

OVERVIEW

The total expenditure of the Defence Services during 2008 - 09 was Rs 1,18,006 crore. Of this, the Air Force and Navy spent Rs 29,842 crore and Rs 17,406 crore respectively. The combined expenditure of the two services accounts for 40 per cent of the total expenditure on the Defence Services. The major portion of the expenditure of the Air Force and Navy is capital in nature, constituting almost 55 per cent of their expenditure.

Some of the major findings arising from test audit of transactions of the Air Force, the Navy, and associated units of the Defence Research and Development Organisation and Military Engineer Services included in the Report, are discussed below:

I Inordinate delay in fruition of Kaveri engine

Nearly two decades after the commencement of the programme and 13 years after the original probable date of completion, with an expenditure of Rs 1892 crore, Gas Turbine Research Establishment (GTRE) is yet to fully develop an aero-engine which meets the specific needs of the Light Combat Aircraft. The fate of the Kaveri project is highly uncertain as GTRE is now considering a proposal of co-development and co-production dependent upon a Joint Venture with a foreign vendor.

(Paragraph 5.1)

II Undue favour to a foreign vendor in procurement of fleet tankers

Indian Navy awarded a contract for acquisition of a fleet tanker to a foreign shipyard even though the steel to be used by the shipyard in construction did not meet Indian Navy technical specifications. Commercial negotiations with the foreign vendor for procurement of a fleet tanker, despite being protracted and delayed, did not address the issue of reasonability of pricing adequately. Excess provisioning of spares of Rs 30.44 crore and under-realisation of offset benefit to Indian industry were also noticed in the procurement of the tanker worth Rs 936 crore.

(Paragraph 2.1)

III Import of radars by a PSU against indigenous manufacture order

Bharat Electronics Limited (BEL) was awarded a contract for supplying 22 Surveillance Radar Element radars at a cost of Rs 870 crore. The contract was signed by the Ministry under special dispensation of the Defence Procurement Procedure on the premise that BEL would be able to manufacture the radars indigenously as they had absorbed the technology transferred from the Original Equipment Manufacturer (OEM). BEL violated this intent by procuring 60 *per cent* radars in Completely Knocked Down form from the OEM at a lower cost. As a result, BEL earned unwarranted additional returns of Rs 10 crore. Supplying completely knocked down radars instead of indigenously manufactured ones also resulted in premature delivery before finalization of associated works services with no benefit to the Indian Air Force.

(Paragraph 2.2)

IV Undue benefit to HAL on account of pricing policy

Hindustan Aeronautics Limited follows a Fixed Price Quotation (FPQ) Policy for the pricing of the supplies and services made to Indian Air Force. Delay of four years in finalising the base year to be used for the FPQ Policy resulted in Indian Air Force incurring extra expenditure of Rs 400 crore. Further, notwithstanding Government instructions to the effect that no budgetary support for wages increase would be provided separately and that resources for funding the increased cost on account of wage revision have to be generated by the company internally, Indian Air Force reimbursed arrears on account of wages and gratuity to the extent of Rs 315 crore.

(Paragraph 2.4)

V Abnormal delay in integration of Recce Pods onboard an aircraft

The Ministry of Defence procured an aerial reconnaissance system costing Rs 640.70 crore from M/s IAI Elta, Israel without fully evaluating the system as per Defence Procurement Procedure. Despite spending Rs 611 crore and delay of over one year, the system is yet to be proven.

(Paragraph 3.1)

VI Under utilisation of infrastructure created

The sanction for a Blade manufacturing facility at a cost of Rs 72 crore was taken based upon the consumption levels of the required blades in 1999-2000 and not on actual force levels which would prevail at the time when the Blade Manufacturing Unit would be operational, between 2007 and 2018. The actual requirement for these blades was only 50.62 *per cent* of the original projection in 2009. Since the facility is likely to be completed only by September 2010, its utility would be further limited in view of phasing out of the aircraft for which this facility has been created.

(Paragraph 3.3)

VII Injudicious expenditure on procurement and overhaul of helicopter engines

Despite knowing the facts that two Kamov 25 helicopters with the Navy were old and in a poor material state with virtually no product support, Ministry of Defence concluded contracts with a foreign firm for their overhaul at a cost of Rs 10.38 crore. Not only was the quality of the overhaul poor but expenditure amounting to Rs 8.14 crore became unfruitful as flying operations on these two helicopters were discontinued due to severe defects in their engines. Related procurement of spare KA 25 engines also became wasteful as the engines could not be utilised.

(Paragraph 4.1)

VIII Mid Life Upgrade of Mine Sweeper ships

The Midlife Update (MLU) of Indian Navy's four minesweepers envisaged upgradation of the Mine Counter Measure capability by providing them with a state-of-the-art Mine Counter Measure System Suite (MCMS). The MLU has been completed in the case of three ships after a delay of about two years without the fitment of vital MCM suite and weapon systems valuing Rs 170 crore. Advantages accruing from the subsequent installation of the equipment will be off-set by the limited residual life of the ships.

(Paragraph 4.4)

IX Procurement of shipborne Electronic Warfare System

Despite an on-going indigenous programme for development of Electronic Warfare systems, Indian Navy spent Rs 472 crore on import of seven Electronic Warfare systems, on the grounds of operational emergency. The timeline of nine weeks given by the Raksha Mantri was over-

shot considerably and it took 176 weeks to finalise this contract. The expenditure, thus, could not meet the urgent operational requirement.

(Paragraph 2.6)

X Inordinate delay in development of Air Bases

The Ministry sanctioned the establishment of an airbase at Phalodi in 1985 and an Air Force station in South India in 1984. Even after two decades both are yet to be commissioned. As on date, the utility of the air base and station has not been determined, given the constantly vacillating position of the Indian Air Force on their future use. In the case of Phalodi, the Indian Air Force intends to use the base for helicopter operations though the base was envisaged as a strategic forward base airfield. In the second case, the intended air cover over sensitive installations remains elusive in the absence of an active and operational air base.

(Paragraph 2.7)

XI Injudicious procurement of pumps

Naval authorities ordered 44 pumps worth Rs 4.56 crore without adequate user trials. Subsequent to delivery, the pumps could not be installed on-board the ships they were meant for due to fitment problems. Thus, these ships, even *six* years after many of the pumps being declared Anticipated Beyond Economical Repair (ABER), continue to operate with the old pumps rendering the entire expenditure infructuous.

(Paragraph 4.3)

XII Unfruitful expenditure on submarine rescue facility

Owing to poor planning, lack of need assessment and absence of a conclusive time bound agreement with US Navy, there was an inordinate delay in commissioning the Indian Navy submarine rescue facility. The expenditure of Rs 3.35 crore incurred could not serve its objective as by now *75 per cent* submarines of Indian Navy have already completed three fourths of their estimated operational life.

(Paragraph 2.5)

XIII Irregular commercial exploitation of Santushti Shopping Complex

Ministry of Defence and Air Force authorities violated rules and regulations in managing the Santushti commercial shopping complex established on Government land. Irregular allotment of

shops has defeated essentially welfare role of providing assistance to ex-service personnel or family members of bereaved service personnel like war widows, disabled pensioners etc. Further, the Ministry's decision to suspend the eviction process without taking any action for more than two and a half years has allowed unauthorized occupants to retain possession of these shops for more than 13 years. Delay in revision of licence fee and irregular crediting of revenue to non-public fund by Indian Air Force authorities in violation of Ministry's directives and Government orders has deprived the Exchequer of revenue amounting to Rs 9.75 crore.

(Paragraph 2.3)

XIV Excess procurement of Electronic Warfare Systems

Indian Navy did not properly take into account the phase-out schedule of its Tu-142M aircraft while placing orders for the AES-210 and Homi Electronic Warfare (EW) systems leading to the excess procurement of one AES-210 system and one Homi system. This resulted in infructuous expenditure of Rs 19.19 crore on EW systems for non-existent or already phased out aircraft. Besides, given the phase out schedule of the aircraft fleet, two AES-210 systems and three HOMI systems procured for Tu-142 M aircraft would be exploited for less than 50 per cent of their useful life.

(Paragraph 4.2)

XV Financial irregularities in organising Military World Games 2007

Approval for funding for the Military World Games (MWG) 2007, organized by the Services Sports Control Board, was taken from a lower competent financial authority for Rs 50 crore even though expenditure was estimated to be Rs 138 crore by omitting certain works from the proposal. The financial arrangements have resulted in unspent balances lying outside of Government account, foregoing of revenue and diversion to non-public funds. Ministry failed to monitor the expenses incurred on MWG and the unspent amount has not yet been credited to Government Account.

(Paragraph 2.8)

XVI Irregularities in the procurement of Microlight Aircraft

Indian Air Force did not adhere to the procedures prescribed for tendering, price negotiation and release of funds while procuring the Composite Technology Short Wing Microlight Aircraft. Instead, actions and decisions were regularised subsequent to placement of the order.

(Paragraph 3.2)

XVII Avoidable expenditure on repair of an aero-engine under warranty

An Indian Air Force Equipment Depot failed to exercise the contractual terms and conditions and thus a repair task which was to be undertaken under warranty free-of-cost was taken up as a regular task on payment basis. This resulted in an avoidable expenditure of Rs 1.09 crore.

(Paragraph 3.4)

XVIII Foregoing of revenue due to non-revision of licence fee rates for residential accommodation

Non-adherence of the procedure by Ministry for revising licence fee rates for accommodation occupied by service personnel, every three years, resulted in foregoing of revenue worth Rs 13 crore.

(Paragraph 3.5)

XIX Injudicious transportation of containers for UN Mission

Ministry of Defence authorised overseas transportation of containers in excess of that prescribed by the United Nations Peacekeeping Force for the purpose of claiming reimbursement. As a result, the Indian Government incurred avoidable extra expenditure to the extent of Rs 38.96 lakh.

(Paragraph 3.6)

XX Loss in procurement of petroleum products

Indian Navy did not take advantage of 'prompt-payment' discounts and also could not negotiate discounts on account of high volumes leading to a loss of Rs 136.39 crore.

(Paragraph 4.5)

XXI Lack of due care in passing claims of vendors

Naval officials did not exercise required care in passing claims of vendors or in availing the benefit of exemption from excise duty. As a result, Indian Navy incurred an expenditure of Rs 1.61 crore, out of which Rs 1.40 crore could be recovered at the instance of Audit.

(Paragraph 4.7)

XXII Delay in fruition of Online Examination System of Navy

Although Indian Navy decided to migrate to an online computer-based examination system in 2004, flaws in the tendering process led to delay in awarding a contract and commencing the Indian Navy Online Examination System. As of June 2010, despite an expenditure of Rs 97.92 lakh, the Indian Navy will not be able to conduct all planned examinations online even by 2013.

(Paragraph 4.6)

XXIII Recoveries/savings at the instance of Audit

An amount of Rs 3.40 crore was recovered / saved in two cases in respect of Air Force and Rs 2.30 crore in three cases in respect of Navy after having been pointed out by Audit.

(Paragraph 3.7, 4.7 and 4.8)