

OVERVIEW

The total expenditure of the Defence Services during the year 2010-11 was ₹1,58,723 crore. Of this, the Air Force and Navy spent ₹38,782 crore and ₹27,285 crore respectively. The combined expenditure of the two services amounts to 41.62 *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 61.66 *per cent* of their total expenditure.

This Report contains major findings arising from the test audit of transactions of the Air Force, the Navy, the Coast Guard and the Military Engineer Services. Some of the major findings included in the Report are discussed below.

I Management of Defence Offsets

An offset is a mechanism to partially compensate for the significant outflow of a country's resources in large purchases of foreign goods and services by making the foreign supplier to invest in industry, or in research and development, etc in the buyer country.

Our scrutiny revealed that out of 16 offset contracts worth ₹18,444.56 crore concluded between 2007 and 2011, in five offset contracts worth ₹3,410.49 crore ready built equipment without any value addition through the Indian Offset Partners (IOPs) were accepted as offsets, which was not in consonance with the offset provisions as prescribed in the Defence Procurement Procedure. This was largely due to varying interpretation of various authorities about the legitimacy or otherwise of the offsets being offered. The IOPs selected for offsets in some cases were not valid. The monitoring mechanism for implementation of offset contracts was weak.

MoD needs to ensure clarity in the interpretation of offset provisions so as to leave little room for ambiguity in their interpretation. The monitoring mechanism also needs to be reviewed to ensure effective implementation of offset contracts.

(Paragraph 2.1)

II Inordinate delay in procurement and integration of a Radar Warning Receiver system

Even after an expenditure of ₹521 crore and delay of over seven years, IAF failed to derive intended benefits of integrating a state of the art RWR system on different aircraft desired by them. Out of the total 336 systems, only 73 systems have been integrated. Even in the systems integrated, the performance was largely unsatisfactory. The systems are being integrated as an interim measure till development of an advanced system.

(Paragraph 2.2)

III Inordinate delay in induction of a system

The commissioning and successful integration of four numbers of system 'A', on four submarines of the Indian Navy was plagued with delays for over a decade. The Indian Navy could, therefore, derive no tangible benefits from an investment of ₹167.64 crore made in March 2001 on procurement/commissioning of the system 'A'. Ultimately, only two systems 'A' could be proven as late as 2011, which adversely impacted the operational preparedness of the Indian Navy.

(Paragraph 2.3)

IV Avoidable extra expenditure in procurement of Electro Optic Devices for Dorniers

Delays by the Ministry of Defence in processing the case for procurement of 15 Electro Optic Devices for Dornier aircraft of the Indian Navy, from a Defence PSU, led to an avoidable expenditure of ₹10.95 crore. The delayed procurement of equipment of operational nature also impacted the capabilities of the Indian Navy for over five years.

(Paragraph 2.4)

V Non-exercise of option clause resulting in extra expenditure in procurement of fuel barges

Failure on the part of the Indian Navy/Ministry of Defence to invoke the provisions of an option clause, of an existing contract for supply of fuel barges, led to an extra expenditure of ₹2.94 crore in their subsequent procurement.

(Paragraph 2.5)

VI Recovery of accrued interest on advance payments

A recovery of ₹28.78 crore was made at our instance from Cochin Shipyard Limited on account of accrued interest on unspent advances.

(Paragraph 2.6)

VII Extra expenditure due to delay in conclusion of a contract

Failure of IAF/MoD to adhere to the contractual provision of overhaul/Total Technical Life (TTL) extension not only delayed the conclusion of contract but also resulted in an extra expenditure of ₹87.52 crore.

(Paragraph 3.1)

VIII Inordinate delay in installation of systems for Airfield Lighting

Deficient planning and execution of works in installation of Airfield Lighting System at two strategic airfields adversely affected operational capability of IAF.

(Paragraph 3.2)

IX Procurement of unsuitable Navigation Computers

Failure of the Indian Navy to correctly mention the part number of a Navigation Computer for helicopter 'A' in the purchase order led to incorrect procurement of two Navigation Computers costing ₹2.28 crore.

(Paragraph 4.1)

X Failure to synchronise creation of a critical test facility

Failure on the part of Integrated Headquarters (IHQ), Ministry of Defence (MoD) (Navy) to synchronise the creation of a critical test facility with the procurement of a equipment led to continuous disuse of test equipment worth ₹10.72 crore for over three years. Delayed conclusion of the contract for installation of test equipment also resulted in extra expenditure of ₹1.65 crore.

(Paragraph 4.4)

XI Non-conclusion of contract for repair/overhaul of Seaking rotables

Sub-optimal utilisation by Hindustan Aeronautics Limited (HAL), of a repair/overhaul facility led to offloading of Seaking rotables to Original Equipment Manufacturer (OEM) at a cost of ₹18.36 crore. Besides, absence of a contract between the Indian Navy and HAL for repair of these type of rotables, also resulted in an avoidable expenditure of ₹1.36 crore on re-repair/overhaul of a rotatable that had failed prematurely.

(Paragraph 4.6)

XII Non-conformity of the procedure in procurement of Air Cushion Vehicles

The procurement of 12 Air Cushion Vehicles costing ₹223.26 crore, in October 2010, for the Indian Coast Guard was not in conformity with the laid down procedure(s). This led to procurement of crafts deficient in critical parameters *vis-à-vis* the requirements projected in the Request for Proposal (RFP) as well as denial of level playing field to the prospective suppliers.

(Paragraph 5.1)