

48

CANTEEN STORES DEPARTMENT

MINISTRY OF DEFENCE

**PUBLIC ACCOUNTS COMMITTEE
2011-2012**

FORTY-EIGHTH REPORT

FIFTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

FORTY-EIGHTH REPORT

PUBLIC ACCOUNTS COMMITTEE
(2011-2012)

(FIFTEENTH LOK SABHA)

CANTEEN STORES DEPARTMENT

MINISTRY OF DEFENCE

Presented to Lok Sabha on 28 December, 2011

Laid in Rajya Sabha on 28 December, 2011



LOK SABHA SECRETARIAT
NEW DELHI

December, 2011/Pausa, 1933 (Saka)

PAC No. 1957

Price: ₹ 52.00

© 2011 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Fourteenth Edition) and printed by the General Manager, Government of India Press, Minto Road, New Delhi-110 002.

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2011-2012)	(iii)
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2010-2011)	(v)
INTRODUCTION	(vii)

REPORT

PART I

I. Introductory	1
II. Bringing URCs under the Accountability Regime	6
III. Appropriate Accounting Policies	20
IV. Timely Credit of Funds and Recovery of Outstanding Dues	21
V. Review of the Pricing Policies	21
VI. Effective Measures for Quality Control	21
VII. Review of the Concept of a Centralised Base Depot	24
VIII. Supply of Liquor to the URCs as per Authorization	25
IX. Management Information System	25
X. Other Issues	25

PART II

Observations and Recommendations	30
--	----

APPENDICES

I. Minutes of the Eighteenth Sitting of the Public Accounts Committee (2010-11) held on 12th January, 2011.	39
II. Minutes of the Twelfth Sitting of the Public Accounts Committee (2011-12) held on 21st December, 2011	42

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2011-2012)

Dr. Murli Manohar Joshi—*Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Sandeep Dikshit
5. Shri Anant Kumar Hegde
6. Shri Bhartruhari Mahtab
7. Shri Shripad Yesso Naik
8. Shri Sanjay Nirupam
9. Shri Jagdambika Pal
10. Dr. Kavuru Sambasiva Rao
11. Shri Adhi Sankar
12. Kunwar Rewati Raman Singh
13. Shri K. Sudhakaran
14. Dr. M. Thambidurai
15. Dr. Girija Vyas

Rajya Sabha

16. Shri Tariq Anwar
17. Shri Prasanta Chatterjee
18. Shri Naresh Gujral
19. Shri Prakash Javadekar
20. Shri Satish Chandra Misra
- *21. Shri J.D. Seelam
22. Prof. Saif-ud-Din Soz

SECRETARIAT

- | | | |
|------------------------|---|-------------------------|
| 1. Shri Devender Singh | — | <i>Joint Secretary</i> |
| 2. Shri D.R. Mohanty | — | <i>Deputy Secretary</i> |

* Elected *w.e.f.* 29th August, 2011 *vide* the vacancy occurred *vice* Smt. Jayanti Natarajan appointed Minister *w.e.f.* 12th July, 2011.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2010-2011)

Dr. Murli Manohar Joshi—*Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Ramen Deka
5. Shri Naveen Jindal
6. Shri Satpal Maharaj
7. Shri Bhartruhari Mahtab
8. Dr. K. Sambasiva Rao
9. Shri Yashwant Sinha
10. Shri Jitendra Singh (Alwar)
11. Kunwar Rewati Raman Singh
12. Shri K. Sudhakaran
13. Dr. M. Thambidurai
14. Shri D. Venugopal
15. Shri Aruna Kumar Vundavalli

Rajya Sabha

- *16. Vacant
17. Shri N. Balaganga
18. Shri Prasanta Chatterjee
19. Shri Kalraj Mishra
20. Shri N.K. Singh
21. Shri Tiruchi Siva
22. Prof. Saif-ud-Din Soz

*Vacancy occurred *vice* Shri Ashwani Kumar has been appointed as Minister of State *w.e.f.* 19th January, 2011.

INTRODUCTION

I, the Chairman, Public Accounts Committee (2011-12), having been authorised by the Committee, do present this Forty-eighth Report (Fifteenth Lok Sabha) on '**Canteen Stores Department**' based on the C&AG Report No. 14 of 2010-11 (Performance Audit), Union Government (Defence Services—Army) for the year ended March, 2009 related to Ministry of Defence.

2. The Report of the Comptroller and Auditor General of India for the year ended March, 2009 was laid on the Table of the House on 3rd August, 2010. The Public Accounts Committee (2010-11) selected the subject for examination and report. The Committee took evidence of the representatives of the Ministry of Defence and the three Service Chiefs on the subject at their sitting held on 12th January, 2011. As the examination of the subject could not be completed due to paucity of time, the Public Accounts Committee (2011-12) re-selected the subject for examination. Subsequently the Hon'ble Chairman, held two meetings (7th September, 2011 and 5th October, 2011) in his Chamber with the Defence Secretary and the Service Chiefs/representatives alongwith Audit Officers to take stock of the progress made on the Audit observations on some specific issues on the subject. The Public Accounts Committee (2011-12) decided to continue the examination and present a Report thereon based on the earlier evidences taken by their predecessor Committee. Accordingly a Draft Report was prepared and placed before the Committee for their consideration. The Committee considered and adopted the Report at their sitting held on 21st December, 2011. Minutes of the sittings form Appendices to the Report.

3. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report.

4. The Committee thank their predecessor Committee for taking oral evidence and obtaining information on the subject.

5. The Committee would like to express their thanks to the officers of the Ministry of Defence, three Service Chiefs/representatives of Army, Air Force & Navy for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the office of the Comptroller and Auditor General of India.

NEW DELHI;
23 December, 2011
02 Pausa, 1933 (Saka)

DR. MURLIMANOHAR JOSHI,
Chairman,
Public Accounts Committee.

REPORT

PART I

I. Introductory

Prior to the World War II, the retail trade in the Defence Services was in the hands of the contractors. During the War, a regular cadre called the Indian Canteen Core came to be formed under the Canteen Services (India) to handle retail trade in the operational areas where the contractors were not expected to go. After the independence of India, the Indian Canteen Service was split into two organizations *i.e.* Canteen Stores Department (India) and Canteen Stores Department (Pakistan).

2. Thus, the Canteen Stores Department (CSD) came into being as a Department under the Ministry of Defence in January, 1948 *vide* their letter No. 12068/Q.I. (C) (INDIA) dated 19th December, 1947. The retail trade, however, was reverted to the contractors. When Major General K.S. Thimaya took over as Quarter Master General, he found that the margin between the wholesale price and the retail price of goods went to the contractors as the retail outlets were being run and managed by them. The case was therefore made out jointly by the Army, Navy and Air Force for taking over of the Contractor-Run Canteens by Units or Formations, as the case may be, so that the profits from the sale of canteen stores could be retained within the Unit/Formation for the welfare of the troops. The Government agreed to the proposal of General Thimaya and orders were issued. The concepts of Unit-Run-Canteens, thus, became an accepted doctrine though it took considerable time for implementing the change over.

3. A brief evolution of the Canteen Stores Department (CSD) is as under:—

- (i) It is almost a Century old.
- (ii) Prior to August, 1927 it was known as Army Canteen Board.
- (iii) In 1927 it became 'Canteen Contractors Syndicate' as a limited Company under the Government control.
- (iv) With the onset of the World War II, the Government took over and established the Canteen Services on 1st July, 1942 which was renamed as CSD (India) in 1948.
- (v) It became a full-fledged Government Department and renamed as CSD *w.e.f.* 1st April, 1977.
- (vi) The motto of the CSD is "Service to the Services".

4. The CSD is entrusted with the functioning of procuring and selling consumer goods and other household articles of common use to the personnel of the Defence Services and certain other entitled categories at a price lower than the prevailing market price due to bulk purchases. The CSD caters not only to the Army, Navy and

Air Force but also to other organizations like the Coast Guard, Defence Research Development Organisation (DRDO), Border Roads Organisation, Assam Rifles etc. Defence Civilians are also covered by the CSD. From a modest beginning made approximately six decades ago, the CSD has grown rapidly. The operations of the CSD are carried out from its Head Office in Mumbai and five Regional offices at Leh, Dimapur, Ahmedabad, Port Blair and Kochi. It has a Base Depot in Mumbai and a Chain of 34 Area Depots. About 3600 Unit Run Canteens (URCs) some of which are located in extremely remote areas, cater to around 44 lakh beneficiaries. From a turnover of Rs. 1.65 crore in 1948, the CSD has now more than, a turnover of Rs. 8,500 crore.

5. The CSD procures approved consumer goods from listed vendors. The stores are received by the Base Depot in Mumbai/Area Depots. Goods are sold to the beneficiary consumers through the network of the URCs which collect such stores from the assigned Area Depots through Indent cum Invoice. Though the URCs are governed by the guidelines framed by the Ministry, the operational jurisdiction of the CSD does not extend to these URCs. In other words, the URCs are independent of CSD but their functioning is governed by the policies laid down by the Ministry of Defence.

6. The CSD has a three tier organizational structure with the Board of Control Canteen Services (BoCCS) in the Ministry of Defence at the apex level with Raksha Mantri as the Chairman, now chaired by Raksha Rajya Mantri. The BoCCS lays down the overall policies of the CSD and advises the Government on the disbursement of profits. The BoCCS is assisted by an Executive Committee (EC) which periodically reviews the functioning of the CSD. The day to day management of the CSD is vested in the Board of Administration (BoA) with the General Manager, CSD as the Chairman and members representing the Ministry of Defence (Finance) Army Headquarters (QMG's Branch) and other services. The GM reports to the BoCCS through the QMG.

7. The C&AG carried out a Performance Audit from June, 2008 to October, 2008 covering the transactions of the CSD for the period 2003-04 to 2007-08 at BoCCS, New Delhi, CSD HQRs Mumbai, Base Depot Mumbai and 9 of 34 Area Depots *viz.* Agra, Bengaluru, Dehradun, Delhi, Jaipur, Kirkee, Kochi, Kolkata and Secunderabad. The Audit report was updated in November, 2009 covering transactions for six years *i.e.* from 2003-04 to 2008-09. The 9 Area Depots were selected based on their sales volume and geographical location and only one Depot in a particular State was selected. These nine Depots catered to 941 URCs.

8. It is pertinent to mention that the URCs had to be kept out of the scope of audit as access to the URCs was denied by the Army Headquarters on the ground of these being run from Non-Public Fund. The Audit Report did not, therefore, include any comment on the functioning or financial results of the URCs.

9. The performance Audit was conducted to obtain reasonable assurance that:—

- Financial operations of the CSD were carried out in accordance with the financial and accounting rules and principles as applicable to Government Organisations;
- Consumer goods of high quality were being provided to the service personnel, at a price cheaper than the prevailing market rates;

- Consumer demand satisfaction was maintained; and
- Business operations of CSD had been managed efficiently and effectively.

10. Audit criteria for the evaluation of performance were derived from CSD Stores Manual, CSD Purchase Procedures, CSD Pricing Policy and URC manual. The distribution of profits as Grants-in-Aid was examined in the light of the General Financial Rules of the Government. After a preliminary study to collect background information, the Performance Audit commenced with an entry Conference in the Ministry of Defence on 10 July, 2008. Detailed audit scrutiny was conducted at the CSD Headquarters, selected Area Depots/Base Depot including BOCCS to evaluate the performance against the audit criteria. Audit findings were discussed with the Ministry of Defence on 5 February, 2009. The reply of the CSD management had been taken into account in finalizing the report. The final Audit Report was laid in Parliament on 13th August, 2010.

11. The main findings of the C&AG Report were as follows:—

Unit Run Canteens (URCs)

URCs continue to remain outside the purview of the Parliamentary oversight as they are considered to be regimental institutions.

Financial Operations of CSD

Gross turnover of CSD increased from Rs. 4481 crore in 2003-04 to Rs. 6955 crore in 2008-09, an increase of 55 percent. But the gross and net profit has not shown commensurate increase, mainly due to increase in cost of goods purchased for sale as also increase in Quantitative Discount given to the URCs.

(i) Grants-in-Aid

(a) The Ministry of Defence had been reflecting approximately 50 percent of the profits of CSD in the Demands for Grants as 'Contribution' (earlier reflected as 'Grants-in-Aid') and disbursing to the services and other bodies as Grants-in-Aid. These were transferred to Non-Public Funds by the services for welfare activities of service personnel and their families.

(b) Instead of Grants-in-Aid, in 2005-06, the Ministry of Defence created a new head "Contribution" to disburse these profits, thus further diluting financial control as under General Financial Rules, Utilization Certificate could be initiated only for Grants-in-Aid. Only after the anomaly was pointed out by the Audit, BoCCS in February, 2010 replied that the requisite certificates were obtained before sanction of Grants-in-Aid for the year 2008-09.

(ii) Quantitative Discount (QD)

During the six years from 2002-03 to 2007-08, Rs. 883.46 crore was transferred in the form of Quantitative Discount from the Consolidated Fund of India to the URCs. Evidence also indicated that benefit of QD was never passed on to the consumer. Such discount could not be viewed as a trade discount as URCs operated in captive market with pricing determined in accordance with the existing policies. QD was infact another

way of transferring money from CFI to Non-Public Fund without conforming to the provisions of the General Financial Rules.

Pricing Quantity of Goods

During audit, several cases of incorrect application of pricing policies were noticed. While in some cases CSD made undue profit at the cost of URCs and in turn of the customers, there were cases where CSD also incurred losses. Of particular significance was the erratic implementation of the provision of Value Added tax (VAT).

Quality Control

Evidence gathered in audit indicated that in the absence of relevant controls, there was a significant risk of sale of perished stores to the consumers.

Inability of Area Depots to Supply All the Items Indented by the URCs

Most Depots did not supply full range of items to the URCs. These are termed as denials, ranging from 4.48 percent to 33.21 percent.

Reasons for Introduction and Rejection of New Items Not Recorded

69 to 87 percent of the items offered by suppliers were not recommended by the Preliminary Screening Committee for introduction. However, the reasons for rejection or for that matter reasons for acceptance of the remaining, were not found on record and as such the basis on which an item was or was not recommended could not be ascertained. To that extent, the process of introduction or rejection of an item lacked transparency.

Business Operations of CSD

(i) Functioning of Base Depot in Mumbai

Base Depot is functioning as a feeder depot to all Area Depots. Rates of transportation are very high. It had not shifted to the new location at Toloja even after 13 years of taking over the land. Audit examination indicated that the operation of Base Depot had become uneconomical.

(ii) Excess Drawal of Liquor

Evidence in audit indicated that several units under jurisdiction of five Area Depots were drawing liquor in excess of that authorized on the basis of the strength of the unit. CSD and the Army authorities allowed excess drawal of concessional liquor worth Rs. 7.82 crore. The market value of excess liquor was Rs. 19.45 crore.

12. Audit accordingly gave their recommendations for overall improvement in the CSD. Some of the major recommendations contained in the Audit Report were as under:—

Unit Run Canteens

- The URCs should be recognized as the retail outlets integral to CSD. The operational results of the URCs should be disclosed in the proforma accounts of CSD to provide a true and fair view of the complete operations of the

organisation. Ministry of Defence should also take immediate steps to bring the URCs under the accountability regime that is applicable to all operations funded by the Consolidated Fund of India.

Financial Operations

- The Chief Accounting Authority should ensure that no change in the accounting policy is made without prior consultation with the Comptroller and Auditor General of India as required under Article 150 of the Constitution of India. The disbursement of profit to eligible organisations should be made as Grants-in-Aid within the ambit of General Financial Rules. The use of the object head "Contribution" should be discontinued forthwith.
- The regular and *ad hoc* Grants-in-Aid should be sanctioned in a transparent manner on the basis of detailed proposals and these grants should be used only for the welfare of service personnel as per the CSD objectives. The Ministry should issue suitable instructions in this regard to ensure compliance with the provisions of GFR.
- Quantitative Discount should not be an instrument to transfer funds from public fund to non-public fund without accountability. Such transfers should be carried out in a transparent manner within the ambit of General Financial Rules.
- The CSD needs to closely monitor the timely credit of funds into its account. It should pursue with the Banks for payment of interest for delay in crediting amount telegraphically transferred by Area Depots Banks and for indicating credit balances with details of cleared and uncleared cheques.
- The accounting policies may be reviewed so that the income from non-trading activities is correctly accounted for.
- CSD and the URCs should adopt a set of accounting standards with disclosure requirements akin to those adopted by Organisations having commercial operations.

Pricing and Quality Control

- The Ministry should take immediate steps to review the pricing policies and closely monitor its implementation. Prices should be fixed in a fair and transparent manner by correctly factoring actual costs incurred and accurately applying existing taxation provisions so that benefit accrues to the intended parties.
- The Ministry may put in place an effective mechanism to oversee strict implementation of the quality control measures at all levels of supply chain in the CSD including URCs.
- The CSD HO should ensure speedy testing and reporting of test results so as to avoid sale of sub-standard items.
- Reasons for acceptance or rejection of an item proposed for introduction in the CSD inventory should be recorded.

Business Operations

- The concept of a centralized Base Depot needs to be reviewed.
- Computerized Management Information System, with automated documentation and control functions should be implemented early. This should include the operations of URCs.

Examination by the Committee

13. Against the above backdrop, the Committee selected the subject for detailed examination and report. In the process, the Committee obtained Background Note, Advance Reply and some post evidence clarifications from the Ministry of Defence. The Secretary, Ministry of Defence and the three service Chiefs appeared before the Committee on 12th January, 2011 to tender oral evidence. The Chairman, PAC had also held two meetings in his Chamber with the Defence Secretary and the Service Chiefs/representatives alongwith the Audit Officers to take stock of the progress made on the Audit observations and the assurances given to the Committee during evidence on some specific issues on the subject. Subsequent to these meetings, the Committee obtained the Minutes of the meetings between the representatives of the Ministry/Services and the Office of the C&AG of India, as discussed and decided in the meetings with the Chairman, PAC.

II. Bringing URCs under the Accountability Regime

14. The Committee were informed that the CSD is a revenue neutral Department of the Government of India. The financial performance of the CSD during the six fiscals Under Audit review was stated to be as under:—

	(Rupees in crores)					
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Sale	4480.99	4749.42	4163.21	4791.72	5614.69	6955.11
Purchase	3850.90	4033.26	3525.71	4087.69	4898.52	6185.57
Trading Exp.	308.48	380.47	329.53	331.98	320.25	392.42
Q D Provision	140.27	148.87	137.49	152.08	175.00	216.50
Staff Expense	38.03	45.51	43.25	46.28	48.10	72.98
Operating Exp.	10.14	11.17	10.81	11.50	13.90	14.39
Gross Profit	243.90	208.42	196.58	242.50	234.15	282.34
Net Profit	196.73	154.76	146.23	183.65	168.88	203.69
Closing Stock	362.58	384.17	410.33	432.93	446.17	567.91

Similarly, the withdrawals from and deposits in the CFI by the CSD during the last five financial years are as under:—

(Rupees in crores)

Financial Year	Withdrawals from CFI	Deposits in CFI	Excess Deposited in CFI
2005-06	4045.69	4170.38	124.69
2006-07	4458.34	4682.33	223.99
2007-08	5351.15	5511.24	160.09
2008-09	6373.91	6829.50	455.59
2009-10	8212.71	8773.91	561.20

15. In view of the above continuous withdrawals from the CFI, Audit recommended as stated above that the URCs should be recognized as the retail outlets integral to the CSD. The operational results of the URCs should be disclosed in the proforma account of CSD to provide a true and fair view of the complete operations of the organization. The Ministry of Defence should also take immediate steps to bring the URCs under the accountability regime that is applicable to all operations funded by the Consolidated Fund of India.

16. Audit further recommended that Quantitative Discount (QD) should not be an instrument to transfer funds from the public fund to non-public fund without accountability. Such transfers should be carried out in a transparent manner within the ambit of General Financial Rules.

17. In the above context, the Committee desired to know the action taken by the Ministry on the above cited Audit recommendations. In reply, the Ministry stated as under:—

- (i) The capital to fund CSD was partly out of liquidation of the predecessor organization and partly from Government loan. The loan has since been returned in full with interest.
- (ii) Certain important issues brought out in the paper for consideration by the Cabinet, dated 26th August, 1976, in relation to the merger of CSD funds with Consolidated Fund of India (CFI), by Mr. P. Krishnamurthy, the then Additional Secretary, (the contents of which were agreed to by the then Raksha Mantri, Vitta Mantri and Vidhi Mantri) need to be reiterated. The same are quoted below:
 - "The CSD will continue to maintain the system of accounts on a commercial basis.
 - Proforma accounts on an annual basis would continue to be drawn up as *hitherto* fore and this will form an integral part of the appropriation accounts.

- In particular, the service headquarters have expressed concern at the possibility of the beneficiaries to whom the profits are allocated, suffering in future merely because the CSD transactions have been brought within CFI.
 - The Services have expressed the view that the availability of funds for the troops welfare and amenities should not suffer but the level *thereto* fore should be improved upon and not curtailed.
 - So long as the profits shown in the proforma accounts do not show any appreciable shortfall, the Services need not have any anxiety that the level of availability of funds for troops welfare might suffer.
 - The profits will be distributed as *heitherto* fore by the Board of Control and payments made on the basis of a specific government sanction to be issued each year as is done at present.
 - The quantum of distributable profits will, as at present, be determined by the Board of Control.
 - Once such grants are disbursed to the beneficiaries, the question of their lapsing at the end of the financial year would not arise as they are credited to non public funds and are outside the Government accounts.
 - Arrangements already exist for audit of these non-public funds and these arrangements will continue, as *heitherto* fore."
- (iii) CSD became a full-fledged government department under the Ministry of Defence *w.e.f.* 01 April, 1977.
- (iv) The existing accounting procedures which are in vogue in CSD, do not stipulate to reflect the operational results of URCs in the proforma accounts of CSD.
- (v) Besides, it would not be operationally possible to compile, collate and incorporate the operational results of approximately 3600 URCs in the proforma accounts of CSD.
- (vi) The organizational structures of the CSD and URCs are totally different in that CSD comes directly under Ministry of Defence whereas URCs are an integral part of units of Defence Forces.
- (vii) The URC is an integral and essential part of a unit wherein a jawan buys his daily use necessities and other items from the URC which is located within the unit area.
- (viii) This affects a soldier more in remote field and high altitude locations/on board ships where no other civilian facilities are available.
- (ix) It is felt that the time-tested routines and procedures of the armed forces should not be altered as they have never even let down the nation in any manner whatsoever.

- (x) Any such changes may affect the morale of the troops.
- (xi) URCs are established from non public funds (with statutory backing of the regulations for the Army, Navy and Air Force) by respective Service formations out of their regimental funds created by contribution from defence personnel.
- (xii) These accounts are audited by various boards of officers at station/formation level besides Chartered Accountants.
- (xiii) URCs are operated from non-public fund/regimental funds of the three Services and the profit is spent on the welfare of troops.
- (xiv) Expenditure by URCs is closely monitored by boards of officers, commanding officers and formation commanders at various levels.
- (xv) This has stood the test of time and is transparent.
- (xvi) The profits from the sale of CSD stores to all ranks are used for various welfare activities like:
 - Immediate death relief to family of deceased jawans.
 - Grants to disabled jawans.
 - Grants to maternity and child welfare centres.
 - Grants to World War II veterans.
 - Grants to daughters of widows of Service personnel.
 - Scholarships to special (Handicapped) children.
 - Subsidies to widows for purchase of dwelling unit.
 - Grants for medical treatment not reimbursed from public fund.
 - Financial support to drop out children for industrial training.
 - Station sainik and officers institutes.
 - Financial assistance to military hospitals for enhancing facilities like hiring lady gynaecologist, additional doctor/specialist/medical attendant.
 - Assistance for family welfare activities.
 - Support to senior citizen homes established by the defence services.
 - Scholarship for meritorious persons.
 - Grants for procuring medical equipments not scaled to hospitals.
- (xvii) Quantitative Discount (QD) is a trade discount provided by CSD to the URCs.
- (xviii) QD is given in the form of stores to URCs and not in cash.

- (xix) QD is essentially given to mitigate overheads, breakages, shortages and other trading losses incurred during the year by the URCs.
- (xx) The requirement of increasing working capital, sustain reasonable growth and development of URCs' infrastructure is possible only through QD disbursement.
- (xxi) The benefit of QD is not passed directly to individual customers of URCs by further reducing the cost of the CSD items, but the profit from sale of stores received against QD along with other profits generated from sale of CSD items are used for various welfare activities as brought out earlier.
- (xxii) This is done in consonance with instructions from the Government.

18. When the Committee desired to hear the views of the Ministry/Services on the specific aspect of bringing the URCs under the Audit purview of the C&AG, the Additional Secretary, Ministry of Defence stated in evidence:—

".....The C&AG, in fact, had written a letter to the Ministry suggesting that URCs should be made available for audit by the C&AG. The Ministry had indeed written to the three Chiefs requesting that this opportunity may be given to the C&AG. We had a response from the Chairman, COSC giving very detailed reasons as to why this does not appear to be in order."

19. He further stated:—

"..... Based on what response we had received from the Chairman, COSC, we had immediately shared the information and the arguments with the C&AG and we had also requested the C&AG if we could be advised and guided on how to proceed further in the matter."

20. Asked to state the grounds on which the Chairman, Chiefs of Staff Committee (COSC), was reluctant for auditing of the URCs by the C&AG, the Air Chief Marshal (Chairman, COSC) submitted in evidence:—

"Sir, I am not an Accountant. I will give a layman's version of what our perception in the services was. The basic difference lay in the definition of the Unit Run Canteens; whether it comes under the ambit of the C&AG's purview or it does not. There are some reasons why we felt that these do not fall under the ambit. These are the enterprises run through non-public funds of the three Services under the control of the three Services."

21. He further stated:—

"Sir the basic issue, I feel, is the difference in definition between what is called, 'Grants-in-Aid' and what is called 'Contribution', and whether the URCs are using public funds or not.

In the considered opinion of the three Services, the Unit Run Canteens provide a service especially for the soldiers who are sailors and airmen and who are in an isolated place where there is no alternative available. It is a very important service for their morale....."

22. As regards the money coming in from the Consolidated Fund of India, the Air Chief Marshal submitted:—

"As far as the money coming in from the Consolidated Fund of India is concerned, it comes to the CSD Headquarters. It enables them to buy goods and other provisions to be sold to the Unit Run Canteens. That money is returned in full. In fact, it is returned in excess. I have some figures here which would demonstrate that.

In 2005-06, withdrawal was Rs. 4,045 and odd crore from CFI and deposit was Rs. 4,170 crore, and the excess amount was to the tune of Rs. 124.69 crore. In 2009-10, it had naturally increased. Withdrawal was Rs. 8,212.71 crore from CFI; deposit was Rs. 8,700 and odd crore causing excess deposit in CFI of Rs. 561.20 crore. Now, this excess amount was the profit that CSD had generated from URCs. How have they generated that profit? They have generated that profit because they charged normal buyer-seller profit to URCs. When the Unit Run Canteens go to CSD, they take an advance; they do not get credit. They take an advance, they place an order, and CSD supplies it to the Unit Run Canteens. Now, from the profit that is charged to the Unit Run Canteens, this excess amount is refunded to CFI. Therefore, unlike other grants-in-aid like *Sarkari Bhandars* and all that, where the money from the Consolidated Fund is used; and in this case it is returned. So, that transaction ends there.

Now, we talk about the excess money or trade surplus that we call. This excess money is ploughed back into the Consolidated Fund of India. From there, 50 per cent profit is returned to the Central Welfare Fund of the three Services. There is actually no need to plough it back into the Consolidated Fund of India, and CSD could as well hand over 50 per cent profits to the three Services.

However, because it is returned to that, there comes in the catch whether it is a grants-in-aid or whether it is a contribution. Profit generated by the URCs is through the things I buy or my soldiers buy or his soldiers buy. It is not public fund money. So, this is the basic distinction we would like to bring out. The grants-in-aid is paid out of the public fund whereas this excess profit that is coming in is paid out of the contributions of the Services. This is the basic difference why we feel that the URCs are non-public fund ventures and not with the public fund."

23. The Committee asked, in view of substantial amount of Government funds being transferred to non-government and non-public funds, whether it would not be prudent to subject such funds to Parliament scrutiny and thus scrutiny by the C&AG. In reply, the Army Chief stated:—

".....The Comptroller and Auditor General is auditing all public funds. Public funds in the CSD finish off where the depots are concerned. The URCs are run as private ventures from the non-public funds, which are contributions from me as a soldier and my juniors as soldiers, and airmen and others."

24. The Committee retorted even if the Army ran a cooperative whether they would not be answerable to Parliament. The Army Chief responded:—

"Sir, I am saying that these are run as per regulations of all the three Services which are statutory, which have been passed by Parliament. They are in accordance with that. They are audited by Chartered Accountants as per the procedures laid down."

25. The Committee then pointed out that apart from all the supports from the State like Quantitative Discounts, Soft Loans and the Budgetary provisions for their operation, all the URCs functioned from Government premises free of cost besides using Government transport. Even the service personnel were often assigned duties to man the URCs. In view of all the above pecuniary benefits from the State, the Committee desired to know the rationale for treating URCs as purely private institutions. The Air Chief Marshal replied:—

".....I would like to respond to the last two statements that have been made. The first part is that Service transport, Government transport is used in URCs. It is incorrect. Except in J&K where the situation is bad, public transport is not used and private transport is used even in J&K also. Secondly, people employed from the services in the URC's are doing their duties over and above their duties. Otherwise, it is fully staffed by civilian members....."

26. The Air Chief Marshal further stated:—

"The last point is that they run through service premises. Now the need of the soldier is there. If their canteen is situated far away, obviously there will be a problem. They pay rent and allied charges, so do the banks, laundries and other facilities which are run. But that does not mean that they form part of the public funds.

Now we come to how the money is received by the URCs..... The URCs generate money, but they generate money through the contribution of the soldiers, sailors and airmen. They do not get any grant. It is grant-in-aid like loan that the CSD gets. It is returned and returned in excess."

27. The Committee asked about the mechanism devised to ensure the correctness of the excess amount returned. In reply, the Air Chief Marshal submitted that it was from the profits charged by the CSD. Not satisfied, the Committee desired to know whether the profit charged by the CSD and the amount earned by the URCs were in perfect sync. The Air Chief Marshal responded:—

"The amount earned by the URC is profit. It is not public money. That is the contention."

28. Asked to state whether Quantitative Discount was given or not, the Army Chief replied:—

"Yes, Quantitative Discount is given at the end of the year, but initially we have to pay....."

29. Elaborating the matter, he added:—

"Now, the Quantitative Discount is an issue because we have taken this money initially from the CFI to run the CSD depot which takes the things and pushes down to various regional Depots, from where the URCs are taking these things by giving advance and this money is being credited immediately into the CFI."

30. When the Committee desired to be further enlightened on the issue of Quantitative Discount, the Integrated Headquarters of the Ministry of Defence (Army), Canteen Services Department (QMG's Branch) in a written submission stated that the concept of canteen stores giving its share of profit to unit canteens in the form of Quantitative Discount (QD) as an incentive to URCs was approved by the Board of Control, in February, 1976. It was decided that the QD to the units against their annual purchases made by them from CSD might be paid to them automatically at the end of each year @2%. QD was a bulk discount which was released in the form of stocks against indent and it was never given in cash.

31. It was further stated that the CSD (I) had grown manifold in its operations and in its fund position, attracted the Government attention. After prolonged deliberation on the growth, its fund and its accounting procedures, the Cabinet approved the merger of CSD (I) funds with Consolidated Funds of India. One of the important decisions taken on finalization was that the transaction of CSD would pass through CFI and it was necessary to obtain the vote of Parliament in regard to its expenditure.

32. On the issue of transfer of Trade Surplus from CFI to the Services for welfare activities of troops and ex-servicemen, a decision was taken in the 56th meeting of BOCCS held in March 1986 that 50% of the Trade Surplus of CSD deposited with CFI for a particular year would be distributed as Grants-in-Aid in the subsequent year from CFI and this would be utilized by CSD for regular Grants and Adhoc Grants. After meeting these grants, left over Grant-in-Aid was to be distributed within three Services in the ratio of 85% (Army), 10% (AF) and 5% (Navy). However, the thought process changed in the year 2006, wherein it was realized that the 50% of the Trade Surplus received from CFI in the form of Grant-in-Aid was nothing but the Trade Surplus generated by CSD paid into CFI and was not a 'fund allocated' in the budget by the Finance Ministry. Thus, the amount received as Grant-in-Aid, was not in real term 'a budget allocation from Public Fund' but it was giving back to the Services a part of the Trade Surplus which was actually generated through indirect contributions from troops by fixing higher sales price on goods sold in URCs.

33. It was further stated that the said Trade Surplus was not paid to the individual URC's but was used by the respective Service HQ for the welfare of the troops. Hence, usages of the term 'Grant-in-Aid' would be inappropriate. Accordingly, the MoD (BOCCS) in its prudence had termed it as 'Contribution'. This was done with the aim to clearly distinguish it from grant-in-aid which was from the Government Budget. The QD received was not Public Fund but share of CSD profit re-invested in the business for its growth and to supplement its overhead expenditure. The benefits arising out of such arrangement were automatically transferred to the troops. Hence, the trade surplus

distributed from the CFI to Services was not Grant-in-Aid, instead it was ploughing back the profit contributed by URCs to the CSD which has been deposited in the CFI.

34. Clarifying the matter further, the Integrated HQRs apprised the Committee that the contention that URCs got significant amount from CFI was misplaced. When CSD sold goods to the URCs it added certain percentage of profit. At the end of the year after meeting all overhead expenses of CSD from the profit, the balance was shared between CFI and the Services in the form of share of Trade Surplus. Hence, it was not funding of URC by CFI and instead the reverse was true *i.e.* a part of URC profit which funded the CFI. From the above, it could be concluded that it was only an accounting procedure followed by the Government and factually there was no Grant-in-Aid/Public Fund flowing into URCs.

35. The Committee queried whether any money going through the CFI should be considered as public money or not. In reply, the Air Vice Marshal submitted:—

"I would like to submit that it is only channelized through CFI. CSD at Mumbai is the body which is effecting the bulk purchases using public money and here is URC which is purely a regimental fund which has been created out of the uniformed personnel's contributions."

36. When the Committee asked what type of contributions they were, the Air Vice Marshal replied that it was the personal contribution of the soldier, sailor and airman. The Committee then desired to know whether it would not be prudent to keep a tab on the details of these contributions *viz.* the amount contributed, the money spent therefrom, the maintenance of the records of such contribution, the framing and adherence to the rules in this regard etc. In reply, the Air Vice Marshal submitted:—

"Sir, there are various welfare activities. There are so many other vehicles also."

37. At this point of time, the Committee desired to know from the C&AG whether any fund could be routed through the CFI. In response, the C&AG stated:—

"What is CFI? CFI is the fund passed by Parliament and it is part of Budget. There is no way in which any funds can be routed through the CFI. It can not be so. The point that you said about non-public fund being routed through the CFI also is totally not possible. In fact, it is incorrect whatever your argument may be."

38. When the Committee wanted the witnesses to respond to the above observation of the C&AG, the Air Vice Marshal replied:—

"So far as public fund operations are concerned, they begin at CSD level and they end at CSD level. URCs are buying their requirement making advance payment, and for that funds are not provided by the Government of India. These are the contributions from over the years that these funds have been built up."

39. The Committee then asked what made it obligatory on the part of the Military to transfer a part of their excess profit to the CFI. In reply, the Army Chief submitted:—

"Sir, it is because the Chairman, COSC made a request that we can run the welfare measures through our own steam by taking loan from the banks and by

not depending on the CFI because it is creating too much of a hassle. The Unit Canteens that give advance, it goes straightaway on that day to the CFI, which should not be done....."

40. Supplementing his colleagues, the Vice Admiral, Navy stated:—

"Sir I just wanted to provide a little more clarification as to how does the URC come into existence. Whenever a unit is approved by the Government of India anywhere in India or any unit is established with the approval of the Government and when it starts functioning, then they are permitted to run a small URC by the funds provided from the non-public fund of Navy, Army or Air Force."

41. The Committee asked whether the non-public funds were obtained from business or from the compulsory contributions. In response, the Vice Admiral submitted:—

"Sir, I will say both, that is, the contribution as well as the various measures that have been instituted for collecting money. It adds both of them."

42. Asked to state categorically whether the above-said measures were under the Act of Parliament, the Vice Admiral deposed:—

"I will not be able to say that for sure, but URC is authorized under the Local Field Commander's orders."

43. In response to another related query on the matter, the Air Chief Marshal, defending their stance of keeping the URCs out of the purview of the C&AG, stated as under:—

“.....Sir, if you will permit me, I would like to quote from the Supreme Court judgment of an SLP of 2005..... It says the relation between URCs and CSDs is that of buyer and seller and not of principal and the agent.....’.

This was a previous decision by the Court. They are commenting on that. It further says:

'This Court further went wrong in holding that URCs are parts of CSDs when it has been clearly stated that URCs are purely private ventures.'

Then amongst other things, I would like to quote another part of the judgment. It says:

'The question whether the URC can be treated as an instrumentality of the State does not fall for consideration, that aspect has not been considered by CAT or the High Court apparently, on that score alone we could have dismissed the appeal.'

It goes on further to talk about the employers of URCs not being Government Servants."

44. The Committee pointed out that the way the Air Chief Marshal had read the judgment was not what was purported of the judgment. In fact, the judgment went on to confine itself to the limited issue of whether an employee of the URC was to be treated as really a Government servant or not. The Court had abstained itself from

making any observation on the business of the URC being an instrument of the State or not. The Committee, therefore, desired to know the principle difficulty on the part of the Military in letting the highest Accountant of the Government of India to have a look at the funding pattern of the URCs, since a large amount of money was involved in the operation of the URCs.

45. In reply, the Army Chief submitted:—

"Sir,..... a couple of years back, when the URCs bought the goods and gave this advance, this money was utilized for running the entire CSD operation, but at some point of time for reasons that at least I do not know, it was decided that this money will go into the Consolidated Fund of India and then from that the QDs will come, and that is why this problem is coming up."

46. The Additional Secretary, Ministry of Defence supplemented:—

".....The CSD makes an important contribution to the troops' welfare measures....."

47. The Committee asked whether it would not be prudent on the part of the Military to increase the welfare activities for the jawans beyond their own contributory funds by coming before the Parliament and getting money under a budgetary head to spend it for the welfare measures.

48. In reply, the Air Vice Marshal submitted:—

"My submission is that funds from the Government would be welcome and that would, of course, be subjected to audit."

49. Supplementing his colleague, the Air Chief Marshal stated:—

"If you give us sometime, Sir, we would like to discuss (the issues) with the Defence Minister and come back to you."

50. It was in the above context that the Chairman, PAC held a meeting with the Defence Secretary and the Chiefs of the Services/their representatives in his Chamber on 7th September, 2011 to take stock of the matter as no information was furnished to the Committee as assured during evidence. The above narrated points were again discussed and it was decided in the meeting that the representatives of the Ministry of Defence/Services and the Office of the C&AG should hold a meeting, as per their convenience, to arrive at an amicable and mutual solution. A meeting was accordingly held on 14th September, 2011 at the Office of the C&AG of India. The Minutes of the said meeting was obtained by the Committee. The complete text of the Minutes is as under:

"Minutes of the Meeting regarding access of Audit to the URCs

Venue and Time: Office of the C&AG of India; 1000 hrs. on 14th September, 2011.

Present:

Office of the C&AG of India

Smt. Rekha Gupta, Deputy Comptroller & Auditor General of India
Shri Jayant Sinha, Principal Director, O/o of the C&AG of India

Services Organisations

Lt. Gen. A.S. Lamba, PVSM, AVSM, ADC, VCOAS
 Air Marshal K. K. Nohwar, PVSM, VM, ADC, VCAS
 Vice Admiral M.P. Muralidharan, AVSM, NM, COP
 AVM C.V. Subramaniam, ACAS (Accts.)
 Brig. S. S. Jakhar, Secy. BOCCS & DDG, CS
 Col. P.K. Singh, Addl. Officer, Canteen Services
 Gp. Captain K.U.K. Reddy, VSM, Dir. (CSD/Audit), Air Hq.
 Capt. (IN) Dr. Sharma, Secy. INCCB
 Wg. Cdr. R.K. Joshi, DGM (F&A), CSD Hq Mumbai

Ministry of Defence and Defence (Finance)

Ms. Shobhana Joshi, Addl. FA (S) & JS MoD
 Ms. Sungita Sharma, Dir. (Q)/MoD/D (Mov.)

Office of the DGADS

Shri Gautan Guha, Director General of Audit, Defence Services
 Shri V.A. Patwardhan, Director, Office of the DGADS

Minutes

Smt. Rekha Gupta, Dy. C&AG welcomed the participants in the meeting.

DDGCS made a presentation in which the recommendations in the performance audit of CSD were discussed along with the action taken on them. It was mentioned that most of these recommendations have been agreed to and action has been initiated to implement the same. Detailed discussions took place on three recommendations on which there was divergence. These recommendations were:

- (a) Change of nomenclature from Grants-in-Aid to Contributions.
- (b) Quantitative Discount.
- (c) Access of audit of the URCs.

As regards (a), it was pointed out that the nomenclature was changed for Grants-in-Aid to Contributions with the approval of the Ministry of Defence and Ministry of Finance. Dy. C&AG mentioned that such changes cannot be made without the concurrence of the C&AG of India, which was not taken. It was also pointed out by DGADS that the Cabinet decision referred to grants and not contributions. Dy. C&AG wanted to know whether any fresh reference was made to the Ministry of Finance. It was informed that it has been made. Ministry of Finance will have to take a decision in this regard in consultation/ concurrence of C&AG.

As regards (b), it was pointed out by Dy. C&AG that QD cannot be treated as a trade discount as it is not passed to the consumers. It was pointed out that since QD was a transfer from the Consolidated Fund of India, it has to be done in accordance with the General Financial Rules. Regarding (c) *i.e.* access of audit to the URCs, DDGCS brought to the notice the following landmark rulings in support of the contention that "URCs are not under the ambit of audit":—

- (a) GoI ruling dated 28 March 1977 on CSD functioning,
- (b) Supreme Court order dated 28 April 2009,
- (c) URCs are non-public entities and not funded by CFI,
- (d) Opinion given by Minister of Law and Justice in May 11,
- (e) URCs are not under RTI Act,
- (f) IT Act 1961 exempts URCs.

Dy. C&AG reiterated that even in the PAC meeting when the Performance Audit Report of CSD was discussed several members opined that the Supreme Court judgment was limited to the issue whether an employee of a URC is a government employee. The said judgment, does not deal with the access of audit to the URCs. Similarly, the Cabinet decision does not refer to the issue at all. Dy C&AG further pointed out that exemption of Income Tax Act is not the criterion in this context as CSD itself is exempted from payment of some taxes but subjected to audit. It was also confirmed that the audit department has a procedure of not sharing any information with any member of the public if the information relates to organisations which are exempt from RTI Act.

Dy. C&AG further pointed out that while doing the performance audit of CSD, audit wanted to assess whether the URCs were following the instructions issued by the BOCCS/SD and the beneficiaries were receiving quality service at the price intended. She mentioned that a questionnaire was issued and intimations were sent to Ministry of Defence regarding the URCs to be chosen by audit.

Dy. C&AG assured that the objective of auditing the URCs was not to audit the non-public fund of any unit and there should not be any apprehensions about it.

Dy. C&AG further assured that the checklist enumerating what would be seen in audit would be shared with the services and the results will also be shared with the concerned commanders as per the existing procedures. As a model, the questionnaire earlier prepared was handed over to the VCOAS.

The VCOAS stated that pursuant to the discussions, the response of the services would be firmed up. As such, it was agreed that another meeting will be held as soon as possible at mutually convenient time for early settlement of the issue."

51. As it was decided in the meeting held on 14th September 2011 to have another meeting as soon as possible at mutually convenient time for early settlement of the issue, another meeting was held on 28th September, 2011 between the Ministry/Service representatives on one hand and the Audit Officers on the other. The text of the Minutes of the above meeting is as under:—

"The meeting held on 28th September 2011 was attended by

1. DGADS,
2. Director (Audit) O/o DGADS,
3. Director (Q)/MoD,
4. Rep. of MoD (Fin.),

5. ACAS (Accts.),
6. DDGCS,
7. Director (CSD/Audit), Air HQ.

The following is a brief of the discussions:

DGADS welcomed all the participants. Drawing attention to the three agenda points namely (a) Grants-in-Aid *vis-à-vis* contributions; (b) Quantitative Discount and (c) Audit access to the URCs, DGADS clarified that these three issues needed to be looked at separately. DDGCS brought out that though they are separate issues, these had been interlinked by MoD resulting in withholding of distribution of Canteen Trade Surplus (CTS). DGADS clarified that the recommendations given in the PAC Report on CSD are specific to each issue and need to be decided by Ministry of Defence. He further clarified that once the audit report is tabled in parliament, it is no longer within the jurisdiction of C&AG to decide on these recommendations.

The DGADS also clarified that the issue of not obtaining the prior concurrence of the C&AG had been raised consistently in the C&AG's Report on the Appropriation Accounts for the previous few years before it was mentioned in the PA Report on CSD. All the three issues were discussed at length as appended below:

(I) Distribution of Canteen Trade Surplus

CSD, every year distributes its trade surplus by way of Grant in aid/contribution. The head of account was changed to Contribution from the year 2006-07 without the prior concurrence of C&AG but with the approval of Ministry of Finance. DGADS pointed out that change in nomenclature without concurrence of C&AG was in violation of the Constitutional provisions.

DDGCS sought clarification from DGADS regarding distribution of CTS pending resolution in the matter. DGADS clarified that it is for the Ministry to decide on the issue. In this regard, Director (Q) stated that an exhaustive self contained note has been forwarded to Ministry of Finance. Based on reply of Ministry of Finance, the same would be forwarded to PAC after obtaining the view of C&AG as per extant practice. DGADS while making it clear that the CAG Report in no way states that CTS is not to be distributed to the services, stated that since funds are flowing out of CFI, the rules contained in GFR need to be observed.

(II) Quantitative Discount

DGADS brought to the notice of the representatives of Services that audit has recommended that transparency in accordance to the rules of GFR must be observed while distributing and utilizing QD Dir. (Q) stated that a Comprehensive SOP and guidelines have been prepared in consultation with Services keeping in view the spirit of the provisions of GFR. It was also stated that the same will be formalized shortly and will be observed while distribution of CTS and QD. DGADS stated that MoD should send a reply accordingly to the PAC and wait for their decision.

(III) Audit access to URCs

DDGCS informed that they have obtained the view of Law Ministry in 2011 after the PAC meeting wherein the Law Ministry advised that URCs need not be audited by C&AG. DGADS stated that the matter is in the purview of the PAC and as per the directions of the PAC, only the modalities of how audit is to be conducted are to be worked out by the Services and the C&AG. The questionnaire prepared before conduct of Performance audit was also discussed. The various doubts raised by representatives of Services were clarified by DGADS. It was also suggested that guidelines can be formulated and audit can be carried out accordingly. The Services representatives stated that they would brief their higher authorities for taking a final decision in the matter."

52. As would be seen from the above Minutes of the meeting held on 28th September 2011, the Service representatives assured that they would brief their higher authorities for taking a final decision in the matter. In the above context, the Chairman took another meeting of the representatives of the Services in his Chamber on 5th October 2011 to know about the further progress made on the matter. The same issues were discussed again. The representatives of the Ministry/services promised to get back with some concrete action. But, nothing was heard from them till December 2011.

III. Appropriate Accounting Policies

53. Pointing out various shortcomings in the accounting policies in the CSD and URCs, Audit recommended that the CSD and URCs should adopt a set of accounting policies with disclosure requirements akin to those adopted by the Organisations having commercial operations. Audit further recommended that the Chief Accounting Authority should ensure that no change in the accounting policy is made without prior consultation with the C&AG of India, as required under Article 150 of the Constitution of India. The disbursement of profit to the eligible organisations should be made as 'Grants-in-Aid' within the ambit of General Financial Rules and further use of the object head 'Contribution' should be discontinued forthwith.

54. In the above context, the Committee desired to know the action taken by the Ministry on the Audit recommendations. In reply, the Ministry stated that they had accepted the Audit recommendation for adopting a set of accounting policies with disclosure requirements. As regards discontinuation of the object head 'Contribution', the Ministry stated that the change in nomenclature from 'Grants-in-Aid' to 'Contribution' was done with the concurrence of the Ministry of Finance.

55. Asked to state the impediments faced in discontinuing the object head 'Contribution' and disbursing the profit as 'Grants-in-Aid' to the eligible organisations, the Ministry replied that the issue had been referred to the DGADS for their advice. A view on the same shall be taken thereafter, in consultation with the Ministry of Finance, who are the competent authority on the matter.

56. As regards the Audit recommendation to sanction the regular and *ad-hoc* Grants-in-Aid in a transparent manner on the basis of the detailed proposals and use of these Grants for only the welfare of the Service personnel, the Ministry informed

that they were issuing suitable instructions in this regard to ensure compliance with the provisions of the GFR. The Ministry, however, further stated that while due diligence was exercised in the procedure for grant of funds to the Service entities; the existing arrangements did not attract provisions of the GFR.

57. Similarly, the Ministry apprised that action was being initiated on the Audit recommendation to review the accounting policies so that the income from the non-trading activities was correctly accounted for.

IV. Timely Credit of Funds and Recovery of Outstanding Dues

58. Audit recommended that the CSD was required to closely monitor the timely credit of funds into its account. Further, it should pursue with the Banks for payment of interest for delay in crediting the amount telegraphically transferred by Area Depot Banks and for indicating credit balances with details of cleared and uncleared cheques.

59. Audit further recommended that the CSD should take immediate action to clear the outstanding credit and debit items and recover the amounts outstanding for more than five years or write off the same as per the procedure laid down. The cases where records relating to purchases were not available and the creditors were not demanding payment, should be written back to the profit in accordance with the commercial accounting principles.

60. Responding to the above suggestions of the Audit, the Ministry apprised the Committee that they were in agreement with the Audit observations and action was being taken to implement the same.

V. Review of the Pricing Policies

61. Audit was of the view that the Ministry of Defence should take immediate steps to review the pricing policies and closely monitor their implementation. Audit suggested that prices should be fixed in a fair and transparent manner by correctly factoring the actual cost incurred and accurately applying the existing taxation provisions so that benefits accrued to the intended parties.

62. When the Committee desired to know the response of the Ministry to above suggestions of the Audit, it was stated that the Ministry agreed with the Audit recommendations and action was in hand to implement the same.

VI. Effective Measures for Quality control

63. Observing several shortcomings in the quality control measures adopted, Audit recommended that the Ministry should put in place an effective mechanism to oversee strict implementation of the quality control measures at all levels of the supply chain in the CSD and URCs.

64. Audit further suggested that the CSD Head Office should ensure speedy testing and reporting of test results so as to avoid sale of substandard items to the customers. Also, reasons for acceptance or rejection of an item proposed for introduction in the CSD inventory should be recorded.

65. Asked to state the action taken on the above cited Audit recommendations, the Ministry replied that measures were being taken to strengthen the procedures prescribed for overseeing the strict implementation of the quality control measures and also to ensure close monitoring of the time-lines in this regard.

66. The Ministry further stated that action would be taken to improve the testing procedure of the items for speedy reporting. Asked to spell out the specific measures contemplated in this regard, the Ministry replied that all items of the CSD inventory range were tested as per fixed periodicity in terms of existing policy. The testing & reporting of test results had been further streamlined to conform to the requirements of the organization. The test centres as well as CFLs co-located with the depots had been requested to forward the quality check report within the time schedule of two months.

67. In response to another query, the Ministry stated that in a few cases, due to the wide range of products and limited Composite Food Laboratories (CFLs) located only at Jammu, Delhi & Mumbai, the receipt of quality test reports from these test centres got delayed. In some cases, there had been delay due to factors like non-availability of particular batch number of the product, inadequate TDS from the suppliers, etc.

68. The Ministry further stated that the matter had been taken up to increase the number of Government recognized test centres to facilitate faster routine testing to avoid issue of substandard stores.

69. As regards recording of the reasons for acceptance or rejection of an item proposed for introduction in the CSD inventory, the Committee desired to know the reasons for not doing so prior to the Audit scrutiny. In reply, the Ministry stated that the recording of reasons for rejection of items was made in the Master Folder for most of the years barring a few meetings held during 2007-08. It was further stated that as a large number of products were offered and difficulty was experienced in recording, the same was inadvertently not recorded. However, the recording of reasons for acceptance or rejection of items proposed for introduction in the CSD inventory was being done from February, 2009.

70. Asked to state whether non-recording of the reasons for acceptance or rejection of items was a deliberate move to favour the existing suppliers, the Ministry replied as under:—

"CSD has a well laid down system for introduction of new items and deletion of existing items. The Board of Approval, headed by GM, CSD, consists of members from CSD and the three Services. The representatives from Services are changed for each BOA to maintain better transparency to ensure no corrupt practice creep in to the system. Hence a transparent system exists to ensure that there is no favouritism towards existing or new suppliers."

71. The Committee then desired to know the steps taken to ensure that Stack Cards indicating the date of manufacture were invariably displayed in respect of the perishable stocks. In reply, the Ministry stated that existing instructions regarding maintenance and display of Stack Cards duly mentioning the date of manufacture in respect of perishable stocks were reiterated from time to time to ensure that the consumption at

the ultimate customer's end remained well within the residual shelf life period. The same was checked during the periodic visits/annual inspection by Regional Managers also.

72. When the Committee queried about the specific measures taken not to supply perished goods to the consumers of the CSD, the Ministry stated that items having shelf life were issued in the following manner:—

"Total Shelf Life Period of the Item upto 12 months. Any item with a shelf life of 12 months and below shall not be issued to URCs without a residual shelf life of minimum 50% of shelf life, as hither-to-fore.

Total Shelf Life Period of the Item beyond 12 months. Any item with more than 12 months of shelf life can be issued upto 6 months of residual shelf life.

CSD also follows the policy with regard to acceptance of items from the vendors with not less than 85% residual shelf life at the time of receipt/storage. Hence, mechanism is in place to prevent supply of perished stores to the consumers of CSD.

Instructions on the subject will be reiterated as well as further reviewed to ensure compliance."

73. Asked to state the steps taken post audit to increase the availability of items in the CSD inventory so as to avoid denials, the Ministry submitted that some of the major reasons for denial of the CSD stores were as follows:—

"(a) Non-supply by firms due to product changes, technological up-gradations, change in formulations, consumer schemes, product withdrawals, transportation problems, shortage of raw materials etc.

(b) Spurts in demand of certain products due to consumer schemes, advertisement effect, sudden seasonal changes, change in consumer preference etc.

(c) Changes in state regulation such as imposition of entry tax, supply restrictions in liquor like label registration, insistence by States preferring local brands etc.

(d) Inability of firms to give adequate Bank Guarantee to cover orders and assets."

74. The Ministry further stated that the consumer goods market was dynamic due to constant product innovation and different strategies by firms on brand building. Thus, consumer preference used to change and was hence dynamic. This also led to short-term denial of stores.

75. Asked to specify the measures taken to increase the availability of items and reduce denials, the Ministry replied that the following steps were taken in that direction:—

“(a) Periodic review of inventory.

(b) Raising of Supplementary Demands, where the sale is higher than anticipated.

(c) Preponement of orders where sale is higher than anticipated.

- (d) Prompt clearance of cases affecting supplies such as Gram mage reductions, Graphic change in the packing, Price revisions, Replacement to the new product etc.
- (e) Issuance of items by Depots against follow up indents of URCs where supplies are received after executing the original indent of the URCs.
- (f) Increasing awareness amongst URCs regarding availability of functional substitutes.
- (g) Constant interaction with the firms to increase availability of fast moving items.”

VII. Review of the Concept of a Centralised Base Depot

76. Audit pointed out that in the extant scenario, the CSD had to block the funds in terms of the VAT paid for the items routed through the Base Depot to other States. Audit, therefore, suggested that the concept of a centralized Base Depot be reviewed in view of the blockage of funds towards VAT as well as uneconomical transportation of times and meager receipt of the rebate amount.

77. When the Committee desired to hear the views of the Ministry on the above cited Audit observation, the Ministry replied as under:—

"(i) Base Depot at Sewri, Mumbai, has been functioning since 1971 as a feeder Depot to all CSD Area Depots for stores other than those which are dispatched directly to the Area Depots by the suppliers against the orders placed by CSD HO, Mumbai or those which are placed locally against Local Supply Orders (LSOs) by the Managers of Area Depots. Out of total 558 suppliers, only 14 small suppliers are supplying their stocks entirely through Base Depot and 333 suppliers supply only partly through Base Depot to cater to the requirement of troops being serviced by our small and medium depots and those located in far flung areas. Only about 19% value of supplies are routed through Base Depot and the rest approx. 81% worth of stocks of major suppliers are supplied directly by them to our Area Depots. However, as recommended by C&AG, this aspect is being reviewed.

(ii) The Following categories of supplies are routed through Base Depot for dispatch to CSD Area Depots located across the length and breadth of the Country:

- (a) Small and Micro Enterprises (SMEs).
- (b) Ex-servicemen Enterprises.
- (c) Medium and Large Scale Enterprises which do not have their supply chain network co-located or in the vicinity of our CSD Area Depots situated in far-flung areas viz. North-East, J&K and Port Blair etc.
- (d) Suppliers who do not have the supply-chain network to cater to the requirement of CSD Depots located even in peace/well connected stations.
- (e) Dispatches to those Area Depots whose monthly requirement does not constitute full truck-load.

(iii) In all such cases, Centralized Orders are placed by CSD HO, Mumbai on the suppliers for supply at Base Depot in bulk. Quantities/consignments so received from various suppliers are then clubbed Depot-wise to constitute full truck-load and dispatched to various Area Depots through Transporters as per the Transport Contract. The Contract for transportation is entered with the various transporters, duly following relevant Govt. Rules/Procedures and CVC guidelines, in a transparent manner."

The Ministry, however, further stated that all the issues highlighted by C&AG were being reviewed and suitable actions as required would be initiated.

VIII. Supply of Liquor to the URCs as per Authorization

78. Audit recommended that the CSD and the Services should ensure that liquor was demanded by and issued to the URCs strictly as per their authorisation to prevent its leakage into the civil market.

79. Agreeing with the above recommendation, the Ministry, in response to a query of the Committee, stated that by resorting to several measure 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 had been exercised to prevent the leakage of Defence liquor into civilian market.

80. Asked to state whether the CSD had conducted any investigation into the issue of excess drawal of liquor by some URCs as pointed out in the Audit Report, the Ministry stated that the Formations/Units concerned had been asked to investigate the issue and submit a detailed report at the earliest.

IX. Management Information System

81. Audit suggested that a computerized Management Information System with automated documentation and control functions of the CSD including the operation of the URCs should be implemented early.

82. Apprising the Committee of the action taken in this regard, the Ministry stated that the MIS was being implemented at the earliest. The Ministry, however, specified that the MIS proposal did not include the URCs.

X. Other Issues

(i) Delay in responding to the Audit findings

83. The performance audit of the CSD was conducted over a period of five months during June, 2008 to October, 2008 and the report was updated in November, 2009 covering transaction of six years. Records of the Ministry of Defence and Canteen Stores Department were scrutinized and Audit observations made thereafter. Although the Audit findings were referred to the Ministry on 30th December, 2008, the Ministry could furnish their reply in June, 2010 only.

84. In the above context, when the Committee desired to know the reasons for such inordinate delay on the part of the Ministry in responding to the Audit observations, the Additional Secretary, Ministry of Defence deposed in evidence:—

".....I would like to submit, Sir, that in almost all the recommendations which have been made by the C&AG we have discussed extensively with the Services—there is a harmony of thought. We do feel that these are valuable observations and we can make further improvements in the operation of CSD by virtue of these recommendations. There are just one or two issues, we felt, which need to be addressed and discussed so that we can get your guidance in the matter."

85. Asked to state categorically whether there was delay on the part of the Ministry and if so, the reasons therefor, the Additional Secretary Ministry of Defence submitted:—

"I agree about the fact that there has been a delay in submitting."

86. He further stated:—

"I would only like to submit that there are two issues which I would explain where perhaps we feel that something needs to be discussed.

The first issue is a minor one which is that the C&AG has suggested that the sub-depot at Mumbai needs to be used much less than what it has been used as of today, and there are certain reasons which have been given in terms of transportation cost, convenience and so on. I think GM, CSD would explain why we have a slightly different view on what has been projected."

87. The GM, CSD accordingly supplemented by stating:—

"Sir, there is a base depot at Mumbai which actually acts as a feeder for the 34 Area Depot deployed in different parts of the country. There are various companies whom we deal with, almost close to 600 suppliers, and majority of them supply stores directly to the Area Depots. The observation by the Comptroller and Auditor-General has been basically on a few issues. First one is that the need for this Base Depot needs to be reviewed, which is what we are doing."

88. The Committee asked whether it could not have been prudent to intimate the C&AG that the Ministry were taking action or had decided to take action on the Audit findings, more so when there was a convergence of interest, the representatives of the Ministry and the Services agreed to the observation made by the Committee.

(ii) Treating the employees of the URC at par with the Government employees

89. During the course of the examination of the subject, the Chairman, PAC received a representation from the Central Government Employees Co-ordinating Committee regarding the grievances of the Unit Run Canteen (URC) employees.

The main points contained in the said representation were as follows:—

- (i) Recommendations of the 6th Central Pay Commission (CPC) have not been implemented for the UFRM employees whereas on the basis of the implementation of the 5th CPC, the URC employees were getting Basic Pay only.

- (ii) Daily Allowance, House Rent Allowance, Medical Allowance etc. as paid to the Central Government, State Government and Public Sector Undertakings were not being paid to the URC employees.
- (iii) Employees Provident Fund and Insurance Schemes were also not being made applicable to the URC employees although they have been working in remote and far flung areas.

90. In view of the above, they requested the Committee to take up their grievances with the Central Government. Accordingly, their representation was forwarded to the Ministry of Defence for comments. The Ministry of Defence furnished pointwise comments as under:

- “(a) 6th CPC is not applicable to URC employees, as they are not Government Servants.
- (b) Daily Allowance, House Rent Allowances, Children Education and Transport Allowances sought are applicable for Central Government, State Government and PSU employees only. URC employees do not fall in any of these categories.
- (c) The medical allowance sought is applicable for central Government, State Government and PSU employees only. URC employees do not fall in any of these categories.
- (d) Other Service Benefits such as Payment of Gratuity, Bonus and Applicability of EPF Scheme are admissible to URC employees as per para-6 of AHQ's letter No. 96029/Q/DDGCS date 29th April 2003, if all conditions as mentioned in the Gratuity Act, 1972, Bonus Act, 1965, EPF Scheme, 1952 are met. As regards the Insurance of URC civilian employees is concerned, there is no laid down policy on the issue and it is entirely upto the discretion of respective URC management Committee to have insurance cover or otherwise for their URC employees.”

91. The Ministry further stated that one of the URC employees namely Md. Aslam approached Central Administrative Tribunal, Jodhpur pleading that such employees should be treated as Central Government employee's and accordingly their pay should be fixed at par with the salary of the CSD employees. The CAT, Jodhpur directed that the URC employees are Government employees and are entitled for pay and allowances and other benefits similar to the pay & allowances and other benefits available to the employees of CSD. The CAT further directed that the employees of URCs should get the minimum of the salary being paid to their counterpart.

92. This judgement was challenged in the Supreme Court of India by the Ministry *vide* Civil Appeal No. 1039-42 of 1999 on the grounds that URCs are operated by Non-Public Funds and that the Tribunal did not have the jurisdiction to entertain these applications and decide upon grievances of these employees. The Supreme Court in its judgement dated 04.01.2001 held as under:—

"We are of considered opinion that the status of the employees in URCs must be held to be that of Government employee and consequently the CAT would have the jurisdiction to entertain applications by such employees."

* * * * *

"Notwithstanding the fact that we have recorded the conclusion that the employees serving under the URC could be treated as Government servants, but that does not necessarily mean that the service conditions of such employees are governed by the Fundamental Rules. It would be upon for the employer to frame separate conditions of service of the employees or to adopted the Fundamental Rules."

93. On the basis of the above judgement, rules regulating the terms and conditions of service of employees of URCs were issued by Army Headquarter on 28.04.2003. These rules also mentioned the pay scales which were given to different categories of URCs employees which were at par with the pay scales of CSD employees as per 5th CPC recommendations.

94. Subsequent to the case of Md. Aslam, RR Pillai File SLP No. 8568/2003 against the Commanding Officer (Air Force) in which the Supreme Court passed an order on 08.05.2003 that *"the decision taken in Mohd. Aslam's case is being reconsidered by us, three judge bench."*

95. A three judge bench of the Hon'ble Supreme Court has given a judgement dated 28th April 2009 regarding status of URC employees; the salient aspects of this judgement are mentioned hereunder:—

- (a) URCs are purely private ventures and their employees are by no stretch of imagination, employees of the Government or CSD.
- (b) There is no prescribed qualification or age limit (for employees of URC).
- (c) Similarly, there is no grade or cadre. Therefore, it cannot be said that the concerned employees are holder of civil posts.

96. The Ministry stated that it could be established from the judgement dated 28th April, 2009 of the Hon'ble Supreme Court that it was no longer appropriate to link the terms and conditions of service and the pay scales of URC employees with their counterparts in CSD, for the following reasons:—

- (a) URCs are operated from Non-Public Funds/Regimental Funds.
- (b) Employees of URCs are paid from the profit generated by the URCs and not from the Public Funds.
- (c) CSD has no administrative control over the URCs for their personnel who are employed by the units under various terms and conditions mutually settled between their units and its URC employees.
- (d) The terms and conditions of service of both the categories of employees are grossly different.
- (e) There is no authorized establishment of URC employees at any station. These appointments are made as per the requirement and they are paid their wages as per the financial viability of each URC, subject to meeting the minimum basic pay scale criteria as per policy issued by this office, from time to time.

- (f) The CSD employees are granted appointment or merit through a qualifying examination, whereas no such recruitment tests are conducted for URC employees prior to their appointment.
- (g) There is no upper age limit and required qualification laid down for the initial appointment of URC employees.

97. The Ministry further apprised the Committee that in the past, consequent upon the implementation of 6th CPC award, the All India Defence Civilian Canteen Employees Union (AIDCCEU), on behalf of the URC employees had demanded scales of pay applicable to CSD employees. On humanitarian grounds, after a meeting at tri-services level, 50 percent hike was approved on the starting Basic Pay drawn by the URC employees, with effect from 1st February, 2009. However, not satisfied with the 50 percent hike, AIDCCEU continued with its demand for pay parity with CSD employees and got the intervention of Hon'ble RM on the issue. Thereafter, tri-services granted a further hike of 15 percent in the Basic Pay of URC employees with effect from 1st December 2009, in addition to the 50 percent hike, granted to them earlier.

98. The Ministry stated that any further hike in pay scale of civilian employees of URCs might impact the economic viability of URCs. Whilst some of the larger URCs might be able to bear some increase in the pay and allowances of their employees and were doing so as per the discretion of respective URC Management Committee, most of the smaller URCs would not be in a position to bear any additional liability.

99. In the above context, the Committee learnt that the Committee on Subordinate Legislation Rajya Sabha in their 87th Report, presented to Parliament on 13th September 1991, had *inter-alia* recommended that 'From all facts placed on record, the Committee has come to the conclusion that for all intent and purposes, these (URC) employees are Government employees and should be treated as such by working a suitable mechanism.'

100. In this regard, when the Committee desired to have the comments of the Ministry, it was stated that a reply was given by the then Raksha Mantri to the then Chairman, Committee on Subordinate Legislation, Rajya Sabha stating that "the Unit Run Canteens are not Government organizations. Ministry of Defence can have no jurisdiction to determine the terms and conditions of service of these employees. It is not feasible to treat these employees at par with Government employees. Since there are neither uniform working hours nor a uniform staffing pattern, uniform pay scales cannot be prescribed for all URCs."

PART II

OBSERVATIONS AND RECOMMENDATIONS

1. The Canteen Stores Department (CSD) came into being as a Department under the Ministry of Defence in January, 1948. The CSD remained responsible for procuring and selling consumer goods and other household articles of common use to the personnel of the Defence services/civilians and certain other entitled categories like the Coast Guard, Defence Research Development Organisation (DRDO), Border Roads Organisation, Assam Rifles etc. at a price lower than the prevailing market price. The operations of the CSD are carried out from its Head Office at Mumbai and five Regional Offices at Leh, Dimpaur, Ahmedabad, Port Blair and Kochi. The CSD, through its chain of one Base Depot at Mumbai and 34 Area Depots at various places in the country services as the wholesaler. The retail operations through which the stores reach the Service personnel and their families are carried out through the Unit Run Canteens (URCs) which are under the control of the local armed forces authorities. The concept of URC became an accepted doctrine due to the initiatives taken by General K.S. Thimaya with a view to retaining the profits from the sale of canteen stores within the Unit/Formation itself and not passing on the same to the Contractors, as was the case earlier. About 3600 URCs some of which are located in far flung and extremely remote areas, cater to around 44 lakh beneficiaries. From a modest beginning and turnover of Rs. 1.65 crore in 1948, the CSD has now a turnover of more than Rs. 8,500 crore. The CSD transfers money from the Consolidated Fund of India (CFI) in the form of Quantitative Discount, which is distribution of stores free of cost to the URCs. The Committee find that during the six years from 2002-03 to 2007-08, Rs. 883 crore was transferred to the URCs as Quantitative Discount alone. The Committee further observed that the CSD provides soft loans at subsidized rates of interest varying from 4.5 to 6.5 per cent per annum for setting up these Canteens and to keep sufficient inventory. As on 31st March, 2010, Rs. 4.15 crore was outstanding with the URCs as subsidized loan. During the years 2005-06 to 2007-08 the budgetary provision for the operations of the CSD was Rs. 4138 crore, Rs. 4541 crore and Rs. 5420 crore respectively. It was in the above context that the C&AG decided to conduct a performance audit of the functioning of the CSD covering its transactions from 2003-04 to 2007-08. Records of the Ministry of Defence and Canteen Stores Department were examined. The Audit scrutiny centred around broadly on three areas *viz.* (i) Financial Operations, (ii) Business Operations, and (iii) Pricing and Quality of goods. The Committee's examination of the subject is discussed in detail and commented upon in the succeeding paragraphs.

2. The Committee are dismayed to note that the Audit was denied access to the records of the URCs by the Army Headquarters in spite of repeated requests on the ground that the URCs are regimental units and are being run from the non-public Fund. What is more intriguing is the fact that such denial was made despite the

directions of the Ministry of Defence to make the records of URCs accessible to Audit. The Additional Secretary, Ministry of Defence, while tendering evidence before the Committee confirmed that the Ministry had indeed written to the three Service Chiefs to give the opportunity to the C&AG to audit the URCs. It is pertinent to mention here that it was on the recommendation of the PAC (1964-65) that the finances of the CSD were brought within the ambit of the Consolidated Fund of India (CFI) *w.e.f.* 1st April, 1977. But such parliamentary oversight was restricted upto the CSD Depot level only and it was not extended to the URCs, the retail outlets of the CSD. Such a disjoint and disconnect is unjustifiable as without the URCs, the CSD cannot reach the consumers *i.e.* the Service personnel. Surprisingly and for no cogent reasons, the URCs continue to be treated as private regimental institutions outside the purview of the Parliamentary control. Neither the budget documents nor the proforma accounts of the CSD reflect the operations of the URCs. With a view to enabling the financial statements of the CSD to depict the entire operation of the organization truly, it is imperative to ensure that all the URCs follow uniform accounting policies/principles and their operational results are disclosed in the proforma accounts of the CSD. Such a uniform and correct accounting principle can be adhered to only if the records of the URCs are made available to the C&AG. The Committee, therefore, recommend that the Financial parameters Services must be harmonized with financial principles of the Government and the URCs be brought under the unified accountability regime so that they do not escape the unremitting the Parliamentary financial oversight. Let there be no apprehension on the part of Services if the accounts of URCs are audited by the C&AG in view of the assurance that the C&AG would not audit the non-Public fund of any Unit and that the checklist enumerating what would be seen in audit would be shared with the Services and the results of such audit would also be shared with the Commanders concerned as per the existing procedure. Considering that the URCs are the only interface between the CSD and its customers and the level of satisfaction of such consumers being completely dependent upon the efficient functioning of the URCs, the Committee are of the considered view that an assessment of the overall functioning of the URCs by the C&AG is of paramount importance and therefore must be subject to statutory Audit.

3. The Committee do not agree with the Ministry's contention that the operational jurisdiction of the CSD does not extend to the URCs. In fact, the operations and management of the URCs are carried out as per the instructions of the Ministry of Defence and Army Headquarters. Not only that, the rules for creation/setting up of a URC and its day-to-day management are laid down in AHQ orders and the CSD recognizes and registers a URC only after the conditions enunciated in the above said orders are fulfilled. In addition, the orders issued by the BOCCS of which the Raksha Rajya Mantri is the Chairman, govern the rates/prices of the goods sold by the URCs and the profit margin charged thereon. Thus, as a matter of fact, the URCs are not independent of the control of the CSD. The Committee, therefore, recommend that the URCs, being the extension of the CSD and working in remote and restricted areas, be brought under the purview of the Parliamentary scrutiny like the CSD. In this context, the Ministry's statement that it would not be operationally possible to

compile, collate and incorporate the operational results of approximately 3600 URCs in the proforma accounts of the CSD is not tenable in view of the manpower and expertise in accounting matter available with the Office of the C&AG whose help and guidance can very well be sought to ensure financial propriety and discipline.

4. The Ministry/Services are of the view that the URCs are established from non-public funds, with statutory backing of the regulations for the Army, Navy and Air Force, by respective Service formations out of their regimental funds created by contributions from the Defence personnel. Thus, according to the Ministry/Services, URCs are operated from non-public funds/regimental funds of the three Services and the profit is spent on the welfare of the troops they, therefore, argue that the URCs should be kept out of the purview of the C&AG. But, the Committee's in-depth examination of the subject has revealed that there is a definite umbilical cord between the source of funding of the CSD and the URCs. The Committee find that during the last five fiscals there has been consistent withdrawal of money from the Consolidated Fund of India (CFI) by the CSD to enable them to buy goods to be sold to the URCs. The argument that the amount withdrawn from the CFI is returned in excess *i.e.* profit generated by the URCs, does not make the money non-public fund in view of the C&AG's remark during evidence of the Ministry that there is 'no way in which any non-public funds can be routed through the CFI'. The assertion of the Services that the involvement of the CFI begins at the CSD and ends there, is therefore, not sustainable.

5. The Committee are informed that the accounts of the URCs are closely monitored and audited by the boards of Offices, Commanding Officers etc. at various levels besides the Chartered Accountants which has stood the test of time and is transparent. The Services are of the view that the time-tested routines and procedures of the armed forces should not be altered as they have never ever let down the nation in any manner whatsoever and as any such changes may affect the morale of the troops. The Committee fail to understand how auditing of the URCs would be so intrusive as to have an adverse impact on the functioning of the URCs or for that matter on the morale of the troops. Respecting the professional efficiency of the Services and the challenges of their core function, the Committee are of the considered view that the audit of URCs by the C&AG would only redound to the common zeal of the troops and as such the Services should have no objection or slightest reservation on this score. Such an Audit will provide greater assurance to the superior commands, the Government and the Parliament. Moreover, the expert advice of C&AG would involve no extra cost and there should be no qualm or compunctions about their visit to remote and restricted areas *vis-a-vis* the non-governmental persons.

6. The Committee note that the CSD provides Quantitative Discount (QD) in the form of free stores to all the URCs which is disbursed through the budgetary grant of the Ministry of Defence. During the six years from 2002-03 to 2007-08 an amount of Rs. 883.46 crore was transferred in the form of QD. One disquieting aspect that has come to the notice of the Committee is that the benefit of such QDs is not passed on to

the consumers and instead added to the profits of the URCs and as such, the incentive in the form of QD cannot be considered as trade discount. Such a discreet transfer from the CFI to the non-public fund does not conform to the provisions contained in the General Financial Rules, as also pointed out by the Audit. The Ministry's contention that QD is a bulk discount which is released in the form of stocks against indent and it is never given in cash does not make it a case for transferring of funds from the CFI to the non-public fund. It does not matter whether the said discount is given in cash or in kind. It is disconcerting to note that the benefit accrued from such discount is never passed on to the customers and hence it cannot be termed as trade discount as intended. The Committee are, therefore, of the opinion that QD should not be used as an instrument to transfer funds from the CFI to non-public fund and if such transfers are made they must conform to the provisions of the GFR and the advice tendered by the C&AG.

7. The Committee note that a decision was taken by the BOCCS in 1986 that 50 percent of the Trade Surplus of the CSD deposited with the CFI for a particular year would be distributed as 'Grants-in-Aid' in the subsequent year from the CFI and this would be utilized by the CSD for regular Grants and adhoc Grants. This practice continued unbroken for two decades. In 2006, the BOCCS suddenly realized that the usage of the term 'Grant-in-Aid' was inappropriate and in their wisdom they changed it to 'Contribution' reportedly with the aim to clearly distinguish it from Grant-in-Aid which is from the Government budget. But before making such a drastic change, surprisingly, the Ministry did not consult the C&AG, as mandated under Article 150 of the Constitution of India. However, now that a fresh reference on the issue has been made to the Ministry of Finance, as noted from the Minutes of the meetings between the representatives of the Ministry/Services and the Office of the C&AG, and a final decision will have to be taken by them in consultation with and the concurrence of the C&AG, the Committee would like to be expeditiously apprised of the final decision in this regard. Until such time, the Committee desire that further use of the term 'Contribution' be discontinued since it has been done by flouting the established norms and procedures and the disbursement of profits to the eligible organizations should be made as 'Grant-in-Aid', as was the practice for decades in accord with the standing accounting policy.

8. The Committee also desire that the Ministry as assured by them, should expedite taking effective measures and issuing suitable instructions to sanction the regular and *adhoc* Grants-in-Aid in a transparent manner on the basis of detailed proposals in order to ensure compliance with the provisions of the GFR. The Ministry should also impress upon all concerned to ensure that the grants so sanctioned are utilized only for the welfare and betterment of the service personnel, commensurate with the objectives of the CSD. Any aberration in this regard must be viewed seriously and responsibility be fixed on the delinquent officials, if found deviating from the prescribed rules and financial procedures.

9. The Committee find that a three Judge Bench of the Supreme Court while hearing the Civil Appeal No. 3495 of 2005 has *inter-alia* observed (para-10) "The

question whether the URC can be treated as an instrumentality of the State does not fall for consideration as that aspect has not been considered by CAT or the High Court". It is evident from this judgement that it confines itself to the limited issue of whether an URC employee was to be treated as really a Government servant or not and the Court abstained from making any observation on the business of the URC being an instrument or otherwise of the State. But, much to the consternation of the Committee, the Service Chiefs, while tendering evidence, took recourse to the above said Supreme Court judgement to justify that profits generated by the URCs are non-public fund and hence it should be kept out of the purview of the C&AG, even though such profits are deposited in the CFI. In the considered opinion of the Committee, the way the judgement has been interpreted by the Services is not what the purport of the judgement is. The funding pattern of the URCs and the nature of the funds were neither an issue before the Supreme Court nor were they called upon to decide such issues. Although the Service consistently maintain that the large amount of money involved in the operation of the URCs comes from non-public funds or sources, the fact remains that the whole genesis of the URC is integrally connected to the CSD. As a matter of fact, with the pecuniary benefits that the URCs get from the State in terms of Soft Loans, Quantitative Discounts, Budgetary Provisions, free land, Government transport, albeit reportedly in insurgency prone areas like J&K, deputation of the Service personnel to man the URCs etc., the Committee are of the view that these URCs cannot be deemed to be private institutions since they have all the trappings of Government/semi-Government organization. Therefore, the Defence establishment should not have any difficulty or hesitation and certainly not on the basis of the above cited Supreme Court judgement to let the URCs audited by the C&AG so that the end shape of the large amount of money involved in the operation of the URCs is taken to its logical conclusion in accordance with appropriate accounting policy.

10. One of the most peculiar characteristics of the functioning of the CSD/URC in general and the welfare measures for the troops in particular, that has come to the notice of the Committee from the examination of the subject, is that such welfare activities are extended to the jawans from their own contributions. To say that the welfare measures for the jawans from their own contribution is against the very principle of social welfare would be an understatement. The Committee wonder how long the Ministry of Defence would continue to claim justifiably that they are taking welfare measures for the troops with the hard earned money of the soldiers themselves. There is an apparent and inherent contradiction in the statement of the Services that they provide welfare measures for the jawans but they do it with private funds *i.e.* burdening the troops to self-contribute for their own welfare. The Committee fail to understand what restrains the Ministry/Services to come before Parliament and get requisite funds as sought and sanctioned, regardless of the quantum, for the welfare of the jawans. The Committee are confident that no organ of the State would have objection if funds for the socio-economic welfare of those who make supreme sacrifices for the country. The Committee, therefore, fervently urge the Ministry not to delink the welfare measures of the jawans from the CFI, being detrimental to their interest.

On the contrary, linkage with the CFI would enable grant of funds to meet the much needed welfare requirements of the jawans reflective of the commitment of the Government and the generosity and adulation of Parliament for the armed forces.

11. Taking note of the shortcomings/deficiencies pointed out by the Audit with regard to the pricing policies, credit of funds and recovery of the outstanding dues and the remedial measures suggested by the Audit to improve the position which have been agreed to by the Government, the Committee ardently appeal to the Ministry to impress upon the CSD to fix the prices of goods/articles in a fair and transparent manner taking into consideration the actual cost incurred and accurate application of the existing taxation provisions so that the intended benefits accrue and pass on to the defence personnel. The Committee further desire that immediate and appropriate measures be taken to closely monitor the timely credit of funds into the CSD's account, clear the outstanding credit and debit items and recover the outstanding amounts.

12. The Committee note that the recording or reasons for acceptance or rejection of items proposed for induction into the CSD inventory is being done from February 2009, only after Audit pointed out the deficiencies in this regard. The Ministry's explanation that as a large number of products were received, the reasons could not be recorded inadvertently being far from convincing is unacceptable. It is imperative for any business establishment to record meticulously the items received so that the inventory is faultfree and inspires confidence. It is also equally important to record the reasons for rejection of any item proposed for induction into the inventory for keeping at bay the allegations of favouritism to any particular suppliers. The Committee, therefore, exhort the Ministry/Services to ensure that the CSD invariably records the reasons for acceptance or otherwise of any item proposed for inclusion in the CSD, irrespective of the volume of the products.

13. The Committee are highly concerned to note that in some cases the receipt of quality test reports of the goods/items got delayed due to the wide range of products and limited number of Composite Food Laboratories (CFLs) located only at Jammu, Delhi & Mumbai. Delays have also attributed to non-availability of particular batch number of the product, inadequate TDS from the suppliers etc. The Ministry informed the Committee that measures were underway to increase the number of Government recognized test centres to facilitate faster routine testing of stores to avoid issue of substandard stores. Since delay in receipt of quality test reports defeats the very purpose of the quality assurance, the Committee recommend that the measures initiated to set up more CFLs be expedited and routine and procedural rigmaroles like non-availability of batch number, inadequate TDS etc. be sorted out promptly so that test reports are received in time and the jawans get quality stores. Further, displaying zero tolerance for any compromise in the supply of perished stores to the troops, the monitoring and review mechanism be strengthened to ensure that the consumption of the perishable stocks at the ultimate consumer's end remain well within the residual shelf life period.

14. The Committee note that some of the major reasons for denial of the CSD stores to the troops are non-supply of sufficient stocks by the firms due to various factors, spurt in demand for certain products, changes in State regulation such as imposition of entry tax etc. and inability of the firms to give adequate Bank Guarantee. In order to overcome the above problems, the Ministry are reportedly taking a number of measures which *inter-alia* include periodic review of inventory and constant interaction with the firms to increase availability of fast moving items. As denial of demanded stores to the jawans is a serious matter, the Committee impress upon the Ministry to strengthen the measures already initiated besides innovating other appropriate measures to effectively address the impediments in the supply of all indented stores to the jawans.

15. The Committee find that the CSD has to block the funds in terms of the VAT paid for the items routed through the Base Depot to other States. In response to the Audit suggestion to review the concept of a centralized Base Depot in view of the above anomaly, the Ministry have *inter-alia* reported that they after reviewing the Audit suggestion they would initiate suitable action as required. Taking into consideration the functioning of the Base Depot at Mumbai since 1971 and the services rendered by it in the supply of CSD stores, the Committee desire that an amicable solution be arrived at so that neither the entire supply chain management is adversely affected nor the payment of VAT is blocked or delayed.

16. The Committee note 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, the Ministry intend to prevent the leakage of Defence liquor into the civilian market. The Committee appreciate the measures taken by the Ministry for the purpose and desire that such measures be continued unabated to exercise an effective control for the prevention of the leakage of the liquor meant for the Defence personnel into the civilian market.

17. The Committee note that although the Ministry are reportedly taking early action to implement a computerized Management Information System (MIS) with automated documentation to control the functions of the CSD, they are not extending the same facility to the URCs. The Committee find no reason why the business transactions and commercial operations of the URCs, the retail outlets of the CSD, should not be provided with a computerized Management Information System. They, therefore, recommend that URCs, being the integral part of the CSD, should be extended the facility of computerized MIS with automated documentation so that the entire Supply Chain Management is streamlined and controlled efficiently.

18. The Committee are unhappy to observe inordinate delay on the part of the Ministry of Defence in responding to the Audit observation as contained in the C&AG Report on the subject. The Audit findings were referred to the Ministry on 30th December, 2008, but the reply thereto could not be furnished till June, 2010.

Such a callous attitude on the part of the Ministry belies the statement made by the representatives of the Ministry that they have accorded utmost importance to the Audit findings on the functioning of the CSD. The engagement of the C&AG of India as the Chairman of the UNO Audit team to conduct external audit of organizations of repute like WHO and UNESCO should send a positive signal to the Government how our C&AG is acclaimed internationally. Considering the immense potential for further improvements in the operation of the CSD pursuant to the valuable observations made by the C&AG, the Committee impress upon the Ministry to respond to Audit observations with due dispatch and take necessary corrective and remedial action.

19. The Committee are informed that the employees of the URC are getting the basic pay as per the recommendations of the 5th Central Pay Commission (CPC) whereas other Allowances like DA and HRA, as applicable to the Central Government employees are not being paid to them. After the implementation of the recommendations of the 6th CPC, even the basic pay has not been given to the URC employees on several grounds like operation of URC & payment of salary to the employees from the non-Public funds, no administrative control of the CSD over the URCs different terms and conditions of service for both the categories, no recruitment test or upper age limit or educational qualification for the URC employees etc. In this context, the Committee find that the Central Administrative Tribunal, Jodhpur directed that the URC employees are Government employees and are entitled to pay and allowances and other benefits similar to the pay and allowances as available to the CSD employees. This judgement of the CAT was challenged in the Supreme Court by the MoD, but the Apex Court in its judgement dated 4th January, 2001 upheld the CAT decision, but left it to the Government either to frame separate conditions of service or to adopt the Fundamental Rules. The Ministry preferred the first option and framed separate rules regulating the service terms and conditions of the URC employees. Subsequently, the Supreme Court in its judgement dated 28th April, 2009 had *inter-alia* observed that URCs are purely private ventures and their employees are by no stretch of imagination, employees of the Government or CSD. Having taken all these developments into accounts, the Committee are concerned to find that by virtue of the Supreme Court judgement of 2001, the Government could have very well adopted the Fundamental Rules for the URC employees. Instead they framed separate rules, of course in accordance with the other option given by the Supreme Court governing the terms and conditions of the service of the URC employees. The Committee feel that it was primarily done on the erroneous plea that the operations of URCs are carried out through the non-Public funds, which is devoid of truth, as discussed in the preceding paragraphs. The Committee's apprehensions are reinforced in view of the persistent reluctance on the part of the Services, despite the Ministry's willingness, to get the accounts of the URCs audited by the C&AG. Secondly, the recommendations of the 6th CPC were implemented in 2008 with retrospective effect from 2006, whereas the Supreme Court observation was made in 2009, by which time the basic pay as per the 6th CPC could have been implemented for the URC employees, as had already been done in case of the 5th CPC. As regards the Raksha Mantri's letter to the Chairman

CoSL, Rajya Sabha that URCs are not Government organizations in response to the CoSL's 87th Report which recommended the Government to treat the URC employees as Government employees, the Committee are of the view that the case might not have been appropriately presented to the then Defence Minister. In view of the yeoman's service rendered by the employees of the URC towards the welfare and overall betterment of the jawans, including in far flung and remotest areas, the Committee recommend that their case may be considered sympathetically and on humanitarian grounds. There is no cogent reason why the benefits of the 6th CPC should be denied to the employees of the URCs when they were given the benefits of the 5th CPC. The Committee wish to forewarn and caution that unjustifiable discrimination with the employees of the URCs, the lurking fear of an uncertain future and sense of deprivation in them does not augur well and must be addressed urgently. The Government, therefore, need to frame suitable terms and conditions of service and provide reasonable pay scales and promotional avenues for the employees of the URCs servicing the jawans in remote, often hostile and restricted areas.

NEW DELHI;
23 December, 2011

02 Pausa, 1933 (Saka)

DR. MURLI MANOHAR JOSHI,
Chairman,
Public Accounts Committee.

APPENDIX I

MINUTES OF THE EIGHTEENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2010-11) Held on 12TH JANUARY, 2011

The Committee sat on Wednesday, the 12th January, 2011 from 1500 hrs. to 1640 hrs. in Room No. '63', First Floor, Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Satpal Maharaj
3. Dr. K. Sambasiva Rao
4. Shri Jitendra Singh (Alwar)
5. Shri Arun Kumar Vundavalli

Rajya Sabha

6. Shri Ashwani Kumar
7. Shri Kalraj Mishra
8. Shri N.K. Singh
9. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Raj Shekhar Sharma — *Joint Secretary*
2. Shri M.K. Madhusudhan — *Additional Director*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri Vinod Rai — Comptroller & Auditor General of India
2. Ms. Rekha Gupta — Dy. CAG (Report Central)
3. Shri R.B. Sinha — Director General (Report Central)
4. Shri Gautam Guha — Director General (Defence Services)
5. Shri V. Patwardhan — Director of Audit

Representatives of the Ministry of Defence

1. Shri R.K. Mathur — Additional Secretary (M)
2. Smt. Nita Kapoor — Secretary, Defence (Finance)
3. Shri Binoy Kumar — Joint Secretary (O/N)
4. Shri Upmanyu Chatterjee — Joint Secretary (Trg.) & CAO
5. Smt. Shobhana Joshi — Addl. FA & JS, Defence (Finance)
6. Smt. Sungita Sharma — Director (Q)

Representatives of the Army

1. Genl. V.K. Singh — COAS
2. Lt. Gen. Chetinder Singh — QMG
3. Lt. Gen. G.S. Dhillon — DGST
4. Maj. Gen. S.P.S. Katewa — ADGST
5. Brig. S.T. Upasani — MA to COAS
6. Brig. R.K. Kohli — CDP, APO
7. Maj. Gen. R. Suresh — GM, CSD

Representatives of the Air Force

1. Air Chief Mshl. P.V. Naik — CAS
2. Air Mshl. J.N. Burma — AOA
3. Air Vice Mshl. S.K. Gagneja — Asstt. Chief of Air Staff (Accts.)
4. Air Cmde. Joseph Paul — Pr. Dir., Accounts

Representatives of the Navy

1. V. Adm. D.K. Dewan — VCNS
2. V. Adm. M.P. Muralidharan — COP
3. V. Adm. Paras Nath — Controller of Logistics

2. At the outset, the Chairman welcomed the Members, the Comptroller and Auditor General of India and other Audit Officers to the sitting of the Committee. Thereafter, the representatives of Ministry of Defence, Chiefs of Staff of Army and Air Force and other Senior Officers of Army, Air Force and Navy were called in. The Chairman, then drew the attention of the Chiefs of Staff of the Defence Services present to some reports appeared in Press and TV Channels stating that they have been summoned by the Public Accounts Committee and that they never wanted to be here and felt as to why they were being called by this Committee. The Chairman clarified that Chiefs of Staff of Defence Services and other Officers have not been summoned in the sense of summoning and their presence was required because the subject under examination

related to supply of quality household goods by the Canteen Stores Department to the Defence personnel and that it is incumbent upon the Members of the PAC as the Members of the Parliament to see the welfare of the constituents who are serving in the Defence Forces. He also made it clear that PAC being a mini Parliament is empowered to call any person, any officer, any bureaucrat excluding a Minister to appear before the Committee. Hence the notion that the Army Chief or the Navy Chief or the Air Force Chief is beyond the purview of the Parliament is not correct. The Chairman allayed the fears of the Chiefs of Staff of Defence Services that their presence before the Committee should not be taken as if the Committee want to demean or denigrate the Defence Forces or the dignity of their officers. The Chairman impressed upon the Chief of Staff that it is as much a part of their duty to appear before the Committee as it is a part of the Committee's duty to examine the subject. He also stated that the Committee hold the Chiefs of Staff and other Officers and jawans in high respect and they want to keep the confidence of the people in the Defence Forces intact.

3. The Committee, thereafter proceeded to have a briefing of the representatives of Ministry of Defence, Service Chiefs and other Officers of Army, Air Force and Navy on the subject "Canteen Stores Department" based on C&AG Report No. 14 of 2010-11. The Chairman requested the Members and impressed upon the representatives of the Ministry of Defence, Army, Air Force and Navy and all others present in the meeting not to disclose the contents of the deliberations of the sitting to any outsider, especially the Press. The Additional Secretary, Ministry of Defence and Chiefs of Staff of Air Force and Army and other Senior Officers of the three services replied to the queries of the Members on various points relating to the subject. As some queries required detailed and statistical replies the Chairman asked the representatives of Ministry of Defence and Service Chiefs to furnish written replies on the same expeditiously.

4. The Chairman thanked the representatives of Ministry of Defence and Service Chiefs and all other Officers of Army, Air Force and Navy for their deposition before the Committee and for furnishing the available information on the subject. He has also thanked the Comptroller and Auditor General of India and other Audit Officers.

The witnesses, then, withdrew.

A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee, then, adjourned.

APPENDIX II

MINUTES OF THE TWELFTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2011-12) Held on 21ST DECEMBER, 2011

The Committee sat on Wednesday, the 21st December, 2011 from 1500 hrs. to 1545 hrs. in Chairman's Room (No. 51), Parliament House, New Delhi.

PRESENT

Dr. Murlı Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Shri Sandeep Dikshit
4. Shri Anant Kumar Hegde
5. Shri Bhartruhari Mahtab
6. Shri Shripad Yesso Naik
7. Shri Sanjay Nirupam
8. Dr. Kavuru Sambasiva Rao
9. Dr. M. Thambidurai
10. Dr. Girija Vyas

Rajya Sabha

11. Shri Tariq Anwar
12. Shri Prasanta Chatterjee
13. Shri Prakash Javadekar
14. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*
3. Shri H.R. Kamboj — *Additional Director*
4. Smt. A. Jyothirmayi — *Deputy Secretary*
5. Ms. Miranda Ingudam — *Under Secretary*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri Gautam Guha — Director General (Defence Services)
2. Ms. Divya Malhotra — Principal Director (Railway Audit Board)
3. Shri V. Patwardhan — Director (Defence)

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of the C&AG to the sitting of the Committee convened to consider and adopt the following Draft Reports.

3. The Committee, thereafter, took up for consideration the following Draft Reports, one by one and adopted the same without any modifications:

- | | | | | | | |
|-------|--|---|---|---|---|---|
| (i) | * | * | * | * | * | * |
| (ii) | Draft Report on ' Canteen Stores Department ' (Ministry of Defence) based on C&AG Report No. 14 of 2010-11; | | | | | |
| (iii) | * | * | * | * | * | * |
| (iv) | * | * | * | * | * | * |
| (v) | * | * | * | * | * | * |

4. Thereafter, the Committee authorized the Chairman to finalise these Reports in the light of factual verification done by the Audit and present the same to both the Houses of Parliament.

The Committee, then, adjourned.

***Matters not related with this report.

GMGIPMRND—3804LS(S-3)—12.3.2012.