

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

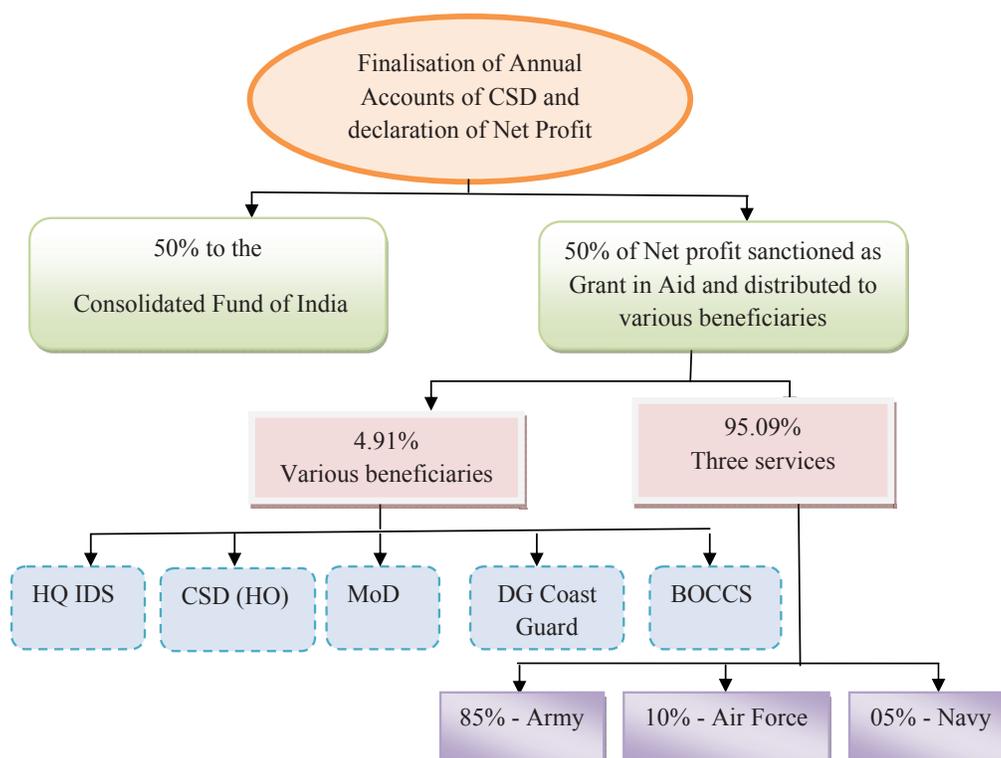
In our last Performance Audit (C&AG report No.14 of 2010-11, Union Government, Defence Services), we had observed that the benefit of QD was not passed on to the customers and only added to the profits of URCs, thus transferring fund from public fund to non-public fund without conforming to the provisions 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 Government¹⁴.

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.

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 |
| | | Commutated 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

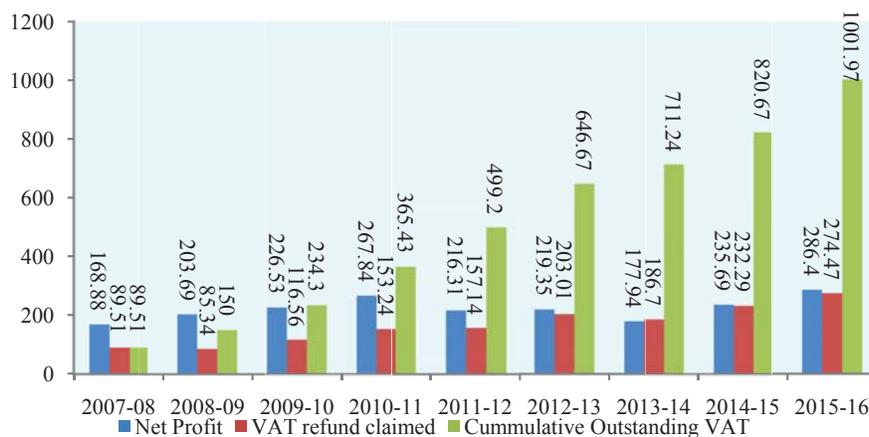
VAT is applicable on purchase by CSD and exempt on sale (on some items) by CSD to Service Personnel in the states of Delhi, Maharashtra, Gujarat, Karnataka, Andhra Pradesh and Telangana except in case of sale of electronic items and liquor by CSD. Thus CSD Depots located in these States are to submit 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 F¹⁵, Form C¹⁶ 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 *per 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 Tax¹⁷ 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

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

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.*