

SEVENTY-FIFTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(2012-13)

(FIFTEENTH LOK SABHA)

CANTEEN STORES DEPARTMENT

[Action Taken by the Government on the Observations/Recommendations of the
Committee contained in their Forty-eighth Report (15th Lok Sabha)]

MINISTRY OF DEFENCE



*Presented to Lok Sabha on 21.3.2013
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CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2012-13)	(iii)
INTRODUCTION	(v)
CHAPTER I Report	1
CHAPTER II Observations/Recommendations which have been accepted by the Government	12
CHAPTER III Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government	25
CHAPTER IV Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which required reiteration	26
CHAPTER V Observations/Recommendations in respect of which the Government have furnished interim replies	31
APPENDICES	
I. Minutes of the Thirty-seventh sitting of the Public Accounts Committee (2012-13) held on 19th March, 2013...	32
II. Analysis of the Action Taken by the Government on the Observations/Recommendations of the Public Accounts Committee contained in their Forty-eighth Report (Fifteenth Lok Sabha)	34

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2012-13)

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SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri D.R. Mohanty — *Deputy Secretary*

* Elected *w.e.f.* 6th December, 2012 *vice* Shri Sarvey Sathyanarayana appointed as Minister on 28th October, 2012.

† Elected *w.e.f.* 6th December, 2012 *vice* Dr. Shashi Tharoor appointed as Minister on 28th October, 2012.

CHAPTER I

REPORT

This Report of the Public Accounts Committee deals with Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Forty-eighth Report (Fifteenth Lok Sabha) on '**Canteen Stores Department**' based on C&AG Report No. 14 of 2010-11 relating to the Ministry of Defence.

2. The Forty-eighth Report (Fifteenth Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 28th December, 2011. It contained Nineteen Observations/Recommendations. Action Taken Notes have been received from the Ministry of Defence in respect of all the Observations/Recommendations and are broadly categorized as follows:

- (i) Observations/Recommendations, which have been accepted by the Government:

Recommendation Paragraph Nos. 1-3, 6-8, 10-18

Total: 15
Chapter II

- (ii) Observations/Recommendations, which the Committee do not desire to pursue in view of the replies received from the Government:

Recommendation Paragraph Nos. Nil

Total: Nil
Chapter III

- (iii) Observations/Recommendations, in respect of which replies of the Government have not been accepted by the Committee and which required reiteration:

Recommendation Paragraph Nos. 4-5, 9 & 19

Total: 4
Chapter IV

- (iv) Observations/Recommendations, in respect of which the Government have furnished interim replies:

Recommendation Paragraph Nos. Nil

Total: Nil
Chapter V

3. The Forty-Eighth Report on 'Canteen Stores Department' was based on C&AG Report No. 14 of 2010-11. The detailed examination of the subject by the Committee had revealed certain very disquieting aspects in the functioning of Canteen Store

Department which *inter-alia* included consistent withdrawal of money by the CSD from CFI; distribution and utilization of QD in a non-transparent manner; treating profits of the URC as non-Public Fund; welfare measures for the troops from their own contributions; and unjustifiable discrimination with the URC employees etc. The Committee had accordingly given their Observations/Recommendations in the Forty-eighth Report.

4. The Action Taken Notes furnished by the Ministry of Defence to each of the Observation/Recommendation of the Committee contained in their Forty-eighth Report have been reproduced in the relevant Chapters of this Report. **The Committee will now deal with action taken by the Government on some of their Observations/Recommendations which either need reiteration or merit comments.**

I. CONSISTENT WITHDRAWAL OF MONEY BY THE CSD FROM THE CONSOLIDATED FUND OF INDIA (CFI)

Recommendation (Para Nos. 4 and 5)

5. In their Forty-eighth Report, the Committee had observed that according to the Ministry/Services, URCs were operated from the non-public funds/regimental funds of the three Services and the profit was spent on the welfare of the troops. They had therefore, argued that the URCs should be kept out of the purview of the C&AG. But the Committee's in-depth examination of the subject had revealed that there was a definite umbilical cord between the source of funding of the CSD and the URCs. The Committee found that during the last five fiscals there had been consistent withdrawal of money from the Consolidated Fund of India (CFI) by the CSD to enable them to buy goods to be sold the URCs. The argument that the amount withdrawn from the CFI was returned in excess *i.e.* profit generated by the URCs, did not make the money non-public fund in view of the C&AG's remark during evidence of the Ministry that there was "no way in which any non-Public Funds could be routed through the CFI". The Committee had therefore concluded that the assertion of the Services that the involvement of the CFI began at the CSD and ended there was not sustainable.

6. During the examination of the subject, the Committee were also informed that the accounts of the URCs were closely monitored and audited by the Boards of Officers, Commanding Officers, etc. at various levels besides the Chartered Accountants which had stood the test of time and were transparent. In their Forty-eighth Report, the Committee had noted the views of the Services that the time-tested routines and procedures of the armed forces should not be altered as they had never ever let down the nation in any manner whatsoever and as any such changes might affect the morale of the troops. The Committee failed 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 were 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. The Committee had further commented that such an Audit would provide greater assurance to the superior commands, the Government and the Parliament and

as the expert advice of the C&AG would involve no extra cost, there should be no qualm or compunctions about their visit to remote and restricted areas *vis-a-vis* the non-governmental persons.

7. In response to both the Observations/Recommendations, the Ministry in their Action Taken Note have stated that the Observations of the Committee have been noted.

8. The Committee deplore that instead of initiating specific action on their Observations/Recommendations, the Ministry have merely 'noted' their recommendations. Such vague and inane reply is not acceptable. The Committee would like to caution the Ministry to desist from such inanities and furnish concrete action taken replies on the above mentioned Observations/Recommendations within three months of the presentation of this Report.

II. DISTRIBUTION AND UTILISATION OF QUANTITATIVE DISCOUNT (QD) IN A TRANSPARENT MANNER

Recommendation (Para No. 6)

9. In their earlier Report, the Committee had noted that the CSD provided Quantitative discount (QD) in the form of free stores to all the URCs which was disbursed through the Budgetary Grant of the Ministry of Defence. Taking note of the fact that during the six years from 2002-03 to 2007-08 an amount of Rs. 883.46 crore was transferred in the form of QD and that the benefit of such QDs was not passed on to the consumers and instead added to the profits of the URCs, the Committee had opined that such a discreet transfer from the CFI to the non-Public fund did not conform to the provisions contained in the General Financial Rules. The Committee further observed that the Ministry's contention that QD was a bulk discount which was released in the form of stocks against indent and it was never given in cash did not make it a case for transferring of funds from the CFI to the non-Public fund. Observing that the benefit accrued from such discount was never passed on to the customers and hence it could not be termed as trade discount as intended, the Committee had recommended that QD should not be used as an instrument to transfer funds from the CFI to non-Public fund and if such transfers were made they must conform to the provisions of the GFR and the advice tendered by the C&AG.

10. In their Action Taken Note, the Ministry have stated as under:

"In line with the recommendations of the C&AG and the PAC, guidelines for disbursement and utilization of QD in a transparent manner have been formulated and released on 20th March, 2012 in consultation with tri Services and Defence Finance. These guidelines have been made generally in conformity with the GFRs."

11. The Committee are pleased to note that pursuant to their Recommendations, Guidelines for the disbursement and utilization of the Quantitative Discount (QD) in a transparent manner have been formulated and released on 20th March, 2012. However, the Committee wish to stress that the Guidelines so formulated must conform to all the requirements specified in the GFRs on regulating disbursement of the

Grants-in-Aid to the grantees. The Committee, therefore, recommend that the QD already given for the fiscal 2011-12 and to be given in subsequent financial years be treated as/in the form of 'Grants-in-Aid', in accordance with the provisions contained in the GFRs and the advice of the C&AG. The Committee would also like to know whether the process of changing the object head from "Contribution' to "Grants-in-Aid' had been completed and made effective in view of the Audit observation and the Constitutional Provision (Article 150) which enjoins that the accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the C&AG, prescribe.

III. TREATING PROFITS OF THE URC AS NON-PUBLIC FUND

Recommendation (Para No. 9)

12. In their Forty-eighth Report, the Committee had found that a three judge Bench of the Supreme Court while hearing the Civil Appeal No. 3495 of 2005 had *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 was evident from this judgement that it confined itself to the limited issue of whether and URC employee was to be treated as really a Government servant or not and the Court had abstained from making any observation on the business of the URC being an instrument or otherwise of the State. But the Service Chiefs, while tendering evidence, took recourse to the above said Supreme Court Judgement to justify that profits generated by the URCs were non-Public fund and hence it should be kept out of the purview of the C&AG, even though such profits were deposited in the CFI. The Committee had opined that the way the judgement had been interpreted by the Services was not what the purport of the judgement was, since 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 Services consistently maintained that the large amount of money involved in the operation of the URCs came from non-Public funds or sources, the fact remained that the whole genesis of the URC was integrally connected to the CSD. Taking into consideration the fact that with the pecuniary benefits that the URCs got from the State in terms of Soft Loans, Quantitative Discounts, Budgetary Provisions, free land, Government transport, deputation of the Service personnel to man the URCs etc., the Committee were of the view that these URCs could not be deemed to be private institutions as they had all the trappings of Government/semi-Government organization. The Committee had recommended that 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 was taken to its logical conclusion in accordance with the appropriate accounting policy.

13. The Ministry in their Action Taken Note have stated as under:—

"There are no direct 'pecuniary benefits' given by the Government to the URCs. The loans given by the CSD to URCs are paid back in full and there are no obligations to grant any financial assistance by the CSD to URCs nor were there any obligations to create such URCs. Further, there are no 'budgetary Provisions'

made by Government for URCs as such. CSD gives an incentive (QD) to the URCs in terms of stores. Some aspects of contentions of C&AG regarding URCs using Government facilities are explained below:

URCs Pay Rent and Allied Charges for Government Premises: The primary objective of running URCs within Government premises is to provide essential items of daily needs to the troops and their families including separated families, who are co-located within cantonments. URCs pay rent and allied charges at the laid down rates from their profits, like any other vendor.

URCs are Run by Civilian Employees: URCs are run by Civilian Employees who are paid out of the URC account. Service Personnel, wherever employed, are performing these duties in addition to their primary duties, on payment of honorarium by the URCs.

URCs Uses Civil Hired Transport: URCs use their own funds for hiring of civil transport for transporting their goods. In exceptional and inescapable cases, for example URCs deployed in some parts of J&K and other intense terrorism affected areas, use service transport.

The Ministry has accepted the recommendations of the Committee regarding audit of URCs that accounts of URCs will be brought under accountability regime and, will be audited by the C&AG to the extent of the QD accounts and not the non-public funds maintained by the URCs. The checklist enumerating what would be seen in the audit would also be shared with commanders concerned as per the existing procedures."

14. The Committee are not convinced with the reasonings adduced by the Ministry for treating the profits generated by the URCs as non-Public funds. Firstly, when a loan is being provided to the URCs at a concessional rate through the Consolidated Fund of India (CFI), it amounts to Budgetary Provision and repayment of the loan amount in full, which is required under the accounting procedure, does not in anyway make the loan/profits non-Public funds. Secondly, the Ministry's claim that no direct pecuniary benefits are given to the URCs does not hold good in view of the fact that benefits in the form of QD, free stores, etc. as provided to the URCs are pecuniary benefits and it does not matter whether such benefits are given directly or indirectly and in cash or in kind. Mindful of a host of pecuniary benefits that the URCs get from the State in terms of Soft Loans, QDs, Budgetary Provisions, deputation of the Service Personnel to man the URCs, Government transport used for the URCs, the Committee reiterate that the large amount of money involved in the operation of URCs cannot be treated as non-public funds and the Committee find no valid ground for excluding the URCs from the ambit of C&AG's Audit more so, when the turnover of the 4500 URCs is over ₹ 10,000 crore (approx.) and the profit generated in the operation of the URCs is close to ₹ 500 to ₹ 600 crore (approx.) (as on December, 2012). The Committee also reiterate that since the URCs have the trappings of Government/Semi Government organizations, the URCs must be audited by the Supreme Auditor for greater assurance of transparency in the operation of the URCs. The matter therefore needs earnest reconsideration at the highest level in the Ministry of Defence asserting its authority to ensure compliance of constitutional and statutory provisions and the Committee be apprised of the position within three months of the presentation of this Report.

15. According to the Ministry, URCs are run by the Civilian employees who are paid out of the URC account. The Ministry have further stated that the Service Personnel, wherever employed, are also catering to the URC services, in addition to their primary duties, on payment of honorarium by the URCs. But Audit has pointed out that very often Service Personnel are assigned full time duties to run the URCs. Also, according to a source information received by the Committee, out of the 4500 URCs operating in the country, around 1500 URCs are run by the civilian employees whereas as many as 80,000 Service Personnel are deployed on a full time basis to run the remaining 3000 URCs, in violation of Clause No. 2 (b) & 2 (c) of the Army Order No. 584/73 under the Manual of Unit Run Canteens 2005 which specifically says "no military personnel or free transport is to be used in the running of the Canteens". The Committee feel that deployment of uniformed personnel to run the URCs in restricted/disturbed/insurgency prone areas may be justified but their deputation/employment, that too on full time basis in the URCs situated in normal/peaceful areas defies logic in view of the undisputed fact that the primary job of the Combatants is to guard the frontiers of the Country and cater to other emergencies and certainly not to get themselves engaged in the day to day mundane business activities of the URCs which should be more appropriately managed by Civilian employees. Besides, the Government spend huge amount of money on the selection and rigorous training and development of the regular Combatants so as to keep them in a state of full preparedness. Obviously, this deployment of Combatants on a regular basis to run the URCs leads to colossal waste of public money and defeats the very purpose for which the Uniformed Cadre is created besides impinging on the security of the nation. The Committee would like to know the magnitude of the deployment of the Uniformed Personnel in the URCs in non restricted/disturbed areas. Based on the findings, corrective measures like complete withdrawal of the Combatants from the URCs be taken in the National interest so as to preserve, protect and spur their martial spirit.

IV. WELFARE MEASURES FOR THE TROOPS FROM THEIR OWN CONTRIBUTIONS

Recommendation (Para No. 10)

16. In their earlier Report, the Committee had observed that the welfare activities were extended to the jawans from their own contributions which was against the very principle of social welfare. The Committee had noted that there was an apparent and inherent contradiction in the statement of the Services that they provided welfare measures for the jawans but they did it with private funds *i.e.* burdening the troops to self-contribute for their own welfare. Expressing surprise at the inability of 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 had observed that no organ of the State would have any objection if funds were allotted for the socio-economic welfare of those who make supreme sacrifices for the country. The Committee had fervently urged the Ministry to link the welfare measures of the jawans with the CFI which would enable grant of the 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.

17. The Ministry, in their Action Taken Note, have sated as follows:—

"The Ministry accepts the observations of the Committee, however, it is submitted that, though many welfare activities are funded directly from the CFI, it may be appreciated that some welfare activities under taken by the local units/formations are for immediate welfare need like counselling, immediate relief for death cases etc. which are not covered by Government schemes. The importance of providing the local commanders the ability to respond in emergent situations for URC operations should be appreciated."

18. While taking due cognizance of the importance of providing the local commanders the ability to respond to the welfare needs of the jawans in emergent situation, the Committee wonder what prevents the Ministry/Services to cover the immediate welfare needs and relief measures under the Government schemes and funding them directly from the CFI. The Committee wish to reiterate with all the emphasis at their command that welfare activities extended to the jawans from their own contributions are not in consonance with the principle of Welfare State as enshrined in the Constitution. The Committee, therefore, desire that all the welfare needs of the jawans be brought before Parliament to seek the requisite funds as every organ of the State would be pleased to extend its support towards the socio-economic welfare of the soliders who selflessly service the country and are ever prepared to make supreme sacrifice for the cause of the motherland.

V. FIXING OF THE PRICE OF THE GOODS/ARTICLES IN THE CSD IN FAIR MANNER

Recommendation (Para No. 11)

19. In their Forty-eighth Report, taking note of the shortcomings/deficiencies pointed out by Audit with regard to the pricing policies, credit of funds and recovery of the outstanding dues and the remedial measures suggested by Audit to improve the position which had been agreed to by the Government, the Committee had recommended that the Ministry should 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 provision so that the intended benefits accrued were passed on to the Defence personnel. The Committee had further desired that immediate and appropriate measures to be taken to closely monitor the timely credit of funds into the CSD account, clear the outstanding credit and debit items and recover the outstanding amounts.

20. In their Action Taken Note, the Ministry have submitted as under:—

"Pricing Policy: CSD has already taken measures to ensure that actual cost incurred by the Department is taken into consideration while fixing the prices of goods/stores. Towards this, a number of policies of the Department like liquor license fee, freight rebate, etc. have been reviewed and necessary amendments have been issued. Also, the existing taxation provision has been revisited and accurate application of the same is being ensured by the Department.

Timely credit of Funds: A Circular has been issued to all CSD Area Depots stating that they must ensure that their dependent URCs are on 'Core Banking' mode. Suitable instructions in this regard have also been issued by the office of DDG Canteen Services, New Delhi, to all concerned. The matter has also been taken up with bankers to ensure timely payment of penal interest to CSD.

As a result of the efforts stated above, the penal interests to the current period is being regularly received by CSD. However, old outstanding amounts of certain Depots are still under verification by the bankers for their correctness and settlement of the claim. Towards this, availability of records prior to the FY 2000-01 with the Bankers is a major challenge. Nevertheless, the matter is being vigorously followed by liaising with their HQs. at Mumbai for early settlement. In the last few years with constant follow up, the Department has received ₹ 97,76,748/- as penal interest from the Bankers. Finalization of Penal Interest claim in respect of few Depots like Jabalpur is in the final stages of clearance from the Bank. The likely date of completion of the above task is March, 2013.

Outstanding Credit and Debit Items: The action on this aspect has already been taken and the old outstanding credit balances have already been merged with Profits in the Annual Accounts for the Financial Year 2010-11.

A special drive has been initiated by CSD to recover the old outstanding amounts. Further, a Statement of Case (SoC) of irrecoverable debit notes has been sent to CDA (CSD) for their concurrence and write off sanction by the competent authority. Observations raised by CDA (CSD) on the SoC are being rectified for finalization. To settle the matter in a time bound manner, a Board of officers has been convened including the representatives of CDA (CSD) for giving instant clarification on the subject. The task is likely to be completed by December, 2012."

21. The Committee are pleased to note that pursuant to their Recommendations the Ministry have initiated a number of measures to ensure fixing of the prices of the goods/articles in a fair and transparent manner, timely credit of funds into the CDS account, recovery of the outstanding amounts etc. Such initiatives on the part of the Ministry *inter-alia* include review of the licence fee, freight rebate, taxation provision, receipt of regular penal interest from the Bankers, special drive to recover the old outstanding dues etc. The Committee feel that these are steps in right direction and their fruition would be beneficial both to the Defence personnel and the public Exchequer. As the process of the finalization of the penal interest claim in respect of few Depots like Jabalpur would reportedly be completed by March, 2013, the Committee would like to be apprised of the progress/status of settlement of all the penal interest claims within three months of the presentation of this Report. The Committee would also like to be informed of the status of the special drive launched to recover the old outstanding amounts, the process which was reportedly to be completed by December, 2012.

VI. UNJUSTIFIABLE DISCRIMINATION WITH THE URC EMPLOYEES

Recommendation (Para No. 19)

22. During the course of the examination of the subject, the Committee were informed that the URCs were 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 were not being paid to them. After the implementation of the recommendation of the 6th CPC, even the basic pay had not been given to the URC employees on several grounds like operation of URC and 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 in their Forty-eighth Report had found that the Central Administrative Tribunal, Jodhpur directed that the URC employees were Government employees and were entitled to pay and allowances and other benefits similar to the pay and allowances as available to the CSD employees. The judgment of the CAT was challenged in the Supreme Court by the Ministry of Defence, but the Apex Court in its judgment dated 4th January, 2001 upheld the CAT decisions, 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 judgment dated 28th April, 2009 had *inter-alia* observed that URCs were purely private ventures and their employees were by no stretch of imagination, employees of the Government of CSD. Having taken all these developments into account, the Committee had expressed their serious concern that the virtue of the Supreme Court judgment 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 had felt that it was done primarily on the erroneous plea that the operations of URCs were carried out through the non-Public funds, which was devoid of truth. The Committee's apprehensions were 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. Further, 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 Chairman CoSL, Rajya Sabha that URCs were 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 were of the view that the case might not have 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 had recommended that their case may be considered sympathetically and on humanitarian grounds. Opining that there was 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 had forewarned and cautioned that unjustifiable discrimination with the employees of the URCs, the lurking fear of an uncertain future and sense of deprivation in them did not augur well and must be addressed urgently by framing suitable terms and conditions of service and providing reasonable pay scales and promotional avenues for the employees of the URCs servicing the jawans in remote, often hostile and restricted areas.

23. The Ministry in their Action Taken Note, have deposed as under:

"The employees of the URCs are employed by concerned Station/Unit authorities and paid out of the profit generated by the URCs. They are getting paid as per the rules regulating the terms and conditions of the services of the civilian employees of the URCs, issued by Army Headquarters in April, 2003. These Rules were made as per the directions of Hon'ble Supreme Court of India dated 4th January, 2001, in the case of Union of India v/s M. Aslam and others.

It has been held by the Hon'ble Supreme Court, in its order dated 28.04.2009, in the case of R.R. Pillai v/s Commanding Officer HQ SAC (U), that employees of URC are not Government Servants. Subsequent to implementation of Sixth Pay Commission, the basic pay of URC employees was enhanced by 50 percent w.e.f. 01.02.2009 and by another 15 percent w.e.f. 01.12.2009 on humanitarian ground and consideration by Hon'ble Raksha Mantri."

24. The Committee outright reject the reasons advanced by the Ministry for not extending the benefits of Pay and Allowances to the URC employees at par with the Government servants. The Committee wish to remind the Government that while upholding the CAT decisions of treating the URC employees as Government employees entitling them to pay and allowances and other benefits similar to the pay and allowances as available to the CSD employees, the Supreme Court in its judgment dated 4th January, 2001 left it to the Government either to frame separate conditions of service for the URC employees or to adopt the Fundamental Rules for them. Apparently, the Supreme Court never restrained the Government to adopt the Fundamental Rules in favour of the URC employees. Therefore, the Ministry's contention that Rules were made as per the Supreme Court's directions is grossly misleading, unfair and unjust. If CSD Wholesale Outlets can be brought under the CFI and the CSD employees treated as Government employees, the Committee find no valid reason as to why the URC employees cannot be treated at par with the CSD employees. That the URC employees are appointed by the Station/Unit authorities under Rules issued by the Army Headquarters in April, 2003 is no reason for denying the URC employees a legitimate Government employee status, because the Government can very well frame and adopt Rules governing the appointment of the URC employees. It is no consolation to the Committee that subsequent to the implementation of Sixth Pay Commission, the basic pay of the URC employees was enhanced by 50 percent w.e.f. 1st February, 2009 and by another 15 percent w.e.f. 1st December, 2009 on humanitarian ground and consideration by the Raksha Mantri. In fact, 100 percent enhancement in the basic pay of the URC employees would have been approved by the Raksha Mantri from 1st January, 2006, the date of the implementation of the Sixth Pay Commission on

legitimate grounds had the proposal been worked out fairly, In view of the services rendered by the URC employees in catering to the needs of the jawans in remote, hostile and restricted areas, the Committee strongly reiterate their earlier Recommendation that the Ministry must urgently address the lurking fear of an uncertain future and a sense of despair and deprivation persisting amongst the URC employees and take immediate steps to treat them at par with the CSD employees in every respect.

25. The Committee learn that thousands of civilian employees (permanent/adhoc/contractual/casual) working in the URCs across the country have been on indefinite strike since 3rd December, 2012 demanding implementation of the Recommendations of the PAC as contained in their earlier Report. The Committee are also informed through a representation that the services of thousands of adhoc/casual employees engaged in the running of the URCs have been terminated as they joined the strike with the permanent employees. In order to give due regard to the democratic value and maintain the principle of natural justice, the Committee would like the Ministry to consider reinstating the services of the terminated adhoc/contractual employees besides initiating measures by issuing appropriate Presidential directive to regularize such casual employees who have been servicing the jawans for years together in the URCs across the country.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS, WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Observations/Recommendations

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 Organization (DRDO), Border Roads Organization, 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, Dimapur, Ahemadabad, 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 ₹ 1.65 crore in 1948, the CSD has now a turnover of more than ₹ 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 costs to the URCs. The Committee find that during the six years from 2002-2003 to 2007-2008; Rs. 883 crore was transferred to the URCs as Quantitative Discount alone. The Committee further observes that the CSD provides soft loans at subsidized rates of interest varying from 4.5 to 6.5 per cent annum for setting up these canteens and to keep sufficient inventory. As on 31st March, 2010, ₹ 4.15 crores was outstanding with the URCs as subsidized loan. During the years 2005-2006 to 2007-08 the budgetary provision for the operations of the CSD was ₹ 4138 crore, ₹ 4541 crore and ₹ 5420 crores 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 centered 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.

[Para 1 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Observations of the Committee have been noted.

Sd/-

Joint Secretary (O&N)

Ministry of Defence

Observations/Recommendations

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 up to the CSD Depot level only and it was extended to the URCs, the retail outlets of the CSD. Such a disjoint and disconnect is unjustifiable as without the URCs, the CSD can not 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 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 of 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 URCs by the C&AG is of paramount importance and therefore must be subject to statutory Audit.

[Para 2 of Part II of the 48th Report of the Public Accounts Committee on Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

The Ministry accepts the recommendations of the Committee that accounts of URCs will be brought under accountability regime and, will be audited by the C&AG to the extent of the QD accounts maintained by the URCs and not the non-public funds maintained by the URCs. The checklist enumerating what would be seen in the audit would also be shared with commanders concerned as per the existing procedures.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 URC 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.

[Para 3 of Part II of the 48th Report of the Public Accounts Committee on Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

The Ministry accepts the recommendations of the Committee that accounts of URCs will be brought under accountability regime and, will be audited by the C&AG to the extent of the QD accounts maintained by the URCs and not the non-public funds maintained by the URCs. The checklist enumerating what would be seen in the audit would also be shared with commanders concerned as per the existing procedures.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 release in the form of stocks against indent and it is never given in cash does not made 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 it such transfers are made they must conform to the provisions of the GFR and the advice tendered by the C&AG.

[Para 6 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

In line with the recommendations of the C&AG and the PAC, guidelines for disbursement and utilization of QD in a transparent manner have been formulated and released on 20th March, 2012 in consultation with tri-services and Defence Finance. These guidelines have been made generally in conformity with the GFRs.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 *ad hoc* 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, not that a fresh reference on the issue has been made to the Ministry of Finance, as noted from the Minutes of the meeting 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

[Para 7 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

As per the recommendations of the Committee, Ministry has initiated the case to change the object head from 'Contribution' to 'Grants-in-Aid'.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 *ad hoc* 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.

[Para 8 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

In line with the recommendations of the C&AG and the PAC, guidelines for distribution and utilization of CSD Annual Trade Surplus have been formulated and released on 9th March, 2012 in consultation with tri-Services and Defence Finance. These guidelines have been made generally in conformity with the GFRs.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 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.

[Para 10 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

The Ministry accepts the observation of the Committee, however, it is submitted that, though many welfare activities are funded directly from the CFI, it may be appreciated that some welfare activities undertaken by the local units/formations are for immediate welfare need like counselling, immediate relief for death cases etc. which are not covered by Government schemes. The importance of providing the local commanders the ability to respond in emergent situations from URC operations should be appreciated.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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.

[Para 11 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Pricing Policy: CSD has already taken measures to ensure that actual cost incurred by the Department is taken into consideration while fixing the prices of goods/stores. Towards this, a number of policies of the Department like liquor license fee, freight rebate, etc. have been reviewed and necessary amendments have been issued. Also, the existing taxation provision has been revisited and accurate application of the same is being ensured by the Department.

Timely Credit of Funds: A Circular has been issued to all CSD Area Depots stating that they must ensure that their dependent URCs are on 'Core Banking' mode. Suitable instructions in this regard have also been issued by the office of DDG Canteen Services, New Delhi, to all concerned. The matter has also been taken up with the bankers to ensure timely payment of penal interest to CSD.

As a result of the efforts stated above, the penal interest of the current period is being regularly received by CSD. However, old outstanding amounts of certain Depots are still under verification by the bankers for their correctness and settlement of the claim. Towards this, availability of records prior to the FY 2000-01 with the Bankers is a major challenge. Nevertheless, the matter is being vigorously followed by liaising with their HQs at Mumbai for early settlement. In the last few years with constant follow up, the Department has received Rs. 97,76,748/- as penal interest from the Bankers. Finalisation of Penal Interest claim in respect of few Depots like Jabalpur is in the final stages of clearance from the Bank. The likely date of completion of the above task is March 2013.

Outstanding Credit and Debit items: The action on this aspect has already been taken and the old outstanding credit balances have already been merged with Profits in the Annual Accounts for the Financial Year 2010-11.

A special drive has been initiated by CSD to recover the old outstanding amounts. Further, a Statement of Case (SoC) of irrecoverable debit notes has been sent to CDA (CSD) for their concurrence and write off sanction by the competent authority. Observations raised by CDA (CSD) on the SoC are being rectified for finalization. To settle the matter in a time bound manner, a Board of Officers has been convened including the representatives of CDA (CSD) for giving instant clarification on the subject. The task is likely to be completed by December, 2012.

Sd/-
Joint Secretary (O/N)
Ministry of Defence

Observations/Recommendations

The Committee note that the recording of 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 the 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 fault free 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 favoritism to any particular supplier. 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.

[Para 12 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

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 could not be done for

all items due to a very large number of items which were offered for introduction. The recording of reasons for acceptance or rejection of items proposed for introduction in the CSD inventory is being regularly done with effect from Feb. 2009 onwards. The action on this aspect is already implemented.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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 a limited number of Composite Food Laboratories (CFLs) located only at Jammu, Delhi and 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 centers 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.

[Para 13 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

An Institutionalized system of monitoring and recording of testing of Food and Liquor items with nominated Depots exists. The testing by Government approved test centers is hastened and identification of additional test centers is in process.

The system of product testing and levy of penalty is a deterrent to the erring supplier and sale of products are placed in suspension, if required. The policy of maintenance of stack cards has been reiterated to all Depots for strict compliance.

The action in this aspect has been initiated including the nomination of additional Government Approved Laboratories for testing of Food and Liquor products to strengthen procedure of quality control in CSD as well as to ensure speedy testing and recordings of test results. The likely date of completion of the above task is Dec. 2012. The action on an effective mechanism to oversee strict implementation of the quality control measures at all levels of supply chain has been implemented. The recordings of shelf life *i.e.* Date of Expiry of Food items especially of Baby Food items in the stack cards maintained in the depots is being done.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Observations/Recommendations

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.

[Para 14 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action taken by the Government

Canteen Stores Department is listed with wide range of items to meet the requirement of troops located in various parts of the country. The department has a scientific system of procuring stores based on the demand pattern of all Unit Run Canteens (URC). Due to various reasons *viz.* change in demand patterns of the URCs, movement of URCs from one place to another, levy of higher duty due to different tax norms including octroi by various State Governments, items may not be available for a short period with the depots. The department has been taking the following measures to ensure availability of items to the troops:—

- (a) Fast track placement of supplementary/special demands raised by depots to cater to the needs of the URCs/Customers.
- (b) Regular review of inventory for deletion of slow, non-moving and obsolete items and in lieu, introduction of popular items available in the civil market into Canteen Stores Department.
- (c) All request of firms for price revision, one-to-one replacement, change of model, change of grammage, change of packaging, change of product specifications are given utmost priority while processing the cases to ensure availability of item and avoid any hindrance in supplies.
- (d) Availability of items with the depots has improved significantly due to regular sharing of information with the Business Partners to ensure uninterrupted supplies to improve the availability of items to enhance customer satisfaction.
- (e) Additional Bank Guarantee is obtained wherever required from the firms for continuation in supplies to ensure availability of these items at the depots.
- (f) Department is ensuring availability substitute/functional equivalents in respect of all generic group items so that customers have wide choice of items.
- (g) In respect of white goods, these are in 'Against Firm Demand (AFD)' category and due to frequent changes in the specifications and technology; it becomes necessary to introduce latest models. Department is interacting with the firms

on regular basis for early submission of documents/clarifications to ensure smooth supply of new items to Defence Clientele.

- (h) A working Group under the Chairmanship of Additional Secretary (A) has also been constituted on 08.02.2012 for examining various issues of CSD, especially regarding proper budget control with CSD, management of demand for white goods and liquor.

Sd/-
Joint Secretary (O & N)
Ministry of Defence

Observations/Recommendations

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 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 desires 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.

[Para 15 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Base Depot at Sewri, Mumbai is 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 (2.5%) 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 small and medium depots and those located in far flung areas. Only about 19% values of supplies are routed through Base Depot and the rest approximately 81% worth of stocks of major suppliers are supplied directly by them to the Area Depots. For instance, during the period 2005-06, under audit, stocks worth Rs. 486.54 crore were routed through Base Depot out of total purchases to the tune of Rs. 2501.5 crore.

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.
- (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.

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.

Freight rebate is taken by CSD from each and every supplier for supply of their goods Ex-Base Depot, Mumbai. The percentage of rebate is decided based on the recommendations of Price Negotiation Committee (PNC) in respect of newly introduced items and are revised annually in respect of already existing items of the above mentioned categories of suppliers who find it difficult to deliver the goods in bits and pieces (in small quantities) at the Area Depots located all over the country. Not only that, based on internal study carried out by the Department, the minimum percentage for freight rebate has been fixed depending upon the value of full truck load which is taken as 'Bench-mark'. The PNC make all endeavors to obtain freight rebate over and above the said bench mark as far as possible during negotiation with the suppliers.

Base Depot does not carry out any sales to URCs and the exemption from payment of Value Added Tax (VAT) does not apply to Base Depot. However, clarification was sought from VAT authorities regarding exemption of VAT on purchases made at Base Depot and transfer to Area Depots. On the basis of clarification from VAT authorities, the set-off claims were worked out for the years 2006-07 and 2007-08 and in the meantime, Audit also pointed out for filling of the said claims. Accordingly, set-off claims for the years 2006-07 and 2007-08 were filed in March 2009 and the claim for the year 2008-09 was filed in November 2009. The delay took place for want of clarification from VAT authorities and in compiling enormous data for the purpose. Efforts towards obtaining outstanding VAT refund due from the State Government of Maharashtra are on.

As regards blockage of funds towards VAT, some amount of time gap is unavoidable due to procedural formalities for compliance with State Government's regulations. CSD, being a Department running on commercial lines, has no other option but to make provision for such contingencies as long as it does not affect adversely its cost of operation and surpluses generated during the year. It is reiterated that it is essential to have a Base Depot for efficient functioning of the CSD and to enable it to serve the troops in all parts of the country.

Sd/-
Joint Secretary (O & N)
Ministry of Defence

Observations/Recommendations

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.

[Para 16 of the Part II of the 48th Report of the Public Accounts Committee on Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

CSD and the Services have ensured that liquor is demanded by and issued to the URCs strictly as per their authorization to prevent its leakage in the civil market and have put in place following measures to implement the same.

- (a) The liquor indent is being raised strictly in accordance to the strength of the units which includes the requirements of Messes, Institutes, special occasions like raising day etc. and strength of Ex-Service Man (ESM) dependent on the URC and vetted by the Station commander/Commanding officer.
- (b) The issue of liquor has been streamlined by sale of liquor through smart card to ensure only authorized quantity is issued to avoid any leakage in the civil market. Strict disciplinary action is taken against personnel involved in leakage of Defence liquor which includes withdrawal of canteen facilities. There has been effective control exercised on the issue.

Observations/Recommendations

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.

[Para 17 of the Part II of the 48th Report of the Public Accounts Committee on Canteen Stores Department (15th Lok Sabha)]

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Action Taken by the Government

CSD has embarked upon a turnkey project, Integrated Canteen Stores Department System (ICSDS) Phase II for computerization of Canteen Stores Department. On completion of the above project, MIS, Manpower, Accounting and Operations would be streamlined for better efficiency.

Business transactions and commercial operations of the URCs are carried out through their own Management Information System Canteen Inventory Management System (CIMS) has been implemented in URCs.

Observations/Recommendations

The Committee are unhappy to observe inordinate delay on the part of the Ministry of Defence in responding to the Audit observations 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.

[Para 18 of the Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Ministry will ensure reply of all the findings of C&AG in time in future.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

CHAPTER III

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT
DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM THE
GOVERNMENT

—NIL—

CHAPTER IV

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRED REITERATION

Observations/Recommendations

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.

[Para 4 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Observations of the Committee have been noted.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Comments of the Committee

Please See Paragraph No. 8 of Chapter - I

Observations/Recommendations

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 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 the 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.

[Para 5 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

Observations of the Committee have been noted.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Comments of the Committee

Please See Paragraph No. 8 of Chapter - I

Observations/Recommendations

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 instrumentally 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 judgment 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 the appropriate accounting policy.

[Para 9 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

There are no direct 'pecuniary benefits' given by the Government to the URCs. The loans given by the CSD to URCs are paid back in full and there are no obligations to grant any financial assistance by the CSD to URCs nor there are any obligations to create such URCs. Further, there are no 'budgetary Provisions' made by Government for URCs as such. CSD gives an incentive (QD) to the URCs in terms of stores. Some aspects of contentions of C&AG regarding URCs using Government facilities are explained below:

URCs Pay Rent and Allied Charges for Government Premises: The primary objective of running URCs within Government premises is to provide essential items of daily needs to the troops and their families including separated families, who are co-located within cantonments. URCs pay rent and allied charges at the laid down rates from their profits, like any other vendor.

URCs are Run by Civilian Employees: URCs are run by Civilian Employees who are paid out of the URC account. Service Personnel, wherever employed, are performing these duties in addition to their primary duties, on payment of honorarium by the URCs.

URCs Uses Civil Hired Transport: URCs use their own funds for hiring of Civil transport for transporting their goods. In exceptional and inescapable cases, for example URCs deployed in some parts of J & K and other intense terrorism affected areas, use service transport.

The Ministry has accepted the recommendations of the Committee regarding audit of URCs that accounts of URCs will be brought under accountability regime and, will be audited by the C&AG to the extent of the QD accounts and not the non-public funds maintained by the URCs. The checklist enumerating what would be seen in the audit would also be shared with commanders concerned as per the existing procedures.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Comments of the Committee

Please See Paragraph No. 14 and 15 of Chapter - I

Observations/Recommendations

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 recommendation 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 condition 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. The judgment of the CAT was challenged in the Supreme Court by the MoD, but the Apex Court in its judgment dated 4th January, 2001 upheld the CAT decisions, 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 judgment date 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 account, 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 employee. 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 being done in case of the 5th CPC. As regards the Raksha Mantri's letter to Chairman CoSL, Rajya Sabha that URCs are not Government organizations in response to the Co's 87th Report which recommend the Government to treat the URC employee 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.

[Para 19 of Part II of the 48th Report of the Public Accounts Committee on
Canteen Stores Department (15th Lok Sabha)]

Action Taken by the Government

The employees of the URCs are employed by concerned Station/Unit authorities and paid out of the profit generated by the URCs. They are getting paid as per the rules regulating the terms and conditions of the services of the civilian employees of the URCs, issued by Army Headquarters in April 2003. These rules were made as per the directions of Hon'ble Supreme Court of India dated 4th January 2001, in the case of Union of India Vs. M. Aslam and others.

It has been held by the Hon'ble Supreme Court, in its order dated 28.4.2009, in the case of R.R. Pillai v/s. Commanding Officer HQ SAC (U), that employees of URC are not Government Servants. Subsequent to implementation of Sixth Pay Commission, the basic pay of URC employees was enhanced by 50% w.e.f 1.2.2009 and by another 15% w.e.f. 1.2.2009 on humanitarian ground and consideration by Hon'ble Raksha Mantri.

Sd/-
Joint Secretary (O&N)
Ministry of Defence

Comments of the Committee

Please See Paragraph No. 24 and 25 of Chapter - I.

CHAPTER V

OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH THE
GOVERNMENT HAVE FURNISHED INTERIM REPLIES

—NIL—

NEW DELHI;
19 March, 2013
28 Phalgun, 1934 (*Saka*)

DR. MURLIMANO HAR JOSHI
Chairman,
Public Accounts Committee.

APPENDIX I

MINUTES OF THE TWENTY-SEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2012-13) HELD ON 19TH MARCH, 2013

The Committee sat on Tuesday, the 19th March, 2013 from 1500 hrs. to 1615 hrs
in Room No. '62', Parliament House, New Delhi.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Shri Sandeep Dikshit
4. Shri Bhatruhari Mahtab
5. Shri Shripad Yesso Naik
6. Shri Abhijit Mukherjee
7. Shri Ashok Tanwar
8. Dr. Girija Vyas

Rajya Sabha

9. Shri Prasanta Chatterjee
10. Shri Prakash Javadekar
11. Shri J.D. Seelam
12. Shri N.K. Singh

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*
3. Shri M.L.K. Raja — *Deputy Secretary*
4. Shri D.R. Mohanty — *Deputy Secretary*
5. Smt. A. Jyothirmayi — *Deputy Secretary*
6. Shri S.L. Singh — *Under Secretary*
7. Smt. Anju Kukreja — *Under Secretary*

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

1. Ms. Shubha Kumar — Director General (Report Central)
2. Shri Venkatesh Mohan — Director General of Audit
3. Ms. Anim Cherian — Principal Director (ST)
4. Shri Rajiv Kumar Pandey — Principal Director of Audit

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of the C&AG of India to the sitting of the Committee. The Chairman, then apprised that the meeting had been convened to consider the following Draft Reports of the Committee:

- | | | | |
|--------|--|------|------|
| (i) | **** | **** | **** |
| (ii) | **** | **** | **** |
| (iii) | **** | **** | **** |
| (iv) | **** | **** | **** |
| (v) | **** | **** | **** |
| (vi) | Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Forty-eighth Report (15th Lok Sabha) on ' Canteen Stores Department '; | | |
| (vii) | **** | **** | **** |
| (viii) | **** | **** | **** |
| (xi) | **** | **** | **** |
| (x) | **** | **** | **** |

3. Giving an overview of the issues contained in the Draft Reports and the comments of the Committee thereupon, the Chairman solicited the views/suggestions of the Members.

4. After some discussions, the Committee adopted the above-mentioned Draft Reports. The Committee, then, authorized the Chairman to finalise the Reports in the light of the factual verifications, if any, made by the Audit and present them to Parliament on a convenient date.

5. The Chairman thanked the Members for their active participation in the consideration and adoption of the Reports.

The Committee, then adjourned.

APPENDIX II

(Vide para 5 of Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE CONTAINED IN THEIR FORTY-EIGHTH REPORT (FIFTEENTH LOK SABHA)

(i) Total No. of Observations/Recommendations	19
(ii) Observations/Recommendations of the Committee which have been accepted by the Government:	
	Total : 15
Para Nos. 1-3, 6-8 and 10-18	Percentage – 78.94%
(iii) Observations/Recommendations to the Committee do not desire which pursue in view of the replies recieved from the Government:	
	Total : 0
—NIL—	Percentage - 0%
(iv) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration.	
	Total : 04
Para Nos. 4-5, 9 and 19	Percentage – 21.06%
(v) Observations/Recommendations in respect of which the Government have furnished interim replies:	
	Total : 0
—NIL—	Percentage - 0%