CHAPTER III: AIR FORCE

Contract Management

3.1 Extra expenditure due to delay in conclusion of a contract

Delay in finalizing a contract by MoD/IAF for extending total technical life (TTL) of nine aircraft resulted in extra expenditure of ₹87.52 crore. All the nine aircraft had to be grounded on the expiry of their TTL.

Indian Air Force (IAF) inducted 17 aircraft 'A' between 1985 and 1989 to cater for its operational requirement. The TTL of these aircraft was 20 years. The Ministry of Defence (MoD), in November 2005, concluded a contract with firm 'M' for overhaul and extension of assigned TTL of six aircraft to 30 years at a total cost of 28.1 million USD (₹128.22 crore[1]). The contract provided an option to the buyer (MoD) to place orders for execution of overhaul/TTL extension of more aircraft 'A' on the same terms and conditions with an escalation coefficient of 2.85 *per cent per annum* within the next five years i.e up till November 2010.

To avail of the above option IAF, in June 2006, initiated a proposal for overhaul/TTL extension of another nine aircraft 'A'. To extract a price advantage on the basis of increase in the number of aircraft being overhauled, MoD negotiated (April 2007) with firm 'M'. The negotiated price of 33.11 MUSD (₹139.09 crore[2]) was valid till December 2007. While the draft addendum to the previous contract was being processed in the MoD, two representations were received (May/August 2007) from two other firms alleging award of contract without issue of tender, non-availability of adequate facilities with the vendor for the assigned job and deviation from Defence Procurement Manual 2006.

[1] ₹45.63 per USD
[2] ₹ 42.01 per USD

Our scrutiny (February 2012) revealed that MoD took a final view on the allegation only in March 2008, by which time the validity of the negotiated cost expired. Firm 'M' refused to extend the validity and preferred to re-negotiate. Instead IAF preferred (March 2008) to re-float the Request for Proposal on limited tender enquiry basis. The offer of firm 'M' was again found to be the lowest and a contract for overhaul/TTL extension was concluded (December 2009) by MoD at a negotiated price of 41.77 MUSD (₹196.31 crore[3]) that was ₹57.22 crore more than the negotiated price of the previous bid that was valid up till December 2007. That apart, all the nine aircraft had to be grounded on the expiry of their TTL between December 2007 and September 2009. Consequently, IAF had to procure minimum essential spares worth 6.45 MUSD (₹30.30 crore) to make the aircraft fly worthy so that these could be positioned at the premises of firm 'M' for overhaul/TTL extension.

While accepting the facts, the Ministry stated (June 2012) that:

- there has been no extra expenditure as the difference of cost between the proposal of April 2007 and contract of December 2009 was on account of additional works required to be carried out *i.e.* extension of TTL and time between overhaul (TBO) being enhanced from 20 to 35 years and 7 to 10 years, respectively, besides a few other provisions.
- the examination and appropriate action on various allegations was delayed due to repeated representations by the complainants to different authorities.

We do not agree with the Ministry's reply because

- the difference in prices worked out by us is based on the basic overhaul, TTL and TCAS[4] of nine aircraft. The scope of this work in both the proposals was identical *i.e.* to increase TTL from 20 to 30 years. The prices of additional items indicated by the Ministry in their reply have already been factored in by us in the comparison of two bid prices. On the other hand, the increase of TTL from 30 years in the

[3] ₹46.99 per USD
[4] Traffic Collision Avoidance System

first bid to 35 years in the second bid and similarly increase of TBO from the initial limit of 7 years to 10 years was a direct consequence of delay in finalizing the contract.

- Even though we concede the importance of taking appropriate cognizance of complaints alleging irregularities, the Ministry ought to have completed its investigation of these complaints with the required promptitude and not allowed the process to drag on beyond the validity date of the bid under consideration.

Thus, delay in finalizing a contract by MoD/IAF resulted in an extra expenditure of ₹87.52 crore, besides hampering the operational capability of IAF.

3.2 Inordinate delays in installation of systems for Airfield Lighting

Deficiencies in planning and execution of works delayed installation of Airfield Lighting Systems at two strategic airbases, thereby adversely affecting the operational capability of the Indian Air Force. As a result of delays, stores worth ₹4.82 crore provisioned for the works lost their warranty without any use.

Airfield Lighting System (AFLS), which includes taxi track lights, plays an important role in aircraft safety during landing, take off and taxiing operations. We observed considerable delays in installation and commissioning of AFLS at two strategic airfields as discussed below.

Case I

Though an AFLS that was installed at Air Force (AF) Station 'A', had outlived its life in March 2004 itself, it was only in May 2007 that Air Headquarters (Air HQ) could place an indent for its replacement on Director General Ordnance Factory, Kolkata on turnkey basis, at a total cost of ₹4.76 crore (May 2007) to be completed by December 2007.

Apart from delay in placing of indent, we found delays in execution. By January 2011, only 60 *per cent* of the work services had been completed while 95 *per cent* of the store was positioned at the site. As of November 2011, the work had not progressed any further and a fifth extension in Probable Date of Completion (PDC) upto March 2012 had been solicited. Meanwhile, warranty of AFLS equipment valuing ₹3.70 crore had expired.

Thus, due to delay in placing of indent for AFLS by Air HQ and subsequently due to delay in its commissioning, the operational capability of the AF was degraded from 2004 onwards as the main runway at the Station 'A' was available for day flights only.

The Ministry in its reply accepted the facts.

Case II

Taxi track lights are required to make the runway operational during night and poor visibility conditions. An approval for work services for lighting of Parallel Taxi Track (PTT) at AF Station 'B' was accorded (October 2004) at a cost of ₹0.21 crore. The equipment required for installation was to be provided by the AF. A contract for work services was concluded (November 2005) at a cost of ₹0.23 crore with PDC as June 2006.

Our scrutiny revealed that store worth ₹0.14 crore was supplied (January 2007) ex-stock by the AF and a supply order for the balance equipment costing ₹0.97 crore was placed only in February 2007 with delivery by June 2007. While there were delays in supply of equipment, the work could not be taken up till September 2010 as the resurfacing work on the main runway was in progress.

Meanwhile, the sanction issued in October 2004 had lapsed due to non commencement of work within the stipulated five years from the date of sanction. This necessitated issue of a fresh sanction (September 2011) for ₹0.53 crore but the fresh contract was yet to be concluded (March 2012). Further, store worth ₹1.12 crore had lost its warranty in storage and cost of work services had escalated by ₹0.29 crore.

The AF authorities replied (March 2011) that in absence of PTT lighting, Retro Reflective Taxi Way Edge Markers had been provided as a temporary measures to mark the edges of the taxi track.

This interim measure, however, restricts the taxiing speed which makes the aircraft stay longer in open area before take-off and after landing, thereby making them vulnerable during hostilities.

Due to the inability of the AF to install the lighting of PTT for over seven years, the operational capability had been adversely affected.

Accepting the facts, the Ministry stated (April 2012) that temporary measures need to be replaced with permanent taxi lights for operational necessity and flight safety.

Procurement

3.3 Extra expenditure on procurement of spares

Non-adherence to the contractual provisions under an option clause for procurement of spares resulted in an extra expenditure of ₹9 crore.

The Ministry of Defence (MoD) concluded (November 2007) a contract for procurement of 382 lines of SU-30 MKI aircraft rotables with M/s. Aviation Holding Company 'SUKHOI'(supplier) at a total cost of 78.05 MUSD (₹312 crore[5]). In order to maintain the fleet serviceability, the MoD signed (December 2008) a supplement to the main contract of November 2007 under an option clause for procurement of 375 lines of rotables at a total cost of 62.83 MUSD (₹267 crore[6]), after allowing price escalation for the year 2009. As per the terms of the main contract, the buyer (MoD) had the right to place a separate order on the supplier till the expiry of the warranty period for the equipment at the same prices and terms and conditions provided that the delivery of the equipment ordered under the option clause was made before

[5] 1USD = ₹40
[6] 1USD = ₹42.50

31 March 2009. In case, the delivery was made after 31 March 2009, the cost would be escalated through the application of a mutually agreed escalation formula.

We observed in as much as the option clause had benchmarked the price of additional spares to the terms and conditions including those relating to price as provided in the original contract for similar spares, the net price at which contracted supplies were procured ought to have been comparable to the net price under the original contract. The Ministry while negotiating the net price of supplies failed to factor in the quantum of discount (13.0381 *per cent*) secured on the quoted price under the original contract. It accepted a discount of 10 *per cent* without any explicit attempt to negotiate a higher rate of discount.

The Indian Air Force/MoD failed to adhere to the negotiated price of spares procured under the option clause with reference to net price under the original contract. As the rotables which could have been procured under the option clause at a total cost of 60.71 MUSD (₹258 crore) were actually procured at a cost of 62.83 MUSD (₹267 crore), it resulted in a loss of ₹9 crore to the Government.

The Ministry stated (July 2012) that no loss has been occurred to the State as the discount of 13.0381 *per cent* in fact represented difference between the offered cost and the finally offered cost on account of a package deal negotiation which could not be construed as a bulk discount as per normal circumstances. The supplementary contract under option clause contained 10 *per cent* bulk discount as per the existing pricing philosophy.

The Ministry's reply is not acceptable as it was clearly indicated in the Annexure to the main contract that the supplier will allow 13.0381 *per cent* discount on the total cost of the equipment under the contract. Hence, the supplier was contractually bound to allow 13.0381 *per cent* discount on procurement under the option clause as per the terms of the main contract of 2007. The Ministry had made no attempt to hold the supplier to that price level.

3.4 Procurement of Fuel System Icing Inhibitor

Inadequate follow up of replacement with the vendor of a short lifed product which had been over-provisioned *ab-initio*, led to an avoidable loss of ₹1.15 crore.

Fuel System Icing Inhibitor (AL-31) is used in aircraft that have no fuel heater for mixing Aviation Turbine Fuel (ATF) at high altitudes to ensure safe operation of the aircraft. The 'AL-31' which is a fuel system icing inhibitor used by Indian Air Force (IAF) has been developed indigenously by M/s Swastik Oil Products, Navsari and has a shelf life of 12 months from the date of manufacture.

The Air Headquarters (Air HQ) in March 2009 placed a Supply Order (SO) on M/s Swastik Oil Products, Navsari for supply of 99,000 litre of AL-31 at a cost of ₹2.06 crore. The SO stipulated delivery of the entire quantity within 60 days as against 45 days solicited through Request for Proposal (RFP) issued in October 2008. The firm supplied the ordered quantity in March 2009 itself.

We observed (November 2010) that out of 99,000 litre, 55,390 litre valuing ₹1.15 crore was lying in stock at various units. We also noticed that faced with the prospect of huge quantity of unused product losing its shelf life, Air HQ, in January and February 2010, had forwarded its samples to two different agencies for further extension of shelf life. As the samples failed to meet the laid down parameters for shelf life extension (January 2010), this resulted in Air HQ stopping the issue of AL-31. As product had failed within the shelf life, the firm was asked (February 2010) to replace the entire stock. The firm requested (February 2010) Air HQ to do testing on the sealed sample in presence of their representative.

Though Air HQ accepted (November 2011) that the product was over provisioned and a staggered delivery schedule could have facilitated greater utilization of the product, no evidence was shown to audit to establish follow up action on the firm's request. The firm refused (September 2010) to replace the stock averring that both the samples had been tested in their competitor's lab and any testing/sampling without the vendor's presence was not valid. The firm further stated that the shelf life of store had already expired in March 2010 and any testing at that stage could only be done for extension of life and without any liability on their part.

The Ministry stated (March 2012) that the product failed before the expiry of shelf life that was upto March 2010 and hence it could not be used.

The Ministry's reply does not explain why 56 *per cent* of the procured product remained unissued as late as two months prior to expiry of its shelf life which clearly points to over provisioning as already admitted by the Air HQ. It also does not explain why a sealed sample of the product could not be done with the full knowledge of the vendor. This coupled with the failure to follow up effectively the replacement of the product that had failed well within its shelf life, led to an avoidable loss of ₹1.15 crore.

Miscellaneous

3.5 Saving at the instance of audit

An amount of ₹1.33 crore was saved after having been pointed out by audit.

Based on the recommendation of a Board of Officers held in June 2008, HQ Western Air Command, New Delhi, accepted the necessity and accorded administrative approval (December 2008) for provision of sports infrastructure at Air Force (AF) Station, Kasauli at an estimated cost of ₹1.33 crore (including gymnasium building costing ₹96 lakh). As per applicable Scales of Accommodation (SOA), Defence Services, a gymnasium is authorized for stations having troop strength of at least 1000. AF Station, Kasauli having sanctioned troop strength of 233, did not meet the scales of requirement and as such was not authorized to have a gymnasium. Based on our observation (June 2009), AF authorities cancelled the administrative approval in November 2010 thereby resulting in a saving of ₹1.33 crore.

The Ministry accepted the facts in December 2011.