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.