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**