppliers, the benefit of price reduction amounting to ₹ 6.61 crore recovered could not be passed on to the consumers. Similarly, due to delay in acceptance of one to one replacement of AFD-I items, the benefit of the latest/improved versions with price reduction amounting to ₹ 2.63 crore was not available to the consumers.

3.3 Quality control

In order to have effective quality control of all the items in the inventory range, the food and liquor items are to be tested on a regular basis (once in six months) through six Composite Food Laboratories (CFLs) located in various parts of the country. GS items are to be subjected to visual checks by comparison with master samples through Regional Testing Centres (RTC), National Test House (NTH) *etc*. (all items are to be tested at least once in two years).

In response to the Audit recommendation during the last Performance Audit, to put in place an effective mechanism to oversee strict implementation of the quality control measures and ensure speedy testing and reporting of test results so as to avoid sale of substandard items to the customers, Ministry assured the PAC (December 2011) that all items of CSD inventory range were tested as per fixed periodicity in terms of the existing policy and that matter has been taken up to increase the number of Government recognized test centres to facilitate faster routine testing and action would be completed by December 2012.

Further, all food business operators in the country have to be registered or licensed in accordance with the procedures laid down under Food Safety and Standards (Licensing and Registration of Food Businesses) Regulations 2011. However, MoD requested for exemption of URCs from purview of the FSSAI licensing on the plea that the CSD Depots, to which URCs are attached, are licensed by the Food Safety and Standards Authority of India (FSSAI) and follow all the requirements stipulated under Food Safety and Standards Act, 2006 (FSSA). Accordingly FSSAI has exempted the URCs but has made it mandatory for CSD Depots to ensure that all URCs under their respective control adhere to all the provisions of FSSA, Rules and Regulations. As CSD Depots took the responsibility of food safety in respect of the URCs attached to each of them, it is imperative on the part of CSD Management to enforce stringent protocols to ensure safety of food articles in all canteen depots.

However, our analysis at selected Area Depots revealed that CSD failed to get items tested within laid down cycle as discussed below:

3.3.1 Non testing of food & liquor items at the laid down cycle

We observed that despite the assurance given by the Ministry to the PAC to increase the number of centres for testing of food & liquor items, Composite Food Laboratories (CFLs) were on the other hand reduced from six to three (August, 2014), one each at Mumbai, Delhi & B D Bari.

Two of the three Depots co located with above CFLs were covered under the Performance Audit. Details of the food and liquor items referred to CFL along with their verdict in these two Area Depots at Delhi and B D Bari were as indicated in Table 10 below:

Table 10: No. of food and liquor items referred to CFL

Year	CSD Area Depot Delhi			CSD Area Depot B D Bari		
	No. of items received	No. of samples referred	No. of samples declared unfit	No. of items received	No. of samples referred	No. of samples declared unfit
2010-11	664	435 (66)	0	439	89(20)	0
2011-12	721	479 (66)	1	487	70(14)	0
2012-13	712	282 (40)	0	513	74(14)	0
2013-14	752	403 (54)	7	577	57(10)	0
2014-15	778	461 (59)	7	622	120(19)	0
2015-16	914	352 (39)	16	690	237 (34)	0

( ) Percentage of items referred to lab for testing against received in depot during a year.

It can be seen from Table 10 above that the lots of food and liquor items which are supposed to undergo 100 *per cent* sample testing, had been tested by the Delhi and B D Bari Depot to the extent of only 39-66 *per cent* and 10-34 *per cent* of lots respectively. Given the fact that some of the samples were found unfit during the tests, there is likelihood that some of the remaining food items issued and consumed without testing might not be of standard quality. This reflects that the Depots failed in assuring the quality of food products issued to the URCs and finally to the consumers.

Audit apprehension about issue of substandard items was established by an instance when a sample of King Fisher Beer referred to laboratory for testing in January 2014, by Area Depot Baghdogra (through Area Depot Delhi) was found unfit for consumption. However, in the meanwhile, stock worth ₹ 8.43 lakh of the affected batch was already sold to the customers.

In order to ensure 100 *per cent* check of all lots of food & liquor items and ensure proper monitoring, CSD (HO) in August 2014 decided that list of food and liquor items will be generated from HO and forwarded to CSD Area Depots co-located with CFL latest by 5th of every month so that testing of all the Food and Liquor items are covered in six months. We, however, observed that CSD (HO) failed to generate and forward monthly list of the food and liquor items to be tested. As against 956 food and liquor items procured, only 520 items were short listed for testing, out of which 448 were actually sent to the labs by various Depots during August 2014 to March 2015. We observed that the Labs did not render the verdict towards quality confirmation in respect of 281 food items and 91 liquor items (February 2016). Out of the 76 test reports received, the Labs had declared 35 samples (46 *per cent*) as sub-standard. Further during 2015-16, against 1781 shortlisted items only 589 items were referred by CSD Depot Delhi and B D Bari to laboratories for testing thereby leaving 67 *per cent* of items untested before sale.

In response, DDGCS (July 2016) stated that a proposal to enlist additional laboratories (State Government/Private) has been initiated, which will give out more detailed analysis.

Reply is not convincing as the same assurance was given to PAC based on last Performance Audit report but the number of labs has actually gone down from six to three, thereby limiting the testing facilities. The issue assumes serious significance in the light of the fact that 46 *per cent* of the food samples were found sub standard. These verdicts raise question marks about the credibility of the companies being introduced and the quality of food products supplied by them.

3.3.2 Consumption of GS items without confirmatory Test Reports

As per the policy of 2001, testing of general stores will be arranged and monitored by CSD (HO) to ensure that all items are tested at least once in two years. Ministry had informed PAC that the test centres as well as CFLs co-located with the depots had been requested to forward the quality check reports within the time schedule of two months. During 2010-11 to 2015-16, though 5941 GS items were referred for testing to the designated laboratories, no verdict in respect of 4366 (73 *per cent*) items was given by the laboratories at all as detailed in Table 11 below:

Table 11: Status of the verdict in respect of items referred for testing

Year	Total No. of samples referred to Lab	No. of items for which reports are still awaited	Reports awaited in percentage
2010-11	1046	703	67.21
2011-12	1009	804	79.68
2012-13	1060	814	76.79

2013-14	984	564	57.32
2014-15	1044	720	68.97
2015-16	798	761	95.36
Total	**5941**	**4366**	**73.49**

We observed that no record of the measures taken by CSD to expedite the test results were available, indicating lack of adequate monitoring by CSD thereby defeating the very purpose of getting all the stores/items checked for quality assurance. Further analysis of the reports revealed that of the 1575 test reports received (5941-4366), 100 items were declared sub-standard and these reports were received in depot after lapse of 5-12 months. There was strong possibility that the stock in respect of those substandard samples might have been issued to the URCs and consumed.

CSD replied (January 2016) that being Government run Laboratories, no time limit could be fixed for giving test reports and further stated (July 2016) that due to less number of Central Government Labs, the test reports were being unduly delayed and hence case to enlist more labs have been taken up.

The reply about absence of time limit is not in conformity to the time limit of two months fixed by the Ministry. Further, the assurance about increase in number of labs given to PAC in response to Audit Report No.14 of 2010-11 did not come true.

3.3.3 Acceptance of GS items without comparative testing

In order to avoid ingress of substandard items in CSD's inventory range, several quality control measures had been stipulated by the CSD. Accordingly, guidelines were issued in October 1999 for testing of General Store items wherein it was stated that for testing, one sample from the depot and another ex-civil market will be sent.

We, however, observed that the comparative quality testing of products being supplied to CSD *vis-à-vis* those available in the market were not being followed.

CSD (July 2016) stated that a proposal to test the quality of all items listed in CSD *vis-à-vis* similar items available in the civil market is under process and efforts have been made to enlist more labs to streamline and expedite testing.

Reply that the proposal is still under process is suggestive of the likelihood that GS items are being procured and consumed by CSD without comparative testing despite the guidelines on the same having been introduced in 1999.

3.3.4 Issue of items to URCs without verification of shelf life

As per the policy on dealing with perishable items in force, CSD directed that under no circumstances stock of perishable items having less than 85 *per cent* residual life will be accepted by the Depot Manager. Further, no stock of perishable items having less than 50 *per cent* shelf life shall be issued to URCs and the manufacturing date of the stock issued to the URCs will be invariably indicated in the indent-cum-invoice against the respective item before the same is priced and handed over to URC.

In response to PAC's queries on the measures taken to ensure that stack cards were displayed in respect of perishable goods, Ministry had also confirmed that the existing instructions had been reiterated from time to time to ensure that consumption at the consumer's end remained well within the residual shelf life period. We, however, observed that manufacturing date of the stock was not being indicated in the remarks column of indent cum invoice issued to the URCs. Even stack cards at depots were either not maintained or the same were incomplete in respect of information relating to date of manufacturing, date of expiry, batch number etc.

While few depots accepted the lapses towards non-maintenance of stack cards and non-indication of date of manufacturing in the indent-cum-invoice of URCs, some of the depots indicated shortage of manpower and excessive work load as one of the reasons. It was further stated that depots never accepted items with less than 85 *per cent* shelf life and also batch number, manufacturing date, expiry date and shelf life etc. was checked judiciously from the details mentioned on cartons.

The reply furnished by the Area Depots is not convincing as managing the shelf life from the dates on the labels/cartons is not practical. Further, as no records were maintained about the shelf life of the stores, issue of items to URCs within the 50 *per cent* remaining shelf life period was not being ensured. The point assumes serious significance as items being issued without verification of shelf life also included consumable and food items including baby food.

Conclusion 8:

Failure on the part of CSD to carry out quality tests to the extent required as per laid down policy on account of limiting the tests to the co-located CFLs and non-identification of additional accredited labs for quality testing of goods, despite assurance to the PAC resulted in non-testing of items supplied to CSD at the laid down cycle. Further, CSD also failed to monitor and ensure the timely receipt of test reports thereby defeating the purpose of testing. CSD's assurance on the commitment to the FSSAI for ensuring that all URCs under their respective control adhere to all the provisions of FSSA, Rules and Regulations lacks credibility as the Depots themselves have not been able to maintain the stipulated quality checks.

RECOMMENDATIONS:

5. *Ministry may put in place an effective mechanism to ensure effective implementation of the quality control measures at all levels of supply chain in CSD and URCs so as to meet its commitment to the FSSAI and ultimately to the Consumers.*

CHAPTER - IV
FINANCIAL OPERATIONS

***Audit Objective:** To assess whether the financial operations of the CSD were carried out in accordance with the laid down financial and accounting rules, standards and procedures.*

4. Financial reporting

CSD (HO) prepares Annual Accounts which consists of Trading and Profit & Loss Account and Balance Sheet for each financial year. An analysis of the financial performance of CSD during 2010-11 to 2015-16 is highlighted below:

4.1 Turnover and profitability

The trends in the turnover and profitability as per the CSD annual accounts during the six years under review were as detailed in Table 12 below:

Table 12: Financial results of CSD **(₹ in crore)**

Description	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16[12]
Sales	9752.33	9746.59	10245.35	12202.35	13709.32	15781.37
Purchases	8485.53	8180.57	9107.78	10396.72	12118.95	14000.28
Trading Expenses	559.33	690.39	762.83	839.60	889.67	1015.80
QD provision	290.40	330.09	332.67	386.04	430.00	450.00
Gross Profit (GP)	415.66	339.56	332.52	443.08	410.60	339.48
% of GP to sales	4.26	3.48	3.25	3.63	3.00	2.15
Staff Expenses	88.24	94.42	101.92	104.32	110.39	125.20
Operating Expenses	13.90	16.87	15.05	21.93	26.04	20.96
Net Profit (NP)	267.84	216.31	219.35	177.94	235.69	286.40
% of NP to sales	2.75	2.22	2.14	1.46	1.72	1.81
Closing Stock	817.37	611.40	901.86	762.41	902.31	926.50

Despite 62 *per cent* increase in sales from ₹ 9752.33 crore in 2010-11 to ₹ 15781.37 crore in 2015-16, the Net Profit had been declining from 2010-11 to 2013-14 as is evident from the above Table 12 but it increased during 2014-15 and 2015-16. The Gross/Net Profit to Sales ratio declined due to accounting of purchases of earlier periods in subsequent years as reflected at Para 4.3.1 of this report and increase in trading expenses. Further, the provisions made in the accounts towards various outstanding VAT claims also contributed to decrease in Net Profit.

[12] Figures for the year 2015-16 are provisional

We also observed that the profits for the years 2012-13 to 2014-15 have been overstated due to under provisioning of liabilities and overstatement of assets. Detailed comments in this regard have been indicated in Para 4.6.1 of this report.

4.2 Non-disclosure of Accounting Policies in respect of certain items

To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed and should form part of the financial statements. Further any change in the accounting policy which has material effect should also be disclosed. However, the significant accounting policies followed while preparing annual accounts by CSD relating to treatment of VAT refund claims, calculation of pensionary contribution, reflection of loss on account of fire, natural calamities *etc.* are not disclosed in the accounts due to which the reader of the financial statements is unable to have clear understanding of the financial position of the organisation. This is despite the fact that the previous Performance Audit had recommended that CSD should adopt a set of accounting policies with disclosure requirement akin to those adopted by organisations having commercial operations.

Our comments in this regard are discussed in Para 4.4 and 4.7 of this report.

AHQ QMG's Br. stated (July 2016) in reply that the accounting policies followed had been reflected in the Accounts for the year 2014-15. The reply does not address the audit concern as no disclosure was found in the said accounts relating to treatment of VAT refund claims, calculation of pensionary contribution, reflection of loss on account of fire, natural calamities *etc.*

4.3 Outstanding Sundry Creditors and Debtors

4.3.1 Incorrect accounting of Sundry Creditors

As per the generally accepted accounting standards, the liabilities for the goods received are to be accounted for in the same year so as to match revenues with expenses. However, we observed that only part liabilities towards outstanding creditors were being accounted for in the relevant year, i.e.bills received up to the end of May/June in respect of materials received before 31 March were accounted for in that year and the bills received thereafter were accounted for in subsequent year's accounts, resulting in incorrect reflection of liabilities as shown in Table 13 below:

Table 13: Details of bills received of previous years accounted during subsequent year

Bills pertaining to	Bills received and accounted for during year (figures in ₹)					
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Prior to 2007	0	1864790	0	8468	0	0
2007-08	6774813	2333442	449958	13560240	0	7430
2008-09	47527674	13064906	5388687	367375	0	0
2009-10	439227347	82783674	22508314	3310098	2234509	144699
2010-11	0	1282366819	73541380	63484852	16716538	3898348

2011-12	0	0	302570797	316426265	38385569	11423131
2012-13	0	0	0	0	116987598	40489017
2013-14	0	0	0	0	241779123	67768772
2014-15	0	0	0	0	0	81451244
Total	493529834	1382413631	404459136	397157298	416103337	205182641

As could be seen from the Table 13 above, CSD accepted the bills even after lapse of 2-8 years of receipt of goods due to non-availability of policy on acceptance of bills submitted by the suppliers.We also noticed that the outstanding creditors of previous years were frequently adjusted by reducing the balances without actual release of payment during the years 2012-13 to 2015-16 as detailed in Table 14 below:

Table 14: Details of bills reduced in accounts without release of payment

Year of Accounts	Year and the value of bills reduced without release of payment (fig. in ₹)				Total reduction of liability (fig. in ₹)
	Prior to 2007	2007-08	2008-09	2012-13	
2012-13	3319909	Nil	Nil	Nil	3319909
2013-14	Nil	Nil	Nil	157079308	157079308
2014-15	31907	13864292	151073	Nil	14047272
2015-16	124000	Nil	Nil	Nil	124000

Thus, due to under accounting of purchases and reduction of Sundry Creditors without release of payment, profit of the respective financial year is not correctly depicted and hence does not reflect the true and fair view in the accounts. The inflated profit during 2010-11 with resultant impact on the accounts of subsequent years is detailed in Table 15 below:

Table 15: Impact of under accounting of Sundry Creditors in the accounts

(₹ in crore)

Year	Net profit in accounts	Purchases under accounted	Burden of previous purchases	Purchases reduced	Actual Profit	Profit incorrectly depicted by
1	2	3	4	5	6 (2-3+4-5)	7 (2-6)
2010-11	267.84	158.80	0	0	109.04	+158.80
2011-12	216.31	66.88	138.24	0	287.67	-71.36
2012-13	219.35	15.75	40.45	0.33	243.72	-24.37
2013-14	177.94	30.95	39.72	15.71	171.00	+6.94
2014-15	235.69	8.15	41.61	1.40	267.75	-32.06

Note: Year 2010-11 has been taken as base year while working out data in the above table.

Though CSD (HO) instructed all Depot Managers to furnish certificate that "All bills (including re-certified bills) pertaining to previous financial years had been forwarded to HO and no bills were pending with the depot", the same were not being received from Area Depots despite repeated reminders.

While conducting audit of Annual Accounts for the last five years, we had repeatedly recommended that CSD needs to evolve a system wherein the details of all bills pertaining to goods received during the year are captured at CSD (HO) level so as to reflect correct figures in the Accounts. However, adequate action was to be taken (March 2016) to capture the correct amount of purchases made by CSD during a particular financial year.

In reply CSD stated (July 2016) that the accounting of bills upto a cut-off date was due to operation in manual environment and that accounting of the remaining bills in the next financial year automatically reduces the profit of the year.

The reply is not convincing as the concept of matching revenues to expenses is not fulfilled and as such the true and fair view position is not reflected in the accounts. Besides, accepting bills even after many years is fraught with the risk of inaccuracy of values of store shown therein.

4.3.2 Inaccurate depiction of Sundry Debtors in Accounts

As of 31 March 2016, 15930 Debit notes amounting to ₹ 21.77 crore were outstanding for recovery from various suppliers since 1994-95. C&AG in Report No.14 of 2010-11 had recommended that CSD needs to take expeditious action to recover the amounts outstanding for more than five years or write off the same as per procedure which was also upheld by PAC. We observed that the Board convened for reconciliation of the purchase ledger balances recommended in August 2012 to write off ₹ 6.36 crore due from non-existing suppliers. However, the sanction for the same was yet (March 2016) to be accorded. In response to audit query on the present status of the case, CSD stated that provision for write off has been made in the accounts since 2013-14 and the final clearance on the proposal was awaited from CGDA.

As the amounts to be written off are against suppliers who are no longer dealing with CSD and there is no chance for recovery, delay of around four years in taking approval for the same cannot be justified.

Conclusion 9:

Despite PAC's recommendation, CSD failed to reflect correct picture of Sundry Creditors in its accounts thereby under accounting purchases. CSD also is yet to write off outstanding Sundry Debtors which are non-existent.

4.4 Non accountal of loss due to fire/natural calamities in the annual accounts

As per generally accepted accounting practices, loss of stock by fire/natural calamity is treated as an abnormal loss of stock, i.e., an indirect expense and must be reflected in the Profit & Loss Account of a concern.

We found that the treatment of loss of stock by fire/natural calamity by CSD is incorrect as store loss is directly reduced from the closing stock, thus affecting the trading account. Furthermore, such loss does not appear as a separate item on the face of the financial statements. As a result, loss of ₹ 23.33 crore on account of fire and natural calamity at three Area Depots during the year 2014-15 remained undisclosed in the P&L account of the year.

In reply CSD Directorate stated (July 2016) that separate disclosure in this regard has been reflected in the Explanatory Note/Chairman Statement from the financial year 2014-15 onwards. We, however, found that no such disclosure was made in the account of the year

2014-15. Moreover, mere explanation in Note/Chairman statement would not make their true and fair reflection in the account.

4.5 Quantitative Discount (QD)

Quantitative Discount (QD) is an incentive provided by CSD to the URCs in the form of free stores and is calculated as a percentage of the total value of stores purchased by the URCs in the previous year. For the goods on which CSD loads a profit margin of six *per cent* and above, 4.5 *per cent* component of the profit is disbursed as QD and for the goods with a profit margin of five *per cent*, 3.5 *per cent* margin is disbursed as QD.

The QD is distributed through the budgetary grants of the Ministry of Defence. The amount so calculated is included in the subsequent years' budget under the head 'Supplies and Materials'. The amount of QD sanctioned to the URCs is to be utilized for welfare activities, to meet requirement of URC's infrastructure, working capital, overhead expenses, payment of employees, leakages and other trading losses. Incidentally, PAC in its 75th report had reiterated that extension of welfare activities to the jawans from their own contributions was not in consonance with the principle of Welfare State as enshrined in the Constitution and therefore desired that all the welfare needs of the jawans be brought before Parliament to seek the requisite funds. As such, the grant of QD for welfare activities is not justified.

4.5.1 Denial of QD benefit to the consumers

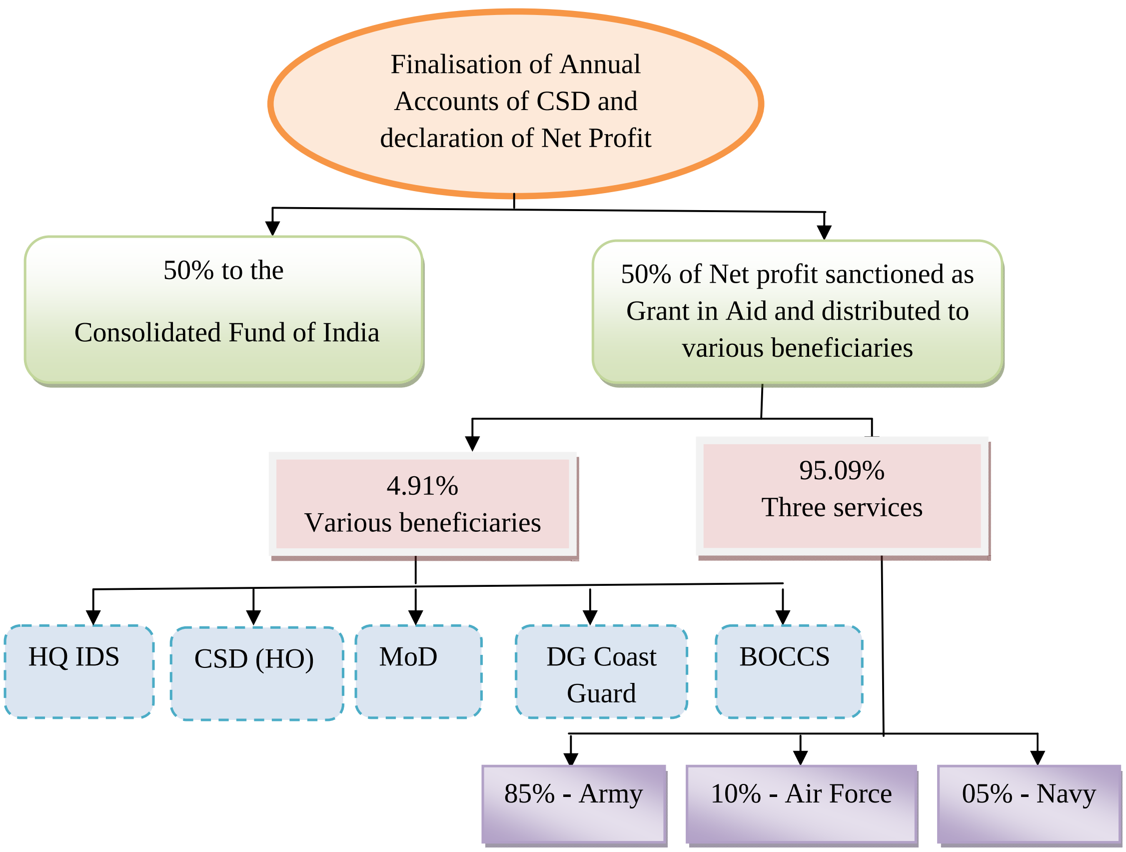
In our last Performance Audit (C&AG report No.14 of 2010-11, Union Government, Defence Services), we had observed that the benefit of QD was not passed on to the customers and only added to the profits of URCs, thus transferring fund from public fund to non-public fund without conforming to the provisions of the General Financial Rules. Based on the above observation which was also upheld by PAC, Ministry, in March 2012, issued guidelines for utilization of QD and the QD accounts were brought under audit of the C&AG. In audit, we found that the guidelines issued by the Ministry on utilisation of the QDs were not being adhered to by the URCs. Our comments on incorrect utilization of QD in the URCs selected under review are given in Para 6.3 of Chapter VI of this report.

During Exit Conference, DDGCS stated that the proposal for abolition of QD had been taken up with Ministry wherein it was proposed to reduce the percentage of profit loaded by CSD and increase the loadings of profit percentage of URCs. The reply of the management is not acceptable as CSD is passing on the benefit of reduction in price due to bulk order quantity fully to URCs, sharing of its profit as QD when URCs are also earning its profit by adding to its selling price is not in order. Ministry should therefore direct the CSD (HO) to reduce the loading of its profit margin so that the ultimate consumer will be benefited instead of sharing the profit as QD.

4.6 Distribution of grant-in-aid from Canteen Trade Surplus (CTS)

50 *per cent* of the net trade surplus of CSD i.e. Net Profit for a particular year is distributed as 'Grants-in Aid' in the subsequent year from Consolidated Fund of India. A budgetary allocation is made in this regard in the Annual Budget. The amount is distributed under Regular and Ad-hoc grants. Regular grants are given every year at laid down percentage not exceeding 4.91 *per cent* to HQ IDS, CSD Head Office, MoD, DG Coast Guards & BOCCS Secretariat and the remaining amount is distributed amongst the Services in the ratio of Army 0.85, Air Force 0.10 and Navy 0.05 as detailed in following flow Chart 4.

Chart 4: Distribution of profit to various beneficiaries.



During 2012 to 2016, an amount of ₹ 61630.58 lakh was appropriated from Consolidated Fund of India being 50 *per cent* of the CSD Net Trade Surplus and distributed among various beneficiaries as Grants-in-Aid as detailed in Table 16 below:

Table 16: Details of the Grants-in-Aid distributed among beneficiaries (₹ in lakh)

Name of beneficiaries	Year of sanction#					Grand Total
	2011-12	2012-13*	2013-14*	2014-15*	2015-16*	
HQ IDS	395.07	398.23	504.45	304.35	216.00	1818.10
CSD (HO)	117.85	118.80	150.48	90.79	64.44	542.36
Min of Def	77.67	78.30	99.18	59.84	42.47	357.46

DG CG	64.28	64.79	82.08	49.52	35.15	295.82
Sec BOCCS	2.68	2.70	3.42	2.06	1.46	12.32
Army	10824.37	10911.06	13821.33	8338.77	5901.30	49796.83
Air Force	1273.46	1283.65	1626.04	981.03	694.27	5858.45
Navy	636.73	641.83	813.02	490.52	347.14	2929.24
HQ SFC (Adhoc)	0	0	0	0	20.00	20.00
Total	13392.11	13499.36	17100.00	10316.88	7322.23	61630.58

#Amount of distribution pertaining to a financial year is sanctioned in the next year.
*Amount inclusive of CTS of 2009-10. For want of budgetary allocation the trade surplus of 2009-10 was distributed on piecemeal basis.

Irregularities in sanctioning and disbursement of Grants-in-Aid was noticed and commented upon in the C&AG Report No.14 of 2010-11 and it was recommended that Ministry should issue suitable instructions in this regard to ensure compliance with the provision of General Financial Rules. PAC in its 48th Report had also recommended the same. In line with the recommendations of the C&AG and PAC, Ministry issued guidelines to be observed while disbursing funds received as Grants-in-Aid which should be utilized primarily for welfare of Service Personnel and in accordance with provisions of General Financial Rules (GFR).

The documents relating to utilisation of Grants-in-Aid for the year 2014-15 called for are yet to be furnished (November 2016). While examining the papers relating to sanction and utilization of Grants-in-Aid at BOCCS (2011-12 to 2013-14) we observed that provisions of General Financial Rules and guidelines issued by Ministry were not being followed in several cases as discussed below:

- As per GFR, Grants-in-Aid could be sanctioned to personnel or a public body or an institution having a distinct legal entity. We however observed that Ministry of Defence, CSD(a department under MoD), BOCCS (a standing committee with fixed membership) were also sanctioned grants of ₹ 9.12 crore during the period 2012 to 2016 even though all their fund requirements were met from the budgetary allocations of Ministry of Defence.

- As per GFR, any Institution or Organization seeking Grants-in-Aid would be required to submit an application inter alia clearly spelling out the need for seeking grant and should be submitted in such form as may be prescribed by the sanctioning authority. Though the Guidelines of the Ministry (February 2014) stipulates the procedure for processing the application in the prescribed form before approval for disbursement of Grant, Audit found that neither any application was prescribed by BOCCS nor the laid down procedure for approval was being followed and the grants were allocated to the beneficiaries without any requisition or assessment of need.

- None of the beneficiaries had submitted the audited statement of accounts to BOCCS along with the utilization certificate as stipulated in the guidelines issued by Ministry. In the absence of detailed accounts, Audit could not derive assurance about the utilization of the Grants for bonafide purposes of welfare of Service Personnel.

- As per the guidelines it has to be ensured by the BOCCS that the grants for previous years have been fully utilised and an Utilisation Certificate (UC) to that effect obtained. We however came across instances viz. Grants for development of transit facility at Kathgodam and creation of War memorial children hostel at Dehradun, where UCs were issued within 15-21 days of allotment only to claim the Grants for the next year. Further part of the Grants were still held unutilized with CSD (HO) and AHQ AG's Branch at the end of March, however UCs were furnished while obtaining Grant of subsequent year.

- The interest amounting to ₹ 9.94 crore earned during last three years by Army, Navy and CSD (HO) from the Grants-in-Aid were transferred to their Regimental Fund without accounting as receipt in the Government accounts.

- No separate account for disbursement of Grants-in-Aid, as stipulated in the guidelines was maintained by CSD (HO) and the disbursement of grants was made from the CSD Imprest account. Consequently, the unutilized amount of ₹ 138.14 lakh pertaining to the share of Ministry for 2013-14 and 2015-16 has been reflected as outstanding liability in the accounts for the year 2015-16. Thus the un-utilised amount of Grants-in-Aid was not being deposited back to Government by CSD (HO).

- Grant received by CSD (HO) was disbursed as Medical Advance, Loan for Marriage, Education and House Repair *etc.* to the staff of CSD, which is subsequently recovered from the individuals along with interest at the rate of five *per cent*. Total amount of loans disbursed during the year 2014-15 was ₹ 40.84 lakh. Thus, the Grant was not utilized for the purpose it was sanctioned and remains unutilized as the amount disbursed is recovered through regular pay bills besides earning interest. Further, Grants received at CSD (HO) were utilized to incur expenditure on various miscellaneous items such as Conference and Travelling expenses, maintenance expenses *etc.* which are not authorized as per guidelines issued by the Ministry.

In response, Army HQ QMG's Branch stated (July 2016) that necessary guidelines have been issued to all the beneficiaries to ensure compliance to the guidelines. Further, CSD Directorate stated (July 2016) that necessary instructions were issued to CSD (HO) to maintain separate public fund account for disbursement of CTS to the various beneficiaries henceforth.

Conclusion 10:

Though Ministry issued guidelines for disbursing the Grants-in-Aid to be utilised primarily for welfare of Service personnel in accordance with GFR provisions, cases of non-observance of the guidelines were noticed in Audit. To avail the funds, even incorrect certificates were issued by the beneficiaries.

4.6.1 Distribution of CTS without considering Audit Certificate

As per the procedure laid down by BOCCS in its 52nd meeting (March 1982) the accounts should be placed before the Board by Secretary, BOCCS for consideration after obtaining the reports of Controller General of Defence Accounts (CGDA) on the Annual Accounts. Further, the Accounts of CSD and a review thereon as furnished by the QMG's branch to Ministry of Defence (Finance) should be sent to Director General of Audit, Defence Services (DGADS)[13] for audit and scrutiny before publication. Thereafter the distribution of trade surplus of CSD is approved in the meeting of the Executive Committee of BOCCS.

However, Audit Certificate issued by Statutory Audit *i.e.* DGADS is not considered by the Board and the Ministry while deciding the sanction for distribution of CTS and publication of Accounts. As a result of this incorrect practice followed by CSD, overstatements of profit in the accounts of the year 2012-13, 2013-14 and 2014-15 as pointed out in the audit certificate rendered by DGADS were not considered by CSD and the overstated profits were distributed in the respective years as detailed in Table 17 below:

Table 17: Overstatement of assets and understatement of liabilities in accounts

(₹ in crore)

Year	Net Profit reflected	Over Statement of profit due to	Amount	Actual Net Profit
1	**2**	**3**	**4**	**5 (2-4)**
2012-13	219.35	Understatement of liability	178.94	(-) 57.87
		Over statement of Assets	98.28	
2013-14	177.94	Understatement of liability	216.14	(-) 38.20
2014-15	235.69	Overstatement of Assets	165.47	70.22

Details of the understatement of liabilities and overstatement of assets are illustrated in **Annexure 'B'** enclosed. In the annual accounts of the year 2010-11 and 2011-12, corrections were made by CSD based on the observations raised in the audit leading to reduction in net surplus by ₹ 163.09 crore and resultant savings of ₹ 81.55 crore to Government[14].

In response to a query (August 2015) on the non-adherence of the laid down procedures, DDGCS replied (September 2015) that there was no precedence of submitting the annual accounts to Secretary BOCCS in the last 10 years and that the matter may be taken up with CSD (HO). It was also stated (February 2016) by CSD that accepting the audit views would hit the welfare activities planned by Armed Forces Organization, since the share of profit to Armed Forces would go down. Further, DDGCS stated (July 2016) that audit certificate was always obtained from CDA (CSD) and not C&AG.

The reply furnished by Army HQ QMG's Branch is not acceptable in view of the laid down procedures like adoption of accounts by BOCCS and certification by DGADS. Further, the contention that generation of profit for welfare of troops even by circumventing the laid down procedures is neither ethical nor consistent with the accounting practices.

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13 DGADS certifies the annual accounts of CSD on behalf of the Comptroller & Auditor General of India.

14 Of the total profit 50 *per cent* is disbursed to the Services as Grant in aid and balance amount is held with the Government.

Conclusion 11:

CTS sanctioned by the Ministry and distributed by CSD HO were not based on the accounts certified by the DGADS. While the certified accounts indicated a loss, CSD figures indicated profit in the accounts which led to distribution of overstated CTS among the Services.

4.7 Unauthorized Payment of Pension and Retirement benefits by CSD

As per provisions of the revised Accounting Procedures of 1989, the Pension and Death cum Retirement Gratuity (DCRG) of retired CSD personnel were to be sanctioned by CDA (Pension), Allahabad and payments were to be made by Defence Pension Disbursing Officers (DPDOs)/Treasuries or Banks like for other Defence personnel/civilians. The expenditure will continue to be reflected in the Annual accounts (Proforma Accounts) of CSD. Further, the GPF Accounts were to be maintained by GM (CSD).

We observed that in contravention to the revised Accounting Procedure, CSD itself was making the pension and gratuity payment to its retired personnel every year from its generated resources and the total amount so paid *i.e.* ₹ 387.31 crore was depicted under Sundry Debtors (Other Government Departments). This practice besides being unauthorized also creates liability on the part of Government, which is not correct. Additionally, CDA (CSD) on its part is booking this expenditure in the Receipt and Payment Account (Government Account) under MH 2071 Minor Head 101(098/38), 102 (098/39), 104(098/41) and 105(098/42), which shows that Government had already discharged its pension obligation till the year.

We also observed that Pension Contribution, GPF subscription, Central Government Employees Group Insurance Scheme (CGEGIS) though accounted for as receipt and booked under MH 0071 Minor Head 101(098/11), MH 8009 Minor Head 101 (098/97) and MH 8011 Minor Head 103 (099/41) respectively by the CDA in the Receipt and Payment account, are retained with CSD instead of depositing with the Government. These are reflected in the accounts as "Due to Government". The GPF withdrawals, advances and final payment are also made by CSD from its own resources. The interest due on the GPF amount is accounted as "due from Government" as depicted in the Table 18 below:

Table 18: Position of Government due as of 31 March 2016 **(₹ in crore)**

Due to Government		Due from Government	
Details	**Amount**	**Details**	**Amount**
G P F (including interest)	145.46	G P F Loan	1.73
C.G.E.G.I.S. (Employee Contr)	3.09	Interest on G P Fund	105.89
Pension/Gratuity contribution	121.64	Ordinary pension	182.88
New Pension Scheme	0.28	Family pension	107.10
		Interest on new pension and compulsory deposit scheme	0.08
		Gratuity	55.41
		C G E G I S Insurance	2.59
		C G E G I S Saving Fund	2.69
		Commuted value of pension	36.56
Total	**270.47**		**494.93**

This retained GPF subscription, Pension Contribution and CGEGIS contribution are utilised for payment of GPF loan, pension and gratuity *etc.* Thus, utilisation of all recoveries from the officials for the payment of pensionary benefits for which CSD is not authorised and claiming the same as due from Government was not in order and in line with Government Accounting Rules. Also, as GPF subscription recovered from the CSD employees are utilized by CSD, claiming interest on GP Fund as due from Government is not in order.

On enquiring the source of funds from which the above pension payments was being made, CSD confirmed that the same were being made from the unutilized funds remaining in the Imprest and that the issue came to light only in 2012 when Budget allocation and Control System was introduced from 1 April 2012. The reply furnished is not correct as the issue was highlighted during the audit of Annual Accounts of 2009-10. Though in reply CSD had stated (February 2011) that procedures would be revised in future, despite lapse of over five years, the issue is still to be resolved. On calling for the comments on the bookings in the Receipt & payment account and reflection of Government debt in the Annual Accounts of CSD, CDA (CSD) replied (March 2016) that the matter has been taken up with CSD (HO) in January 2016 which was pending.

CSD Directorate, in their reply stated that being a commercial organization, the pension disbursed by CSD needs to be paid and accounted for to assess the financial performance every year. Further, it has been stated that the shortcomings in the existing system with reference to Pension, Provident Fund, Insurance etc. will be studied and implemented by taking budgetary allocations from the year 2017-18 onwards.

Evidently, the reply of CSD is centred only on the accounting aspects and not on the main audit contention of making pension/DCRG payments out of its fund. Further, since all pension payments have to be made by DPDOs/Banks as per Revised Accounting Procedure 1989, the payment of pension by CSD requires the approval of Ministry of Finance.

Conclusion 12:

CSD utilized all recoveries from suppliers and employees without depositing into treasury for payment of pension and gratuity which is not the mandate of CSD and was in complete contravention of the existing Accounting Procedure of 1989. CSD also depicted in accounts interest on GPF subscription recovered from employees as due from Government without depositing the same into Government treasury which otherwise is the liability of CSD.

4.8 Management of VAT

CSD is exempt from payment of VAT in the States of Tamil Nadu, Jharkhand and Andaman & Nicobar Islands. In the States of Gujarat, Maharashtra, Delhi, Andhra Pradesh, Telangana and Karnataka though VAT is payable on purchase, CSD has to claim the refund of the same from the respective State Governments as these Governments have exempted VAT on sale by CSD. Further, in all other remaining States except Jammu & Kashmir and West Bengal, VAT is levied at concessional rate. VAT applicable to CSD as compared to civil market at various States during 2014-15 is detailed in **Annexure 'C'**.

The total benefit availed by CSD on account of the VAT exemptions/concessions extended by the State Governments during the period 2012-13 to 2015-16 was to the extent of ₹ 4856.44 crore against total sales of ₹ 51938.39 crore during this period.

We observed several cases of discrepancies in implementation of VAT notifications of various State Governments at Area depot level which are discussed in the following paragraphs.

4.8.1 Long outstanding VAT refund claims

VAT is applicable on purchase by CSD and exempt on sale (on some items) by CSD to Service Personnel in the states of Delhi, Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Telangana except in case of sale of electronic items and liquor by CSD.Thus CSD Depots located in these States are to submit VAT refund claims after arriving at the difference between the VAT amounts paid during purchases and collected on non-exempt items during sales.

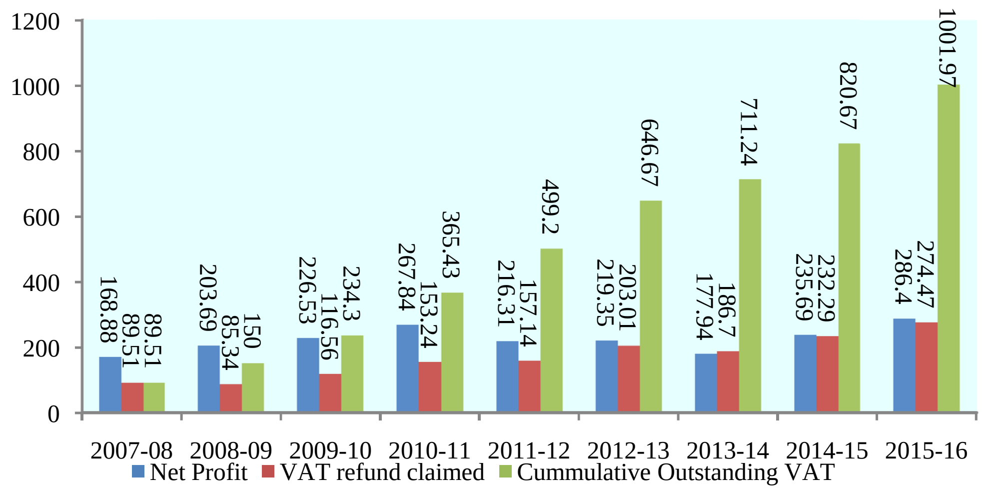
We, however, observed that VAT refund claims amounting to ₹ 1001.97 crore in respect of eight depots were outstanding as on 31 March 2016 as detailed in **Annexure 'D'**. Of these outstanding claims 48.45 *per cent* (₹ 485.47 crore) pertained to CSD Depot Mumbai alone and 16.59 *per cent* (₹ 166.23 crore) pertained to CSD Depot Delhi. Our examination further revealed that 23.41 *per cent* (₹ 234.56 crore) of the total outstanding refund claims were pending for more than five years *i.e.* up to 2010-11. The assessment for these years could not be finalised by respective State Governments due to non-submission of the requisite documents like Form F[15], Form C[16] by CSD and purchase confirmation from suppliers.

Further analysis in this regard revealed that from 2009-10 onwards, the outstanding refund had far exceeded the profits. The details of outstanding VAT refund claims, Net Profit and VAT refund claimed since 2007-08 is depicted in the Chart 5 below:

[15] Form F is issued by transferee of goods to transferrer of goods between two states.

[16] Form C is form issued by Sales Tax Department to a registered Dealer who makes inter-state purchases

Chart 5: Details of VAT refund claims submitted and profit reflected in the accounts



Note:-Claim for 2005-06 and 2006-07 was submitted during 2007-08

CSD stated (July 2016) that due to regular monitoring and concerted efforts ₹ 342.33 crore were obtained as refund from Sales Tax Authorities. Further it was stated that wherever there is discrepancy in any of the company's data, the VAT refund process gets delayed which is happening in most of the old cases where data was maintained manually.

Reply regarding liquidation of the outstanding amount is not factual as the refund claims have continued to accumulate over the years. It has in fact increased up to 12 times since 2007-08 i.e. over the last eight years.

4.8.2 Disallowed VAT refund claims of ₹ 43.47 crore by State Governments

We observed that some of the VAT refund claims submitted by Mumbai, Khadki and Ahmedabad depots amounting to ₹ 27.77 crore (2007-08 & 2008-09), ₹ 2.66 crore (2006-07 to 2008-09) and ₹ 13.04 crore (2006-07 to 2009-10) respectively were disallowed by the respective State Governments. The main reasons for such disallowances were non-submission of Form 'F', Form 'C' by CSD, and mismatch in purchase confirmation by suppliers. Appeals filed by the depots against these disallowances were yet to be settled (November 2016).

CSD stated (July 2016) that State Sales Tax Authorities have interpreted VAT refund claim negatively which is under contest by CSD. It was further stated that disallowed claims were debited in the P&L Account and as such there is no excess distribution of profit. The reply is not convincing as disallowance is not due to negative interpretation but due to non-submission of proper documents and purchase confirmation.

4.8.3 Levy of penalty due to incorrect submission of VAT returns

CSD has to follow the procedures prescribed under the respective State Government VAT Rules for claiming VAT refund. Due to incorrect submission of data by Delhi Depot along with the VAT refund claims (2012-13 & 2013-14), State Government levied penalty and interest for an amount of ₹ 21.72 lakh which was adjusted from the outstanding refund claims of 2009-10 while releasing the claim (March 2016).

Similarly, due to concealment of the sales figures while filing VAT returns, the State Government of J&K had levied penalty in March 2013 for an amount of ₹ 3.53 crore against VAT return filed for the year 2006-07. Area Depot, Srinagar filed an appeal after depositing an amount of ₹ 17.64 lakh as five p*er cent* appeal fee in May 2013 which was yet to be finalized (March 2016).

Further, due to failure on the part of Secunderabad Depot to disclose turnover of AFD Sales, and output tax in the VAT return for the period April 2010 to November 2010 and April 2011 to September 2012, State Government had levied penalty of ₹ 12.59 lakh in March 2016. CSD accorded sanction for payment of this penal amount of ₹ 12.59 lakh in June 2016. Thus incorrect filing of returns by the depots led to a penal liability of ₹ 3.88 crore on CSD.

CSD (July 2016) stated that penalties imposed by Sales Tax Authorities is under contest by filing appeals. It was further stated that Depot managers have been instructed to become more meticulous in filing the VAT returns to avoid any further penalties.

Though penalty imposed by Sales Tax Authorities have been contested, the same has already been adjusted by the Commercial Tax department of Delhi Government from the outstanding VAT refund claims.

4.8.4 Loss of ₹ 36.05 crore due to non-implementation of VAT notification

Government of Andhra Pradesh implemented VAT from 31 January 2005, thereby bringing goods sold by CSD through Area depots at Secunderabad and Vizag under VAT, which hitherto were exempt from Sales Tax. On CSD's request, State Government exempted 20 categories of items in September 2006 with benefit of Input Tax[17] credit. The exemption was extended to 52 categories in November 2007 but without credit of Input Tax. The Input Tax credit on these items was again allowed from February 2010.

We, however, observed that despite the revised notification of November 2007, two Area Depots did not collect VAT from URCs on the notified 52 categories. Instead, the Depots wrongly claimed the input tax credit from the State Government. For wrongly claiming Input Tax credit, the Commercial Tax Department (CTD) issued demand notices against two depots as detailed in Table 19 below:

[17] 'Input tax' is the tax paid or payable under the Act by a VAT dealer to another VAT dealer on the purchase of goods in the course of business.

Table 19: Details of demand notices/payments made by depots

<table>
<tr><th>Demand Notice in the month of</th><th>Depot concerned</th><th>Amount of demand notice (figure in ₹ crore)</th><th>Cause of demand</th><th>Amount paid/ adjusted against refund claims (figure in ₹ crore)</th></tr>
<tr><td>December 2009</td><td>Secunderabad</td><td>4.47</td><td rowspan="3">Wrongly claiming input tax credit</td><td>4.47</td></tr>
<tr><td>November 2010</td><td>Vizag</td><td>14.18</td><td>14.18</td></tr>
<tr><td>January 2011</td><td>Secunderabad</td><td>9.44</td><td>9.44</td></tr>
<tr><td>July 2012</td><td>Vizag</td><td>3.54</td><td>Penalty for wrongly claiming input tax credit</td><td>3.54</td></tr>
<tr><td>January 2011/ May 2015</td><td>Secunderabad</td><td>4.42</td><td>Interest on delayed payment of demand</td><td>4.42</td></tr>
<tr><td colspan="2">Total loss to CSD</td><td>36.05</td><td colspan="2"></td></tr>
<tr><td>January/ February 2011</td><td>Secunderabad</td><td>19.89</td><td>Penalty for wrongly claiming input tax credit</td><td>Liability yet to be resolved</td></tr>
</table>

Thus, the incorrect implementation of VAT by the two Area Depots resulted in net loss of ₹ 36.05 crore to the CSD, besides a liability of ₹ 19.89 crore.

CSD stated (July 2016) that due to wrong interpretation of the notification, VAT was not charged resulting in loss of ₹ 36.05 crore which was met from profit of the CSD and the same will be treated as operational expenditure. In fact, non-implementation had ultimately benefited the end consumers as they got the goods at cheaper rate. It was further stated that case has been initiated with the higher authorities for regularization of the loss.

Reply is not convincing as failure on the part of CSD had resulted in loss of ₹ 36.05 crore, which has to be treated and regularized as loss. Non-levy of eligible VAT or collection of VAT on exempted items cannot be seen in the backdrop of benefit or loss to the consumers. Further, CSD also paid a penalty of ₹ 3.54 crore and has a contingent liability of ₹ 19.89 crore penalty which is no one's gain. Compliance with VAT rules is a statutory obligation which the CSD failed to comply.

4.8.5 Loss due to non-recovery of VAT

As per notification issued by Rajasthan Government in April 2006, three *per cent* VAT was applicable on purchase by CSD but was exempt on sale subject to condition that items sold are at prices fixed by QMG. Thus CSD had to load three *per cent* of VAT paid during purchases while working out the selling price in the price sheet.We observed that CSD did not implement the notifications published by State Government and failed to include the amount of VAT paid on purchases while working out the wholesale price. This resulted in loss of ₹ 7.73 crore on Sales by Area Depot Bikaner from August 2006 to February 2012 (data from April to July 2006 was not made available). In reply Depot stated (September 2015) that the matter regarding reasons for under recovery of ₹ 7.73 crore is under investigation since February 2013.

In the instant case also CSD (HO) contended that non-recovery of VAT is not a loss but it should be treated as operational expenditure as the same have been met from the profits of CSD and it had also resulted in benefit to end consumers.

The reply furnished by CSD (HO) is not acceptable as failure in implementation of the Government notifications tantamounts to violation of legal obligation and cannot be justified on the ground of benefit to consumers.

4.8.6 Excess charging of VAT and appropriating statutory levies to its own fund

As per pricing policy wholesale and retail rate are fixed by CSD (HO) excluding taxes which are to be levied by Depots/URCs while selling the goods. With implementation of VAT, in some states, sales by CSD to URCs were exempted from VAT but purchases by CSD were not exempted. Thus the one time liability of tax at the time of purchases should have been considered while fixing the wholesale/retail price by CSD (HO).

State Government of Rajasthan, Madhya Pradesh, Punjab, Haryana and Assam notified that CSD is liable to pay concessional rate of VAT on purchase of goods wherever applicable and is exempt from VAT on sale of goods to URCs subject to condition that the sale price of the stores shall not exceed the sale price fixed by the CSD (HO).

However, the existing pricing policy for such States was not amended and CSD (HO) continued to fix the wholesale prices based on incidental charges and profit element exclusive of taxes. We observed that some Area Depots were loading the prescribed rate of VAT on wholesale price fixed by CSD (HO) and not the actual VAT paid, resulting in excess collection of VAT to that extent, which was added to the profits of CSD at the cost of consumer as discussed below:

CSD Area Depot at Jaipur, Bikaner, Jalandhar, Pathankot, Bathinda, Jabalpur and Hissar

- Depots at Jaipur and Bikaner (2012-13) collected three *per cent* VAT and Depots at Jalandhar, Pathankot and Bathinda (2011-12 to 2013-14) collected 6.5 *per cent* VAT on the wholesale price fixed by CSD inclusive of incidentals like transportation, insurance & profit element etc. from the URCs instead of the actual VAT amount paid to the suppliers on the basic price. This resulted in excess collection of ₹ 46.49 crore.
- The excess collection of VAT amount by Bikaner Depot for the period 2013-14 to 2015-16 and by Jaipur, Jalandhar, Pathankot and Bathinda Depots for the year 2014-15 and 2015-16 could not be worked out as the total amount of VAT collected against payment made to suppliers was not captured separately at depot levels for these years.
- Similar excess collection of VAT by Area Depot Hissar, Jabalpur, Missamari, Masimpur and Narangi since 2011-12 was also noticed. In the absence of data at Depots relating to total amount of VAT collected and that paid to the suppliers, the total amount of VAT collected in excess could not be quantified in audit.

Conclusion 13:

Delay on the part of CSD in submitting the required documents to the State VAT departments resulted in blockage of fund amounting to ₹ 1001.97 crore. Failure to diligently implement the VAT notification resulted in loss and penalty of ₹ 63.67 crore to CSD.

RECOMMENDATIONS:

6. *CSD being a commercial organization should adopt a set of accounting policies with disclosure requirements akin to those adopted by Organizations having commercial operations. Ministry should consider Audit Certificate issued by Statutory Auditor on Annual Accounts of CSD before sanctioning distribution of CTS.*

7. *CSD should take immediate action to clear outstanding credit and debit items expeditiously.*

8. *Instead of sharing the profit as QD, Ministry may direct the CSD (HO) to reduce its profit margin so that the ultimate consumer is benefited.*

9. *The sanctioning of regular and ad-hoc Grants-in-Aid should be transparent and on the basis of detailed proposals as envisaged in GFR. These grants should be utilized only for the welfare of the beneficiaries and any deviation or misuse of these grants should make the recipient ineligible for further grants from Ministry.*

   Ministry should formulate detailed guidelines, wherein the recipients should be asked to open a separate Grants-in-Aid account and all authorized expenses should be met out of this account and the utilization certificate along with all supporting original vouchers/documents should be subject to audit by C&AG.

10. *CDA (CSD) should ensure that the Pension contribution, GPF subscription and CGEGIS should be deposited with the Government. Pension and other retirement benefits should be disbursed through the Treasuries/DPDOs or the Banks as per the approved accounting procedure only.*

11. *CSD should be more diligent while dealing with taxation matters so as to rule out any extra burden on CSD consumers caused by incorrect implementation of the same. Timely submission of tax refund claims complete in all respect needs to be ensured to enable early realization of claims thereby avoiding blockage of funds.*

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[18] 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

[18] 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.*

CHAPTER - VI
AUDIT OF UNIT RUN CANTEENS

Audit Objective: To assess whether the Unit Run Canteens (URCs) being the extended arm of CSD are helping CSD in achieving its motto.

6 Audit of Unit Run Canteens (URCs)

Unit Run Canteens (URCs) are the interface between the CSD and its consumers. The level of satisfaction of CSD consumers depends largely on the functioning of the URCs. During the last performance audit, access to URC records was denied to Audit on the ground that the URCs are Regimental Units and are being run from non-public funds. Since considerable funds were being transferred from Public Fund to run the URCs, C&AG recommended that Ministry of Defence should take immediate steps to bring the URCs under the unified accountability regime that is applicable to all operations funded by the Consolidated Fund of India. The Public Accounts Committee in its 48th and 75th Report had also recommended that in view of the pecuniary benefits that the URCs got from the State in terms of soft loans, Quantitative Discount (QD), free land, deputation of service personnel to man the URCs *etc*. and also as the URCs have the trappings of a Government/Semi Government organization, URCs must be audited by the Supreme Auditor for greater assurance of transparency in the operation of the URCs. In the Action Taken Note on the said report, while the Ministry has agreed for the audit of QD accounts by C&AG and has formulated guidelines for the utilization and distribution of QD for all URCs, the decision on audit of overall functioning of URCs by C&AG and bringing its accounts under unified accountability regime was still under consideration (March 2016).

Accordingly, during the Performance Audit, 37 URCs dependent on the 11 selected Area Depots were proposed for audit and details in this regard were called for from CSD (HO) Mumbai and DDGCS. Of the 37 URCs, two URCs (HQ SC Pune and AF Chakeri) did not provide the requisite details stating that clarifications had been sought from the higher authorities and on receipt of clarification the requisite details would be furnished, which was still awaited (November 2016). Further during collection of information for the year 2015-16, six[19] URCs failed to furnish the requisite details inspite of instructions from AHQ and repeated requests from Audit.

Audit analysis of the records and the data furnished by some of the URCs revealed inadequacies pertaining to pricing of stores, registration of URCs for VAT with the State Government, levy and deposit of VAT collected, deployment of Defence service personnel in URCs located at peace areas, non-payment of rent charges for accommodation occupied by URCs *etc.* which are discussed in the following paragraphs:

[19] HQ SC Pune, CME Dapodi, HQ 21 Corps Chakra, MP Sub Area Bhopal, OD Allahabad and AF Chakeri

6.1 Pricing issues – Excess loading of profit margin

URCs draw the stores from Area Depots at wholesale price and sell them to the consumers at the retail prices. The wholesale and retail selling prices are fixed by CSD (HO), as per the pricing policy laid down by the Government and the price lists are published half yearly in January and July. Subsequent revisions in prices are also intimated through the selling price circulars issued by CSD (HO) which are implemented at depot level. A fixed percentage of profit margin ranging from zero to 10 *per cent* depending on the item is included in the retail rates fixed by CSD (HO). The retail selling prices of all items excluding local taxes, octroi, *etc.*should be uniform throughout the country.

We observed that 29 of 37 selected URCs were charging profit in excess of the prescribed limit in respect of items test checked as detailed in the **Annexure 'E'.**

This excess charging of profit resulted in higher and differential retail prices and consequently, extra burden on consumers which added to the profit of URCs. Few illustrative cases in various groups of profit percentage noticed at various URCs covered under Audit are in Table 20 below:

Table 20: Price variation noticed at URCs **(Figures in ₹)**

Unit Run Canteen/ Item	R/Rate[20] CSD HO	R/Rate URC	R/Rate CSD HO	R/Rate URC
Soaps & Detergents	**9501 - No More Tears shampoo**		**9324 - Tide Detergent**	
Sudarshan Chakra Bhopal	91.58	93.36	68.96	70.30
HQ CC Lucknow	89.82	91.30	67.63	68.75
7 AF Hosp Kanpur	89.82	91.56	67.63	68.94
OD Allahabad	89.82	91.56	67.63	68.94
E-in-C's Branch New Delhi	88.05	89.76	67.63	68.94
Tea	**86138 – Red Label Brook Bond Tea**		**86141 – Taj Mahal Tea**	
HQ CC Lucknow	127.52	132.19	77.51	80.35
7 AF Kanpur	127.52	132.57	77.51	80.58
E-in-Cs Branch New Delhi	128.98	131.53	88.38	90.13
DG NCC New Delhi	128.98	130.25	76.28	77.03
Vajra Station Canteen	117.28	119.60	84.07	85.74
Wrist Watches	**61529 - Titan 1092**		**61514 - Titan Quartz 954**	
HQ CC Lucknow	1105.07	1134.32	1442.54	1480.72
7 AF Kanpur	1105.07	1105.07	NA	NA
OD Allahabad	1105.07	1137.57	1146.74	1180.46
DG NCC New Delhi	1105.07	1137.57	1273.22	1273.22
INS ShivajiLonavala	1002.35	1031.84	1273.22	1310.66
Cadbury Chocolates	**85204 - Cadbury Dairy Milk**		**85216 - Nestle Munch**	
Stn Canteen Delhi Area	6.91	7.26	7.01	7.36
7 AF Kanpur	NA	NA	7.01	7.36
OD Allahabad	NA	NA	7.01	7.36
E-in-C's Branch New Delhi	7.15	7.51	7.01	7.36
Vajra Golden Lion	7.55	7.93	7.37	7.74

The total financial implication and the amount collected in excess from the consumers including VAT could not be worked out as documents other than QD were not made available to Audit.

[20] R/Rate CSD (HO) pertains to different period hence different.

While CSD Directorate (July 2016) did not offer any specific comment for their failure in exercising control over the pricing mechanism of URCs, it was however stated that necessary guidelines have been issued to URCs to adhere to the retail prices fixed by CSD (HO) and that necessary changes are being made in CIMS software in URC to ensure that such cases do not occur at any URC.

However it was seen that no mechanism was devised to watch the implementation of such guidelines by CSD Directorate.

6.2 Discrepancies in application of VAT by URCs

VAT implemented by the State Governments with effect from 2005 is applicable on the sales of URCs. Scrutiny of the details furnished by the URCs revealed discrepancies in the implementation of VAT by some of the URCs such as non-registration with Sales Tax Department, non-deposit of VAT with the State Government, and incorrect charging as detailed in the Table 21 below:

Table 21: Details of discrepancies in application of VAT by URCs

Sl. No.	URC	State	Nature of discrepancy
1	ASC Centre Bangalore	Karnataka	VAT of ₹ 19.95 lakh collected from consumers during the period covered in audit (2010-11 to 2014-15) not deposited with State Government.
2	HQ K&K Sub Area	Karnataka	VAT was not implemented before July 2015.
3	ESM Karad	Maharashtra	Not registered with Sales Tax Department (July 2016) and VAT is not collected from consumers.
4	CME Dapodi		
5	INS Shivaji	Maharashtra	Not registered with Sales Tax Department, despite this URC collected VAT of ₹ 10.50 lakh during 2005-2012 and deposited the same in the regimental fund.
6	URCs (9 Nos)	Delhi	Charging of VAT on some exempted items.

In reply, CSD Directorate (July 2016) stated that necessary instructions have been issued to all concerned HQs and URCs that the VAT collected must be deposited with the State Government. It was also assured in the Exit Conference, that the deposit of VAT by the URCs would also be monitored during the periodical inspections.

6.3 Irregularities in accounting of QD

Quantitative Discount (QD) is a trade related incentive discount provided by CSD to the URCs in the form of free stores and is calculated as a percentage of the total value of stores purchased by the URCs in the previous year. QD is payable @ 4.5 *per cent* in respect of goods on which CSD is loading a profit of 6 *per cent* and above and QD @ 3.5 *per cent* in respect of goods on which loading of profit margin is 5 *per cent* only.

Based on C&AG's recommendations in the last Performance Audit Report, Ministry in March 2012 issued guidelines for disbursement and utilization of QD to be implemented by all URCs with immediate effect. These guidelines were revised in March 2014 to conform to the provisions stipulated under GFR. Amount lying unutilized at the end of the year is to be refunded to Government.

Evidence gathered from the 37 URCs selected for audit revealed the following discrepancies in utilization of QD (₹ 39.60 crore) with reference to guidelines issued by Ministry.

6.3.1 Irregular transfer of QD to higher formations and incorrect utilization certification by URCs

As per the Guidelines issued by Ministry for utilization of QD, the Utilization Certificate (UC) in respect of QD drawn, duly certified by Chartered Accountant will be submitted to Area Depot prior to release of QD for the subsequent year. Area Depots will submit consolidated UC to BOCCS through CSD (HO). Unutilized amount of QD will be refunded to the Government. However, we observed that URCs furnished utilization certificate without actual utilization of the same for the sake of obtaining QD of the subsequent years. Cases of incorrect utilization certificate furnished are highlighted below:

- A separate account termed 'CSD QD' account has to be maintained wherein the QD amount should be deposited. This amount is to be utilized for welfare activity and to meet the requirement of development of URC's infrastructure, working capital, trading losses *etc*. We however, observed that during 2012-13 to 2015-16, an amount of ₹ 77.03 crore was received as QD by 21 URCs of which ₹ 29.49 crore was transferred to higher formations as detailed in **Annexure 'F'**. Such transfer ranged from 2.17 *per cent* to 70.55 *per cent* of the total QD received by these 21 URCs. The transfer of funds to higher formation has been certified as utilized in the utilization certificate furnished by the respective URCs which was in contravention to the guidelines.

  In reply, HQ Delhi Area and OD Allahabad, stated that share of QD was forwarded to formation HQ as per directions received from higher headquarters. The reply is not acceptable as the same is against the sanctioning of QD for welfare activities to URCs.

- Though an amount of ₹ 5.62 crore were held in the accounts of four URCs, full utilization of the amount sanctioned as QD was furnished by them as detailed in **Annexure'G'**.

  Furnishing incorrect certificate towards utilization of 100 *per cent* amount of QD even when balance was held in the accounts of URC and non-surrendering the unspent amount of ₹ 5.62 crore before claiming QD of subsequent year was in violation of the instructions issued by the Government.

- Four URCs did not refund the unutilized QD amount of ₹ 1.26 crore (**Annexure 'H'**) to the Government. Outstanding amount held by URC is reflected in their UC submitted to Area Depot. Evidently, Area Depots also failed in their responsibility to monitor the refundable amount from URCs before release of subsequent years QD.

- As per the sanction of QD, any amount lying unutilized by URC at the end of the year is to be refunded to Government. We however observed that at the end of March 2015, 17 URCs had carried forward an amount of ₹ 6.32 crore as closing balance. Similarly at the end of March 2016, 15 URCs had carried forward an amount of ₹ 3.03 crore without refund to Government indicating non-adherence to guidelines by URCs.

- We also observed that three URCs namely, HQ K&K Sub Area Bangalore, INS Shivaji, Lonavala and URC HQSC, Pune had invested the amount received towards QD as fixed deposits with Banks and an amount of ₹ 19.82 lakh was earned as interest during 2013-15, which is in violation of the intent of the sanction. The issue of utilization of interest earned is also discussed under Para 4.6 of Chapter IV of this report.

In this context CSD Directorate (July 2016) stated that necessary instructions would be issued to all concerned HQs/URCs to deposit the unspent amount to Government treasury. It was also stated that QD will be deposited in current account and as such not liable to generate any interest.

The reply is suggestive of the absence of control mechanism to watch the compliance of the laid down instructions/guidelines. The reply that QD will be deposited in current account is not relevant as audit emphasizes on refund of unutilized QD at the end of the year as envisaged in the sanction.

6.3.2 Incurring of expenditure from QD towards various unauthorized works

As per the guidelines issued by the Ministry, QD can be used for various welfare activities of troops in the proportion as shown in Table 22 below:

Table 22: Details of welfare activities as per guidelines published by Ministry

1	Scholarship to deserving children of beneficiaries up to higher secondary level	12%
2	Grants to affiliated schools and hospitals operated by the services	10%
3	Support to Senior citizen Homes run by the Services	3%
4	Welfare schemes/activities for Service/dependent personnel and their families	55%
5	Sports/Sports related activities/facilities in the unit/formation/establishments	15%
6	Assistance to beneficiaries and their dependents affected by natural calamities	5%

We observed that an expenditure of ₹ 1.97 crore towards various unauthorized works such as addition/alteration to MI rooms, procurement of buses/ambulances, modification to existing ambulances, upkeep of guest rooms, and other miscellaneous works at units was incurred from the QD received by six URCs. While these works are authorized to the units based on the scales fixed by the Government, we found that provision of such services from QD was made to avoid reference to the CFA and projection of the case through the normal course.

The CSD Directorate (July 2016) assured that all concerned would be again instructed to follow the guidelines on the subject laid down by the Ministry. The reply does not answer the implication of violation. Since all these assets need regular maintenance and consumables like fuel etc., these may be accounted for against the Peace Establishment/ War Establishment of the unit concerned and in future such violations may be curtailed ab-initio through higher reductions in the future QDs.

6.4 Drawal of liquor in excess of entitlement

During the Performance Audit of CSD carried out in 2008-09 excess drawal of liquor by the URCs was observed. Ministry in the Action Taken Note submitted to PAC in December 2011 stated that by resorting to several measures like raising liquor indent strictly in accordance with the strength of the URCs, sale of liquor through smart cards and taking strict disciplinary action against the delinquent personnel, effective control was being exercised to prevent the leakage of Defence liquor into civilian market.

However, inspite of such assurances, cases of excess drawal continued as it was observed from the details furnished by URCs that 20 out of 35 URCs had drawn liquor in excess of their entitlement. Such excess drawal during the period from November 2013 to January 2014, November 2014 to January 2015 and November 2015 to January 2016 worked out to 5,14,369 units of liquor. Even with a minimum base price of ₹ 100/-[21] per unit, the total cost of such excess drawn liquor worked out to ₹ 5.14 crore.

We also observed that URCs are obtaining the liquor license from Excise Department based on the posted strength of the Service Personnel which limits the maximum drawal. A copy of this permit is not available with the Depots to verify the correctness of the indent and the certificate.

As Service Personnel are issued liquor only based on their entitlement, there is a strong possibility that the excess drawn liquor could be illegally sold in the open market or to unauthorized persons as evident from the case detailed below:-

Based on complaint of illegal sale of liquor in Civil Market meant for Defence Personnel at Delhi, Court of Inquiry found that 1,55,502 units of liquor were drawn in excess of entitlement and out of this 97,432 units was sold to unauthorized personnel during February to April 2011. For better appreciation of the case, details of the liquor entitled and drawn during 2009-10 to 2011-12 by the URC was called for which was yet to be furnished (November 2016).

In response to the observation, the CSD Directorate (July 2016) assured that necessary instructions would be issued to all concerned HQs and URCs. In addition the liquor license may be taken on the basis of actual posting and not on the sanctioned strength.

6.5 Deployment of Service Personnel in URCs

Taking note of the observations raised by C&AG during the performance Audit of CSD about the deployment of Service Personnel in URCs, the PAC in its 75th report had stated

[21] Price for one bottle of Rum.

that while deployment of Service Personnel to run the URCs in restricted/disturbed/insurgency prone areas may be justified, their deputation/employment that too on full time basis in the URCs situated in normal/peaceful areas defies logic due to the undisputed fact that the primary job of Combatants is to safeguard the frontiers of the Country. In response, Ministry clarified in the Action Taken Note that Service Personnel are deployed only in URCs of field formation in insurgency prone areas/on board ships/sensitive establishments such as forward airbases etc. and that these are necessitated due to security reasons.

However during the current review, we observed that of the 35 URCs, all located at peace areas, Service Personnel were continued to be deployed on rotation basis at 15 URCs as detailed in **Annexure 'I'.**

This deployment of Service Personnel for day to day functioning of URCs was not only in violation of the assurance given by the Ministry to the PAC in December 2011 but also compromised their main Combatant role**.** Further, since running of URC is a regimental activity and are to be manned by personnel paid out of QD, deployment of Service Officers/Personnel to URC has led to diversion of Government resources for regimental/ commercial activities and hence was not in order.

In reply to Audit observation, CSD Directorate (July 2016) stated that Service Personnel wherever employed were performing these duties in addition to their primary duty which is permitted at URCs which are being run in places affected by insurgency/terrorism and also on board Naval Ships. The reply is not convincing as the cases brought out above are of URCs established at peace stations and deployment of 4-13 JCOs/ORs indicates that they are deployed specially for URC thereby compromising their main Combatant role.

6.6 Non-payment of rent for accommodation occupied by URCs

In response to the issue raised in the last Performance Audit regarding the pecuniary benefits given by Government to URCs such as soft loans, rent free accommodation at Government premises *etc.*, it was stated in the Action Taken Note that URCs pay rent and allied charges at the laid down rates from their profits.

Analysis of the data furnished by the URCs covered in the review, however, revealed that eight out of 35 URCs which were occupying prime space mainly in National Capital Region (NCR) were not remitting the rent and allied charges inspite of occupying Government accommodation as reflected in Table 23 below:

Table 23: Statement indicating area occupied by URCs not paying rent

Sl. No.	URC	Space Occupied (in Square Feet)
1	DSOI, Dhaula Kuan	14428
2	Raj Rifles Regt Centre	15000
3	DG NCC	23758
4	Indian Coast Guard, Delhi	451.92
5	CAMS	3871
6	INS Shivaji	53800
7	Cobra Canteen	168017
8	Veteran Canteen Dundahere Gurgaon	7938

Similar, non-payment of rent charges by INCS Mumbai was also commented upon by PCDA, Pune in its report of June 1997 and the issue was yet to be resolved (December 2015). Thus, it is evident from the above that the information furnished in the ATN was untrue. Further, anomalies in the rents paid with reference to area occupied were also observed at some of the URCs as detailed in Table 24 below:

Table 24: Details of rent paid by URCs and the areas occupied.

Sl. No.	Name of URC	Area Occupied SqM	Monthly Average rent paid (₹)	Rate per SqM (₹)
1	AF Race Course, Delhi	86398	1,483	0.02
2	HQ Delhi Area Stn; Delhi	24000	3,969	0.17
3	AF WAC Delhi	972	45,650	46.97
4	AF Comero Complex Delhi	1755	1,02,550	58.43
5	HQ CC Lucknow	25297	27,920	1.10
6	Vajra Stn Canteen Jalandhar	2321	46,508	20.04
7	Stn Canteen Kanpur	400	8597	21.49
8	Golden Palm Bangalore	5543	76536	13.81

The average rent paid by URCs ranged between ₹ 0.02 and ₹ 58.43 per SqM and wide disparity in the rent being paid at same station viz. Delhi was also observed which indicates anomaly in fixation of rent. Taking rate of rent as ₹ 18.87 per SqM fixed by Military Engineering Services for Delhi station, the underpayment of rent by two URCs (Sl. No. 1 and 2 of Table 24) during the period 2010-11 to 2015-16 would amount to ₹ 14.96 crore resulting in loss to the Government exchequer and increase in Regimental fund to that extent.

Further, the Scales of Accommodation (SoA) 2009 authorises 240 SqM for Other Ranks (OR) Institute in those units where the unit strength is up to 1000 ORs. The URCs are part of OR institute under SoA. From the Table 23 and 24 above, it can be seen that the URCs are holding upto 360 times of the area prescribed for whole institute.

In reply to Audit observation, CSD Directorate (July 2016) stated that URCs pay rent and allied charges as per the Government norms for occupying the building and MES/CPWD where applicable raise the bill and that instructions were being issued to clear the dues on time. As the non-payment of rent was indicated by the URCs themselves in the details furnished to Audit, the reply furnished is not in consonance with the facts.

Conclusion 17:

URCs were selling items at rates other than fixed by CSD (HO) and failed in implementing the VAT notification of State Government. They also collected liquor in excess of authorization and contrary to the assurance given to the PAC, availed accommodation on nominal rent/ rent free and deployed Service Personnel for functioning of URCs even in peace areas. This implies that CSD has no control on the functioning of URCs who are the chain link between the ultimate consumers and CSD. Though guidelines for the functioning of URCs are stated to have been issued by CSD Directorate, no mechanism is in existence to check adherence to the same. As a result of above, the objective of CSD to provide items of good quality at cheaper rate to the ultimate consumer gets defeated. Further, URC is not an independent *entity as they alone cannot function without CSD and sell goods other than items obtained from CSD. As such, the contention that URCs cannot be termed as an extended arm of CSD is not tenable.*

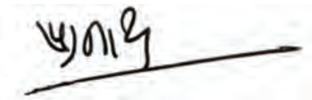
RECOMMENDATIONS:

17. As financial assistance in the form of QD, support from the Defence Services by deployment of Service Personnel and accommodation at nominal rent/rent free is provided to URCs, the recommendation in the last Performance Audit to bring the URCs under the accountability regime of Parliament is restated.

18. As URCs are the extended arm of CSD and play an important role in achieving its motto, CSD should devise a mechanism like internal audit/inspection of URCs so as to derive an assurance that URCs are selling the items at the rates approved by it.

19. Ministry/CSD should strengthen mechanism to ensure that liquor against authorized strength only is sold to the URCs to prevent its leakage into the civil market and the demand should match the limit permitted by the Excise department. In addition, the liquor license may be taken on the basis of actual posting and not on the sanctioned strength.

20. Scales of Accommodation should clearly specify the area required for the URCs including area for the parking.



New Delhi **(PARAG PRAKASH)**
Dated: 26 December 2016 **Director General of Audit, Defence Services**

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
Dated: 26 December 2016 **Comptroller & Auditor General of India**

Annexure 'A'

(Reference Para 1.3 of this report)

Statement indicating details of 37 URCs covered in Performance Audit.

Sl. No.	Name of URC
1	HQ Delhi Area Station Canteen
2	A F Canteen Race Course
3	A F Canteen Camero Complex
4	A F Canteen Western Air Command
5	HQ Central Command Lucknow
6	Golden Palm Bangalore
7	HQ Southern Command, Pune
8	Cobra Canteen Jabalpur
9	Defence Service Officers Institute
10	Raj Rifle Regimental Centre
11	7 Air Force Hospital
12	AF Chakeri Kanpur
13	Station Canteen Kanpur
14	ASC Centre Bangalore
15	College of Military Engineering Dapodi
16	Vajra Station Canteen Jalandhar
17	ESM Canteen Gurgaon
18	HQ MP Sub Area Bhopal
19	HQ 24 Infantry Brigade
20	HQ 21 Corp Chakra
21	ESM PSA Karad
22	INCS Karwar
23	INS Shivaji Lonavala
24	Golden Lion Canteen
25	55 (I) Mech Bde
26	AF Station B D Bari
27	College of Military Management Jabalpur
28	Military Hospital Jabalpur
29	HQ 39 Armd Bde
30	20 Mech Inf
31	20 Wing Air Force
32	E-in-C's Branch Kashmir House
33	Ordnance Depot Allahabad
34	DG NCC R K Puram
35	HQ 7 Infantry Brigade
36	HQ Coast Guard
37	HQ C A M S Delhi

Annexure 'B'

(Reference Para 4.6.1 of the Report)

Statement indicating details of the liabilities understated and Assets overstated in the Annual Accounts of CSD for the year 2012-13 to 2014-15

Year	**Net Profit reflected**	**Actual Net Profit**	**Over Statement of profit due to**	**(₹ in crore)**	
2012-13	219.35	(-) 57.87	Understatement of liability		**178.94**
			Under provisioning of o/s creditors	76.21	
			Under statement of o/s liability towards VAT, Freight Octroi etc.	100.01	
			Non reflection of penalty adjusted	2.72	
			Over statement of Assets		**98.28**
			Over Valuation of Closing Stock	2.55	
			Excess collection of VAT/Octroi	17.79	
			Doubtful o/s VAT refund claims	56.84	
			VAT refund claims not accepted	17.65	
			Under accounting of works expdr	1.51	
			Doubtful debts	3.88	
			Incorrect accounting of prepaid exp	-0.50	
			Excise Deposit closing bal under accounting	- 1.48	
			Overstatement of o/s URC loan	0.04	
2013-14	177.94	(-) 38.20	Understatement of liability		**216.14**
			Understatement of sundry creditors	216.14	
2014-15	235.69	70.22	Overstatement of Assets		**165.47**
			Doubtful o/s VAT refund claims	95.23	
			Inflated sales of AFD	70.24	

Annexure 'C'

(Reference Para 4.8 of this report)

Statement indicating VAT rates applicable during 2014-15 to CSD and civil market at various States

State	Depots located	VAT on purchase by CSD	VAT on Sale by CSD	VAT applicable to Civil	Remarks
Delhi*	Delhi	12.50-20%	0%	12.50-20%	*AFD Electrical, Electronic items not exempted. VAT paid during purchase is claimed as refund from respective State Government.
Maharashtra*	Mumbai & Khadki	5%	0%	5%	
Gujarat	Ahmedabad	1-12.50%	0%	1-12.50%	
Karnataka*	Bangalore	14.50%	5.5%	14.50%	
Telangana*	Secunderabad	5-14.50%	0%	5-14.50%	
Andhra Pradesh*	Vizag	5-14.50%	0%	5-14.50%	
Haryana#	Ambala & Hissar	4.20%	0%	5.25 to 13.125%	#VAT applicable on purchase and exempted on sale if goods sold at prices fixed by QMG i.e. CSD (HO). The amount of VAT paid during purchase has to be merged in the costing sheet while arriving at selling price
Rajasthan#	Bikaner & Jaipur	3%	0%	1-14.50%	
Madhya Pradesh#	Jabalpur	4%	0%	5-13.50%	
Assam# (No concession on liquor)	Masimpur, Missamari & Narangi	5%	0%	5-14.50%	
Punjab	Bathinda & Jalandhar	4.004%	4.004%	6.05-14.30%	
Himachal Pradesh	Pathankot	4.004%	4.004%	6.05-14.30%	
Uttarakhand	Dehradun	0%	0%	1-13.50%	Electronic items not exempted
Nagaland	Dimapur	5%	5%	13.25%	No concession on liquor
Kerala	Kochi	2.50-7.25%	2.50-7.25%	5-14.50%	50% concession
West Bengal	Bhaghdogra & Kolkata	5-14.50%	5-14.50%	5-14.50%	No concession
Jammu & Kashmir	B D Bari, Srinagar, Leh, Udhampur	5-13.50%	5-13.50%	5-13.50%	

Annexure "D"

(Reference Para 2.2 & 4.8.1 of the report)

Statement showing year wise outstanding VAT refund claims of various Area Depots

Year/ Depot	A&B Mumbai	Khadki	Ahmedabad	Delhi	Bangalore	Jabalpur	Sec'bad	Vizag
2005-06	28262758	xxx	xxx	xxx	xxx	xxx	xxx	xxx
2006-07	199980402	1731689	xxx	xxx	xxx	xxx	xxx	xxx
2007-08	354466647	2641328	xxx	xxx	xxx	xxx	xxx	xxx
2008-09	174658488	3445390	xxx	xxx	xxx	xxx	xxx	xxx
2009-10	487364985	58207282	xxx	108659482	xxx	94427683	xxx	xxx
2010-11	462669262	44600154	xxx	211521465	xxx	113010225	xxx	xxx
2011-12	557694349	185889563	20360951	201852462	xxx	xxx	xxx	xxx
2012-13	457917445	240513707	52590924	235214462	xxx	xxx	xxx	xxx
2013-14	365038960	265078393	156447821	257249164	23476562	xxx	602	33130927
2014-15	808181745	xxx	115143203	315854930	45301486	xxx	380177367	212206477
2015-16	958502934	xxx	739742197	331977103	22695895	xxx	366907517	324869369
Total	4854737975	802107506	1084285096	1662329068	91473943	207437908	747085486	570206773
Total refund claims outstanding ₹ 10019663755 (say ₹ 1001.97 crore)								

A&B= Area Depot and Base Depot Mumbai
Source of Information: CSD (HO) letter No. 6/GL/F&A/AA/14-15/764 dated 21/3/2016.

Annexure "E"

(Reference Para 6.1 of the report)

Variation in profit percentage included in retail rates.

Sl. No.	URC	Tea		Soaps		Wrist Watches		Chocolates	
		Auth	Load	Auth	Load	Auth	Load	Auth	Load
1	20 Wing AF Bhaghdogra	1	5	3	5	2	5	0	5
2	HQ CC Lucknow	1	4.70	3	4.70	2	4	0	2.5
3	HQ 7 Inf Bde	1	5	3	5			0	5
4	Station Canteen Kanpur	1	5	3	5				
5	7 AF Kanpur	1	5	3	5	2	5	0	5
6	OD Allahabad			3	5	2	5	0	5
7	HQ Delhi Area Stn Canteen							0	5
8	DSOI Daula Kuan							0	5
9	AF Canteen Delhi							0	5
10	AF Canteen Camero	1	5	3	5	2	5	0	5
11	WAC subroto park			3	5			0	5
12	E-in-C Br.	1	3	3	5	-	-	0	5
13	RRRC (Delhi Cantt)	1	5					0	1
14	DG NCC (New Delhi)	1	2	3	5	2	5	0	5
15	Coast Guard Delhi			3	5			0	5
16	INS Shivaji	1	5	3	5	2	5		
17	INCS Karwar	1	5						
18	23 Wing Air Force			3	5	2	3	0	5
19	Mil Hosp Jabalpur	1	3					0	5
20	HQ 55 (I) Mech Bde					2	3	0	5
21	20 Mech Inf							0	5
22	Sudarshan Chakra Bhopal	1	5	3	5	2	5	0	5
23	HQ Paschim MP Sub Area, Jabalpur			3	5			0	5
24	Vajra Golden Lion Canteen	1	3					0	5
25	Veteran Canteen Gurgaon			3	5			0	5
26	CMM Jabalpur							0	5
27	HQ 24 Inf Div Bikaner	1	5	3	5			0	5
28	Vajra Station Canteen	1	3	3	5				
29	Cobra Canteen Jabalpur			3	5				

Source of Information:Information furnished by URCs in Proforma URC-1 (list of 100 items)

Annexure"F"

(Reference Para 6.3.1 of the report)

Statement indicating transfer of QD amount to other units/formations (higher formation)

Sl. No.	URC	QD received (₹ in lakh)	Amount transferred (₹ in lakh)	% of transfer	Transferred to Formation HQ
1	20 Wing Air Force	55.98	29.24	52.23	IAFCWF, Command CWF and Canteen General Fund
2	7 AF Hospital	307.74	195.08	63.39	
3	AF Chakeri Kanpur	320.46	162.40	50.68	
4	AF Canteen Race course	804.91	338.87	42.10	IAF CWE, MC CWF and Canteen General Fund
5	AF Canteen WAC	541.37	301.06	55.61	
6	AF Canteen Camero	660.93	409.95	62.03	IAF CWE, IAFBA,
7	OD Allahabad	34.83	5.70	16.36	Stn Cell Allahabad
8	HQ CC Lucknow	1179.51	614.05	52.06	HQ CC Lucknow
9	HQ Delhi Area Stn Canteen	913.28	142.03	15.55	HQ Western Command
10	E-in-C's Branch	170.45	79.92	46.89	HQ E-in-C Branch
11	Raj Rifle Regt Centre	149.18	7.29	4.89	HQ Delhi Area, New Delhi
12	DG NCC, RK Puram	24.29	6.17	25.40	Trf to regimental fund
13	23 Wing AF Jammu	64.20	42.63	66.40	GMF, IAF CWF, CWF
14	Mil Hosp Jabalpur	37.03	3.38	9.13	Stn Cell Jabalpur
15	CMM Jabalpur	35.42	0.77	**2.17**	Stn Cell Jabalpur
16	Cobra Canteen Jabalpur	568.75	55.98	9.84	Stn Cell Jabalpur
17	Veteran ESM Gurgaon	297.72	124.79	41.92	HQ WC, HQ 2 Corp, HQ 40 Arty Div etc.
18	Vajra Stn Canteen Jalandhar	468.38	170.97	36.50	Various Units/Formations
19	INCS Karwar	91.83	64.79	**70.55**	Indian Navy Amenity Fund IHQ MoD/Pr. Director Non Public Fund (PDNPF)New Delhi
20	ESM PSA Karad	120.61	72.90	60.44	HQ PSA Pune
21	HQ K&K Sub Area	856.50	121.43	14.18	Various Units/Formations
		7703.37	2949.40	38.29	

Source of Information: QD Accounts maintained by URCs and information furnished by URCs to Audit.

Annexure "G"

(Reference Para 6.3.1 of this report)

Statement indicating QD amount lying in accounts but certified as utilised

Name of URC	Date of Utilisation certificate	Amount of QD in Utilisation Certificate (₹ in lakh)	Unutilised amount lying in QD account# (₹ in lakh)	Brief Reply of URC
Station canteen, Kanpur	22/4/2015	65.22	47.09	QD for year 2012-13 was received very late in three tranches during months of November 2014 and February 2015 only. QDs of various years were received together at belated stages, creating ambiguity at URC level
HQ Coast Guard, Delhi	15/10/2014	14.01	25.85	Due to shortage of canteen and non-availability of suitable storage space at URC CGHQ, it was decided that new suitable canteen will be constructed at CGHQ and QD amount will be utilized for development of infrastructure. The jobs are likely to be completed by early November 2015 and all the QD amount of 2012 and 2013 will be utilized by November 2015.
	30/6/2015	8.60	26.29	
HQ Delhi Area Stn canteen, Delhi Cantt	30/9/2013	237.32	23.66	Utilization certificate as submitted does not indicate that the complete amount has been utilized but indicates that the amount what was expended has been utilized for purpose as promulgated in the MoD guidelines.
AF Station Race Course. Delhi	17/9/2014	320.37	199.41	QD is spent for various welfare activities. Accordingly, to claim the authorized allotment of QD the utilization certificate was given. Hence it was not done with any malafide intention.
	19/5/2015	167.20	239.23	
		Total amount lying unutilised	561.53	

#as on date of certification

<u>Source of Information</u>:QD Accounts maintained by URCs and information furnished by URCs to Audit.

Annexure "H"

(Reference Para 6.3.1 of this report)

Statement indicating amount of QD unutilised as certified by Chartered Accountant

Name of URC	Date of Utilization Certificate	Total Amount of QD received (₹)	QD utilized as per CA (₹)	Unutilised amount ₹	Brief Reply of URC
AF Camero, Delhi	24/09/2014	24486305	23957193	529112	The unspent balance of QD has been carried forward to the next financial year as per the policy and guidelines in vogue circulated vide Air HQ No./26100/ 27/D Accts/ CSD dated 01/06/2012
	03/05/2015	14590681	13291832	1298849	
WAC, Delhi	05/06/2013	5124506	5058445	66061	Unspent portion of QD was carried forward to in accordance with guidelines issued vide Para-11 of DACL 03/2012. URC had earmarked this amount to cater towards URC share for the cost of recent renovation of URC
	24/09/2014	18668734	14069750	4598984	
	24/05/2015	11509349	7620751	3888598	
CAMS Delhi	07/06/2013	403517	166000	237517	The clear guidelines for refund of unutilized amount to Government have not been received by this unit. Hence the amount was carried forward to next financial year and same was also reflected in the Utilization Certificate.
INS Shivaji	15/10/2013	1234038	394712	839326	* Including Opening Balance of ₹ 630539/- **Including interest of ₹ 107929/-
	06/01/2014 and 29/12/2014	*3837837	3548724	**397042	
	27/07/2015	1658561	890100	768461	
Total				**12623950**	

Say ₹ 1.26 crore

Source of Information: Information regarding utilisation of QD furnished by URCs.

Annexure "I"

(Reference Para 6.5 of the report)

Statement indicating details of Service Personnel deployed at URC as furnished by ibid URCs

Sl. No.	URC	Details of Service personnel
1	HQ C A M S Delhi	1 Officer (Lt. Col.), 1 Havaldar and 1 Sepoy
2	CME Dapodi, Pune	2 JCOs, 01 Havaldar
3	INS Shivaji, Lonavla	1 Officer, 5 JCO/ORs
4	ASC Centre & College Bangalore	1 Officer, 2 JCOs and 12 ORs
5	INCS Karwar	1 Officer
6	Cobra Canteen	1 Officer
7	23 Wing Air Force	1 Officer, 1 JCO/ORs
8	Mil Hosp Jabalpur	1 Officer, 2 JCO/ORs
9	HQ 55 (I) Mech Bde	1 Officer, 1 JCO, 14 ORs
10	20 Mech Inf	3 ORs
11	HQ 21 Corp Chakra	1 Officer, 4 JCOs, 1 A/C Clerk, 11 ORs
12	HQ Paschim MP Sub Area	1 Officer, 3 ORs
13	HQ 39 Armd Bde	1 Officer, 3 JCO/ORs
14	CMM Jabalpur	1 Officer, 1 JCO
15	HQ 24 Inf Div Bikaner	1 Officer, 4 JCO/ORs

Source of Information: Information furnished by URCs under Serial No.17 of Proforma URC-I

Abbreviations

A	
AE	Actual Expenditure
AF	Air Force
AF Hosp	Air Force Hospital
AF WAC	Air Force Western Air Command
AFD	Against Firm Demand
AGM	Assistant General Manager
AHQ	Army Headquarter
AOA	Air Officer Incharge Administration Air Headquarter
AR	Audit Report
Army HQ	Army Headquarters
ASC Coy	Army Supply Corp Company
Asst GM	Assistant General Manager
B	
BE	Budget Estimates
BoA	Board of Administration
BOCCS	Board of Control Canteen Services
C	
CAMS	Centre for Automated Military Survey
C&AG	Comptroller & Auditor General of India
CA	Chartered Accountant
CBI	Central Bureau of Investigation
CDA	Controller of Defence Accounts
CDs	Compact Disc
CFA	Competent Financial Authority
CFI	Consolidated Fund of India
CFL	Composite Food Laboratories
CGDA	Controller General of Defence Accounts
CGEGIS	Central Government Employees Group Insurance Scheme
CGHQ	Coast Guard Headquarter
CGHS	Central Government Health Scheme
CIDCO	City and Industrial Development Corporation
CIMS	Canteen Inventory Management Services
CME	College of Military Engineering
CMM	College of Material Management
COP	Chief of Personnel Naval Headquarter
CPWD	Central Public Works Department
CSD	Canteen Stores Department
CSD (HO)	Canteen Stores Department (Head Office)
CST	Central Sales Tax
CTD	Commercial Tax Department

CTS	Canteen Trade Surplus
CVC	Central Vigilance Commission
D	
DCRG	Death cum Retirement Gratuity
DD	Demand Draft
DDGCS	Deputy Director General Canteen Services
DG CG	Director General Coast Guards
DG NCC	Director General National Cadets Corps
DGADS	Director General of Audit, Defence Services
DPDOs	Defence Pension Disbursing Officers
DSOI	Defence Service Officers Institute
Dte Gen	Directorate General
Dy GM	Deputy General Manager
E	
EDP	Electronic Data Processing
E-in-C	Engineer-in-Chief
ESM	Ex Servicemen
F	
F&A	Finance & Accounts
FOR	Free on road
FSSA	Food Safety and Standard Act
FSSAI	Food Safety and Standards Authority of India
G	
GFR	General Financial Rules
GM	General Manager
GOC	General Officer Commanding
GP	Gross Profit
GPF	General Provident Fund
GS	General Stores
H	
HQ	Headquarter
HQ CC	Headquarter Central Command
HQ IDS	Headquarter Integrated Defence Services
HQ K&K	Headquarter Kerala and Karnataka
HQ SC	Headquarter Southern Command
HQ SFC	Strategic Forces Command
I	
ICSDS	Integrated Canteen Stores Department System
IDT	Inter Depot Transfer
IFA	Internal Financial Advisor
INCS	Indian Naval Canteen Services
Inf Bde	Infantry Brigade
Inf Div	Infantry Division
INS	Indian Naval Ship

J	
J&K	Jammu and Kashmir
JCOs	Junior Commissioned Officers
Joint GM	Joint General Manager
K	
Kg	Kilogram
L	
Labs	Laboratories
LIF	Liquor Imported and Food
LPO	Local Purchase Order
Ltr	Litre
M	
MA	Modified Appropriation
Mah	Maharashtra
MES	Military Engineering Services
MH	Major Head
Mil Hosp	Military Hospital
MI	Medical Inspection
MIR	Monthly Information Report
MoD	Ministry of Defence
MoD (Fin)	Ministry of Defence (Finance)
MS	Management Services
N	
NCR	National Capital Region
NP	Net Profit
NTH	National Test House
O	
OD	Ordnance Depot
ORs	Other Ranks
P	
P&A	Personnel & Administration
P&L	Profit & Loss
PAC	Public Accounts Committee
PCDA	Principal Controller of Defence Accounts
PE/WE	Peace Establishment/War Establishment
PNC	Price Negotiation Committee
PRC	Price Revision Committee
PSA	Pune Sub Area
PSC	Preliminary Screening Committee
Q	
QD	Quantitative Discount
QMG	Quarter Master General
QMG's Rep	Quarter Master General's Representative

R	
RRRC	Rajputana Rifles Regimental Centre
R&P	Receipt & Payment
R/Rate	Retail Rate
RE	Revised Estimates
RM	Regional Manager
RRM	Raksha Rajya Mantri
RTC	Regional Testing Centres
Rep	Representative
S	
Sec BOCCS	Secretariat Board of Control Canteen Services
SECY	Secretariat
SQM	Square Meter
Stn	Station
T	
TN	Tamil Nadu
U	
UC	Utilisation Certificate
UP	Uttar Pradesh
URC	Unit Run Canteen
V	
VAT	Value Added Tax
VED	Vital Essential and Desirable
VO	Vigilance Officer