

## 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<sup>1</sup> 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.

<sup>1</sup> Other beneficiaries: Coast Guard, Defence Research & Development Organisation, Border Road Organisation and Assam Rifles.

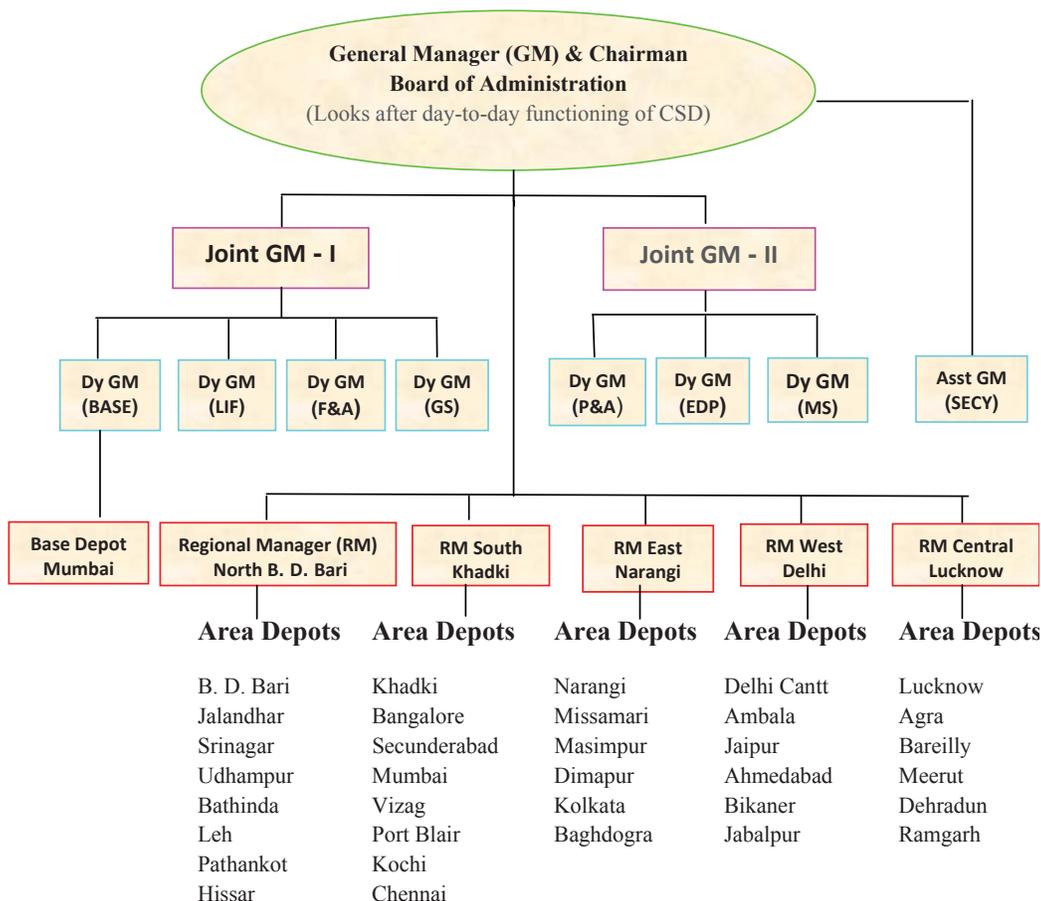
**1.1 Organisational Structure**

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.

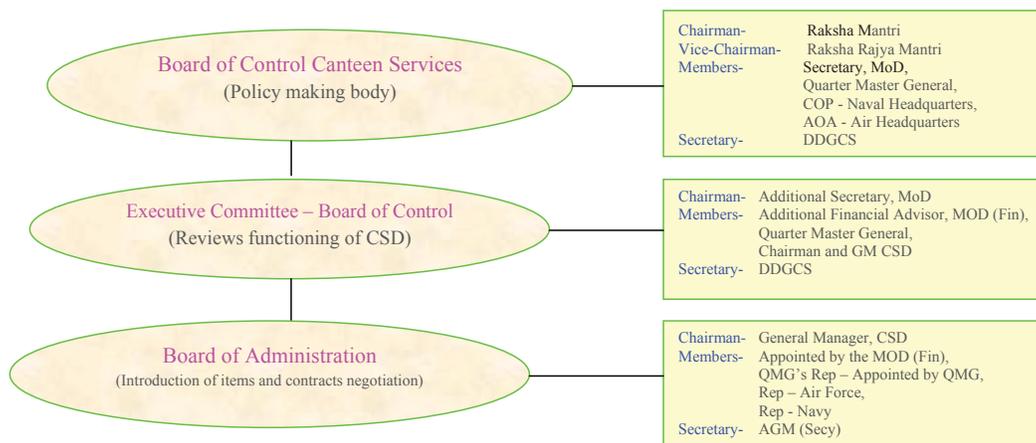
The GM is responsible for the day to day management and reports to the BOCCS through the QMG. The operations of CSD are carried out from its Head Office (CSD HO) in Mumbai with five Regional Offices through a chain of 34 Area Depots spread over the country and a Base Depot at Mumbai as depicted in Chart 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)<sup>2</sup> 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<sup>3</sup> 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

<sup>2</sup> Items which are procured only against the firm demand received from customers.

<sup>3</sup> 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)<sup>4</sup> received.<sup>5</sup>

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.

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<sup>4</sup> 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.

<sup>5</sup> > ₹ 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.