

# Chapter 2:

## Audit Approach



### 2.1 Scope of Audit

An earlier audit report<sup>1</sup> in 1998 on the construction of frigates indicated significant time and cost over-runs and deficiencies in internal controls. A decade later, audit has re-visited this topic as the Indian Navy has invested almost on an average about 55 *per cent* of its capital budget during the period 2005 - 2010 on augmenting its naval fleet, whether from indigenous sources or from abroad, across classes of ships. Audit sought to assess whether there have been improvements, based on lessons learned from previous shipbuilding projects, in the construction process. Out of four projects sanctioned between 1986 and 2003, this performance audit reviewed three projects which are at varying stages of construction. These are the P15A (Destroyer), P17 (Frigate) and P28 (ASW Corvettes) projects respectively. The period covered under the audit was 1998-2009.

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<sup>1</sup> C&AG's Report No. 8 for the year 1998

### 2.1.1 Project 15A, 17 and 28

The main functional roles of each class of ships under each project and its significance to the naval fleet are detailed below. In keeping with IN's philosophy that a ship must be capability-driven in order to perform multiple roles, these ships are outfitted with multi-mission capabilities.

#### 2.1.1.1 Project 15A

Project 15A ships (known as the Kolkata class) are destroyers with a 6500 tonne displacement. Three such ships are being constructed at Mazagon Dockyard Limited (MDL). These ships are 'follow-on' ships of an earlier class of ships constructed by MDL, i.e. the Project 15 Delhi class destroyers. These ships are to have long range attack and defence capability against air targets. The Government of India gave its sanction for construction of these ships in May 2001 at an estimated cost of ₹ 3580 crore by 2010.



Project 15A Ship

#### 2.1.1.2 Project 17

Under this project, the Indian Navy intends to acquire three frigates capable of long range, long endurance for serious missions. These ships are to be equipped with advanced weapons and sensors and other capabilities to meet threats from air, surface and subsurface vessels / aircraft. These gas turbine propelled frigates of approximately 4900 tonnes displacement were accorded approval by the Government

of India in January 1998 at a cost of ₹ 2250 crore and were to be constructed at MDL.

### **2.1.1.3 Project 28**

The P28 class ships are corvettes - small, maneuverable, lightly armed warships. These ships with a 2400 tonnes displacement are a response to the recent submarine proliferation in our neighboring countries and are generally intended as an effective deterrent for Anti Submarine Warfare (ASW). The Government of India (GOI), in March 2003 accorded sanction for the acquisition of four ASW Corvettes. These were to be built at GRSE at an estimated cost of ₹ 3051.27 crore.



Project 28 Ship

## **2.2 Audit Objectives**

The primary audit objectives for the study were to ascertain whether the:

- *Proposal for the building of a particular class of ship indigenously has been taken keeping in view the envisaged force level;*
- *Designated shipyards have been selected after due diligence and giving due weightage to their capacity and expertise;*

- *Contracts concluded with the designated shipyards are within the reasonable time, as per the laid down procedures, and will incentivize ship construction processes;*
- *Internal control mechanism is adequate and exists to ensure timely and economical completion of the projects; and*
- *Financial management and control measures are adequate to ensure timely and economical completion of the project.*

### **2.3 Audit Criteria**

The audit criteria used for the audit were drawn from various documents like the Long Term plans prepared by Indian Navy, papers leading to approval of the project and nomination of shipyard, various guidelines issued on the subject, instructions issued time-to-time by Ministry of Defence and Indian Navy, Naval Staff Qualitative Requirements regarding performance parameters of the equipment/systems fitted onboard the commissioned ships, Defence Procurement Procedure / Manual applicable, and the Indigenous Shipbuilding Procedure.

### **2.4 Audit Methodology**

The Performance Audit commenced with an entry conference held on 4th May 2009 with the Ministry of Defence (MOD) along with the officers of the Navy wherein audit scope, objectives of audit and criteria were discussed in detail. Subsequent audit examination during May 2009 to October 2009 and then from September 2010 to November 2010 consisted of scrutiny of documents/records of Warship Overseeing Team located at Mazagon Dock Limited (MDL), Mumbai and Garden Reach Shipbuilders and Engineers (GRSE), Kolkata, Directorate of Naval Design Surface Ship Group (SSG) and various Professional Directorates responsible for nominating vendors for equipments, weapons and sensors required for the ships, through issue of questionnaire/audit slips and discussions with key personnel. A meeting was also held with Senior Management of MDL in March 2010.

The draft audit report was issued to the Ministry in August 2010 requesting for a written response within six weeks and also holding of an exit conference thereafter to discuss the main audit findings as per standard audit practice. The updated report was again forwarded to

Ministry in December 2010. An exit conference was held on 17<sup>th</sup> February 2011. In this conference, all audit findings and recommendations were presented and discussed with the Ministry of Defence and officers of the Navy. Audit has taken due care with regard to reporting on classified information to ensure that nothing of contemporary or real time significance is revealed in the report. The reply of the Ministry on the report was awaited as of February 2011.

## **2.5 Previous Audit Findings**

The Comptroller and Auditor General's Audit Report No 8 for the year 1998 had highlighted the following areas of concern in the construction of frigates under project 15 and 16A at MDL and GRSE respectively.

- ***Depletion in force levels of frigates***
- ***Tardy progress of construction of new frigates in MDL and GRSE***
- ***Increase in cost***
- ***Deficient internal controls***

The Ministry while agreeing partially with the Audit findings stated that the shipbuilding projects suffered from time and cost overruns, *inter alia*, due to the following:

- (a) Changes in weapon systems;
- (b) Delay in receipt of weapons and sensors;
- (c) Infrastructure limitations with shipyards; and
- (d) Delay in assimilating the new shipbuilding technology.

The Ministry, nonetheless, claimed that the following remedial action has been initiated to obviate the recurrence of time and cost overruns in subsequent shipbuilding projects:

- **Improved monitoring mechanism** with timely reviews at highest level (Secretary – Defence Production)
- **Examination of time overruns and cost overruns** in the shipbuilding projects by a Committee under the chairmanship of Additional Secretary (I).

- **Establishment of revised warship building procedures** formulated in March 2004 with the approval of Raksha Mantri and incorporated in the Defence Procurement Procedure, with effect from July 2005.
- **Finalisation by a Committee of an outline paper on reasons** for time and cost overruns in Naval Defence Projects, after holding several meetings.

In the absence of the promulgation of any concrete steps on ground by the Ministry, Audit did not vet the final ATN. Audit decided to revisit this topic in March 2009 as the issue remains as relevant today with the ongoing construction programme of Indian Navy at various shipyards.