

**OFFICE OF THE
COMPTROLLER & AUDITOR GENERAL OF INDIA**

NEW DELHI
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**CAG PERFORMANCE AUDIT REPORT ON WORKING OF
CANTEEN STORES DEPARTMENT- DEFENCE PRESENTED IN
PARLIAMENT**

Union Performance Audit Report of the Comptroller and Auditor General of India No. 38 of 2016 on Working of Canteen Stores Department, Defence was tabled in Parliament today and has now become a public document.

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. 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 following were the audit findings:-

1. Introduction of items

CSD items are introduced generally at the request of Suppliers. Imported items were introduced without conducting market survey and quality checks & without ensuring availability of agreement between the importer and the principal manufacturer.

2. 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. 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.

3. 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.

4. 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.

5. 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.

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

8. 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 whole sale price which resulted in loss of ₹ 43.78 crore.

9. 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.

10. Discrepancies in application of VAT by URCs

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

11. 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).

12. 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.