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Report of the
Comptroller and Auditor General of India
for the year ended March 2012

Union Government
(Defence Services) Army and Ordnance Factories
Report No.30 of the year 2013
(Compliance Audit)

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PREFACE

This Report for the year ended March 2012 has been prepared for submission to the President of India under Article 151 of the Constitution for being tabled in Parliament. The Report relates to matters arising from the test audit of the financial transactions of Ministry of Defence pertaining to Army, Ordnance Factories, Department of Defence, Department of Defence Production, Defence Research and Development Organisation and Military Engineer Services. The matters arising from the Finance and Appropriation Accounts of the Defence Services for 2013 have been included in Audit Report No. 1 of 2013 (Financial Audit).

The Report includes 27 Paragraphs, reporting important audit observations as discussed from Chapter II onwards.

The cases mentioned in this Report are among those which came to notice in the course of audit for the period 2011-12. Matters relating to earlier years which could not be included in the previous Reports and matters relating to the period subsequent to 2011-12, wherever considered necessary have also been included.

OVERVIEW

Improper management of Defence land

Despite highlighting cases of poor management of Defence estates in the various Audit Reports repeatedly and issue of specific directions by the PAC for strict compliance with the concerned Rules and Regulation, there had been no significant improvement in the management of Defence land. As a result, the irregularities relating to misuse of Defence land, inordinate delay in renewal/termination of leases involving huge accumulation of arrears of rentals, unauthorised occupation of Defence land by other departments etc. continued to persist.

(Paragraph 2.1)

Non-recovery of service charges from Railways

Despite specific provisions in the Cantonment Act 2006, the Cantonment Boards Agra, Ambala, Nasirabad and Delhi failed to recover service charges of ₹10.74 crore from the Railways for the period 2007-08 to 2012-13.

(Paragraph 2.2)

Non introduction of Air Conditioners in Tanks

Ignoring the recommendations of the trial team, the Ministry of Defence procured Tanks 'X' valuing ₹9083.36 crore in 2001 and 2007 without Air Conditioners rendering the fleet of Tank ‘X’ vulnerable to degradation of sensitive components. Although the action for procurement of Air-Conditioners was initiated in 2002, the same was yet to materialise.

(Paragraph 2.3)

Non-synchronization of payments without corresponding progress of work

Monitoring Cell consisting of members from Army and Bharat Earth Movers Limited failed to release payments judiciously, without linking the same to corresponding progress of work resulting in release of ₹110 crore as interest free advance to M/s Bharat Earth Movers Limited. As a result, order placed in 2001 for supply of Pontoon Mid Stream bridges did not fructify despite advance payment of ₹313.72 crore made almost nine years ago.

(Paragraph 2.4)

Absence of effective controls resulting in non recovery of outstanding dues

Ambiguity about the responsibility between Ministry of External Affairs (MEA) and Ministry of Defence (MoD) for recoveries pertaining to Peace Keeping Missions from the United Nations (UN) not only resulted in accumulation of huge outstanding balances but also in unlikely reimbursement of ₹ 73.84 crore due from four missions which have since been closed.

(Paragraph 2.5)

Acceptance of sub-standard stores without prior technical inspection from an unregistered and inexperienced firm

The Integrated Headquarters of Ministry of Defence (Army) procured Mask Face Extreme Cold Weather valuing ₹2.54 crore between April 2008 and August 2008 from an unregistered vendor without proper survey and prior approval of sample resulting in non- utilisation of 92783 numbers valuing ₹1.82 crore.

(Paragraph 3.1)

Holding of X-ray generators in stock for nine years

The failure of Integrated Headquarters of Ministry of Defence (Army) to release 32 X-Ray generators worth ₹2.28 crore to user units procured on the basis of urgent requirement to be used as counter IED equipment resulted in expiry of life in storage.

(Paragraph 3.2)

Loss due to non-maintenance of batteries

Out of 37957 low maintenance batteries procured by Army Headquarters/Central Ordnance Depot Delhi Cantonment, 6993 batteries became defective due to inadequate maintenance required during storage resulting in a loss of ₹4.18 crore.

(Paragraph 3.3)

Avoidable expenditure on re-transportation of stores

The failure of Army Headquarters, to implement the 'Transportation Model' envisaging direct dispatch of stores by the supplier to the ultimate consignee, resulted in avoidable extra expenditure of ₹ 5.45 crore defeating the propose for which transportation model was envisaged.

(Paragraph 3.4)

Extra expenditure on account of provision of unauthorised strengthening measures in buildings

In violation of Indian Standard 1893:2002, National Building Code of India 2005 and Central Command Works specifications, concerned competent financial authorities accorded sanctions incorporating additional plinth area rates for construction of buildings in seismic zones II and III resulting in extra expenditure of ₹2.34 crore.

(Paragraph 3.5)

Unauthorised use of Defence accommodation

Notwithstanding the specific Government orders and various Reports of the C&AG, the local Commanders misused their delegated powers by re-appropriating Government buildings at Delhi and Pune Cantonments for non-bona fide purposes.

(Paragraph 3.6)

Recoveries, savings and adjustment in account at the instance of Audit

In pursuance of Audit Observations the audited entities recovered overpayments pertaining to pay and allowances, electricity, octroi and sundry charges, cancelled works sanctions and amended annual accounts, having a net effect of ₹68.94 crore.

(Paragraph 3.7)

Avoidable extra expenditure of ₹1.03 crore due to acceptance of conditional contract

In violation of Regulations for the Military Engineer Services, the Chief Engineer Delhi Zone concluded a conditional contract involving uncertain liability without Government approval resulting in an avoidable payment of ₹1.03 crore to the Contractor.

(Paragraph 4.1)

Poor planning resulting in suspension of work and damage to the Government property

Army acquired land worth ₹9.04 crore, without considering the provision for approach road, resulting in suspension of construction work after incurring ₹3 crore. These assets sustained damages worth ₹37 lakh and necessitated preventive works worth ₹1.87 crore.

(Paragraph 4.2)

Avoidable extra expenditure due to non installation of meter

The failure of the Chief Engineer Udhampur Zone to install electric meter at MES receiving station Udhampur for 33 KV bulk electric supply from Jammu and Kashmir State Electricity Department and to claim energy rebate led to an extra expenditure of ₹8.83 crore.

(Paragraph 4.3)

Inadmissible payment of escalation charges to the contractors

In contravention of provisions of Defence Works Procedure 2007, the Chief Engineers concluded contracts incorporating price variation clause in tender documents based on clarifications issued by Engineer-in-chief leading to inadmissible payments to the contractors.

(Paragraph 4.4)

Extra avoidable expenditure by ANURAG

Advanced Numerical Research and Analysis Group placed a supply order on single tender basis on M/s ITI Limited Hyderabad for upgradation of project CHITRA at a cost of ₹16.38 crore. However, M/s ITI Limited got the work executed by outsourcing through M/s Real Time Tech Solution Bangalore at a cost of ₹14.26 crore involving extra expenditure of ₹2.12 crore to the department.

(Paragraph 5.1)

Unwarranted procurement of CATIA V6 software

The procurement of ten out of the 12 licences of CATIA V6 CAD/CAM software by Advanced Numerical Research and Analysis Group centrally on a single tender basis at a cost of ₹11.05 crore without a proper feasibility study/need analysis was unwarranted as even after more than two years, the software continued to remain unused since its procurement in March 2011.

(Paragraph 5.2)

Procurement in violation of norms by DRDO

Defence Research and Development Organisation procured a critical component required in production of ‘NAG’ missile at a cost of ₹52.58 crore, in anticipation of an order from the Army, which resulted in blocking of Government money amounting to ₹34.70 crore.

(Paragraph 5.3)

General Performance of Ordnance Factory Organisation

The Ordnance Factory Organisation comprising 41 Ordnance Factories (including two ordnance factories under project stage) with manpower of 96,547 is engaged in production of arms, ammunition, equipment, clothing *etc.* primarily for the Armed Forces of the country. The value of production aggregated to ₹15933.44 crore in 2011-12 which was 13.71 *per cent* higher than the value of production of ₹14012.11 crore in 2010-11.

In spite of having sufficient balance of ₹490.45 crore at the beginning of the year under 'Renewal and Reserve' (R/R) Fund in the Public Account of India, OFB got an allotment of ₹325.00 crore under 'Transfer to RR Fund' and drew only ₹311.42 crore during 2011-12 for purchase of plant and machinery and parked the remaining amount of ₹13.58 crore in the Public Fund of India. Thus, accumulated closing balance in RR fund as on 31.03.2012 was ₹504.03 crore.

During 2011-12, the OFB reported an increase of total receipts of ₹1385.01 crore (12.05 *per cent*) over 2010-11. This had enabled OFB to show a surplus of ₹734.87 crore during 2011-12. However, the total receipt was inflated by ₹1581.12 crore due to the incorrect practice of debiting Armed Forces and other indentors for issues without actual physical issue of the items till 31 March 2012. This had consequently inflated the surplus amount for the year to the same extent.

During 2011-12, out of 547 items for which demands existed and targets were fixed, there was a shortfall of 64 *per cent* (352 items) in achieving the target.

During 2011-12, export target had increased by 15.20 *per cent* as compared to 2010-11.

(*Paragraph No 6.1)*

Avoidable extra expenditure on procurement of a component

Procurement of Tail Unit 8A by Ammunition Factory Kirkee/Ordnance Factory Dehu Road from Ordnance Factory Kanpur (OFC) despite the OFC's material cost being higher than the total trade cost of Tail Unit 8A led to avoidable extra expenditure of ₹24.79 crore.

(*Paragraph No 6.2)*

Undue benefit to a foreign supplier by allowing Exchange Rate Variation

Ordnance Factory Board, in violation of Defence Procurement Manual and without obtaining approval of the Ministry of Defence, granted undue benefit to a foreign supplier by making extra payment of ₹1.22 crore on account of Exchange Rate Variation.

(*Paragraph No 6.3)*

Undue benefit to a foreign firm by diluting the conditions in Tender Enquiry and contract

Ordnance Factory Badmal, in violation of Defence Procurement Manual, accorded undue benefit to a foreign firm by accepting the PC Sheets valuing ₹2.58 crore without ascertaining its manufacturing month. This coupled with delayed issue of PC Sheets to Ordnance Factory Chanda had resulted in accumulation of shelf life expired PC Sheets valuing ₹0.67 crore.

(Paragraph No 6.4)

Loss due to rejection of empty shells and consequent blocking of inventory

The production and inspection agencies failed to resolve the proof methodology which arose due to rejection of one lot (manufactured by Ordnance Factory Kanpur) of empty shell valuing ₹2.78 crore. As a result, inventory worth ₹10.28 crore remained unutilized.

(Paragraph No 6.5)

Inadequate quality control resulting in loss of ₹7.42 crore due to rejection of 7.62mm brass cups and ammunition

Ordnance Factory Katni issued 7.62mm brass cups with manufacturing defects, because of deficient quality control, to Ordnance Factory Varangaon which used these brass cups to produce ammunition. This resulted in rejection of brass cups and ammunition valuing ₹7.42 crore.

(Paragraph No 6.6)

Blocking of inventory due to bulk manufacture before clearance of pilot sample

Bulk manufacture of empty bodies of an ammunition by Ordnance Factory Kanpur even before successful performance of its pilot lots in proof resulted in blocked inventory of ₹2.13 crore.

(Paragraph No 6.7)

Recoveries at the instance of Audit

At the instance of Audit, 18 Ordnance Factories and three Inspectorates of Directorate General of Quality Assurance New Delhi recovered ₹2.09 crore.

(Paragraph No 6.8)

CHAPTER I : INTRODUCTION

1.1 Foreword

This Report relates to matters arising from the compliance audit of the financial transactions of the Ministry of Defence and its following Organisations:

- Army,
- Inter Services Organisations,
- Defence Research and Development Organisation and its laboratories dedicated primarily to Army and Ordnance Factories,
- Defence Accounts Department, and
- Ordnance Factories.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

The primary purpose of the report is to bring to the notice of the legislature important results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the volume and magnitude of transactions. The findings of Audit are expected to enable the Executive to take corrective actions as also frame policies and directives that will lead to improved financial management of the Organisations, thus contributing to better governance and improved operational preparedness.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant audit observations, followed by a brief analysis of the expenditure of the above Organisations. Subsequent chapters present detailed findings and observations arising out of the compliance audit of the Ministry and the aforementioned Organisations.

1.2 Audited entity profile

Ministry of Defence, at the apex level, frames policies on all Defence related matters. It is divided into four departments, namely, Department of Defence, Department of Defence Production, Department of Research and Development and Department of Ex-Servicemen Welfare. Each department is headed by a Secretary. The Defence Secretary who is the Head of the Department of Defence also coordinates the activities of other departments.

Army is primarily responsible for the Defence of the country against external aggression and safeguarding the territorial integrity of the nation. It also renders aid to the civil authorities at the time of natural calamities and internal disturbances. It is, therefore, incumbent upon the Army to suitably equip, modernize and train itself to meet these challenges.

DRDO, through its chain of laboratories, is engaged in research and development, primarily to promote self-reliance in Indian Defence sector. It undertakes research and development in areas like aeronautics, armaments, combat vehicles, electronics, instrumentation, engineering systems, missiles, materials, naval systems, advanced computing, simulation and life sciences.

The Inter Services Organisations, such as Armed Forces Medical Services, Military Engineer Services (MES), Defence Estates, Quality Assurance, etc., serve the Defence forces in the three wings of the Army, Navy and Air Force. They are responsible for development and maintenance of common resources for optimising cost-effective services. They function directly under Ministry of Defence.

Ordnance Factory Board (OFB) functions under the administrative control of the Department of Defence Production and is headed by Director General, Ordnance Factories. Thirty-nine factories are responsible for production and supply of ordnance stores to the armed forces.

1.3 Integrated Financial Advice and Control

Ministry of Defence and the Services have a full-fledged internal financial control system in place. With fully integrated Finance Division in the Ministry of Defence, the Secretary (Defence Finance) and his/her officers scrutinize all proposals involving expenditure from the Public Fund. Secretary (Defence Finance) is responsible for providing financial advisory services to Ministry of Defence and the Services at all levels, and for treasury control of the Defence expenditure.

Being Chief Accounting Officer of the Defence Services, Secretary (Defence Finance) is also responsible for the internal audit and accounting of Defence expenditure. This responsibility is discharged through the Defence Accounts Department with the Controller General of Defence Accounts as its head.

1.4 Authority for Audit

The authority for our audit is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (DPC) Act, 1971. We conduct audit of Ministries/Departments of the Government of India under Section 13[1] of the

[1] Audit of (i) all expenditure from the Consolidated Fund of India (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts & balance-sheet & other subsidiary accounts.

CAG's (DPC) Act. Major Cantonment Boards are audited under Section 14[2] of the said Act. Principles and methodology of compliance audit are prescribed in the "Regulations of Audit and Accounts, 2007".

1.5 Planning and Conduct of Audit

Our audit process starts with the risk assessment of the Organisation as a whole and of each unit, based on expenditure incurred, criticality and complexity of activities, level of delegated financial powers, assessment of overall internal controls, and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Local Test Audit Reports (LTARs) containing audit findings are issued to the Head of the unit. The units are requested to furnish replies to the audit findings within a month of receipt of the LTARs. Whenever the replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these LTARs are processed for inclusion in the audit reports which are submitted to the President of India under Article 151 of the Constitution of India. During 2011-12, audit of 626[3] units/formations was carried out by employing 11670[4] party days. Our audit plan ensured that most significant units/entities, which are vulnerable to risks, were covered within the available manpower resources.

1.6 Significant audit observations

Capital and Revenue procurements made by the Ministry of Defence and the Service Organisations form the critical area as far as the audit of Defence Sector is concerned. We have been pointing out deficiencies in the procurement process in the previous Audit Reports and the Ministry of Defence has taken several measures to improve the procedures involved. Periodical revisions of the Defence Procurement Procedure (DPP) and Defence Procurement Manual (DPM) are significant steps to evolve better practices.

The present Report highlights cases which assume importance in the light of their impact on operational preparedness. The Report also brings out issues regarding improper management of Defence land, poor management of contract, inadmissible payments to contractors, procurement of substandard stores, excess payments etc which require immediate redressal.

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[2] Audit of receipt and expenditure of bodies or authorities substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory.

[3] Number of units/formations audited by O/o DGADS, New Delhi and O/o PDA(OF) Kolkata

[4] Number of Party days employed during the financial year 2011-12 by the o/o DGADS New Delhi and o/o the PDA(OF) Kolkata

In violation of standard procurement practice DRDO procured a critical component at a cost of ₹52.58 crore in anticipation of an order from the Army resulting in blocking of Government money of ₹34.70 crore (Paragraph 5.3).

Army HQ/Central Ordnance Depot Delhi Cantonment procured 37957 newly introduced low maintenance batteries at a cost of ₹21.32 crore without sensitising the holding depots about its storage procedure and catering for adequate infrastructure for their recharge. Consequently, 6993 batteries became defective/unserviceable prematurely resulting in a loss of ₹4.18 crore (Paragraph 3.3).

Army HQ failed to implement the 'Transportation Model' for the purchase of Tyres and Integrated Field Shelters during 2005-06 to 2009-10 which resulted in avoidable expenditure of ₹5.45 crore during 2008-09 to 2011-12, due to re-dispatch of these stores by COD Mumbai to various units, instead of direct dispatch to such units from the firms (Paragraph 3.4).

In contravention of provisions of Defence Works Procedure 2007, three Chief Engineers in the Central, Western and South Western Commands concluded contracts incorporating escalation clause resulting in inadmissible payments of ₹1.39 crore to the contractors (Paragraph 4.4).

Army HQ failed to implement the laid down procedure of sample and capacity verification of the firm and concluded a contract with a new and unregistered firm for supply of Mask Face Extreme Cold Weather for ₹2.54 crore without prior approval of sample. The Mask so procured were found to be sub standard (Paragraph 3.1).

Ministry of Defence (MoD) concluded contracts for procurement of Tanks 'X' without Air-conditioners (ACs) valuing ₹9083.36 crore, despite the recommendation of the trial team for the same. However, MoD immediately accepted the need for ACs. The procurement of ACs was yet to materialize (Paragraph 2.3).

Chief Engineer Udhampur Zone did not install the meter in absence of which Jammu & Kashmir State Electricity Department charged MES for assessed consumption at a highly inflated rate. MES, thereby, incurred an extra expenditure of ₹8.04 crore from March 2008 to November 2012, which was avoidable. (Paragraph 4.3)

In case of Ordnance Factories, audit has commented on avoidable extra expenditure on procurement of a component, undue benefit to a foreign supplier by allowing Exchange Rate Variation, undue benefit to a foreign firm by diluting the conditions in tender enquiry and contract, loss due to rejection of empty shells and consequent blocking of inventory, inadequate quality control resulting in loss of ₹7.42 crore due to rejection of 7.62mm brass cups and ammunition, blocking of inventory due to bulk manufacture before clearance of pilot sample and recovery at the instance of audit. In addition, General Performance about the functioning of the Ordnance Factory Organisation for the financial year 2011-12 has also been commented.

1.7 Persistent irregularities in Defence Estates management

Cases of poor management of Defence land have been highlighted in various Reports of the Comptroller and Auditor General of India on Defence Services, including the Performance Audit Report No.35 of 2010-11 on Defence Estates Management. Despite instances of unsatisfactory management of Defence estates being repeatedly highlighted in the Reports of the Comptroller and Auditor General of India, there was no significant improvement. Cases relating to misuse of Defence land by the Local Military Authorities, unauthorised occupation of land by the ex-lessees due to non-renewal of lease in time and consequent loss of revenue and unauthorized use of Defence accommodation continued to persist as reported in Paragraphs 2.1 and 3.6. Corrective steps need to be taken urgently in this regard.

1.8 Response of the Ministry/Department to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee, Ministry of Finance (Department of Expenditure) issued directions to all Ministries in June 1960 to send their response to the Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks.

The Draft Paragraphs are forwarded to the Secretaries of the Ministry/ departments concerned drawing their attention to the audit findings and requesting them to send their response within six weeks. It is brought to their personal attention that in view of likely inclusion of such Paragraphs in the Audit Reports of the Comptroller and Auditor General of India, which are placed before Parliament, it would be desirable to include their comments in the matter.

Draft paragraphs proposed for inclusion in this Report were forwarded to the Secretaries concerned between December 2012 and July 2013 through letters addressed to them personally.

The Ministry of Defence did not send replies to 12 Paragraphs out of 19 Paragraphs featured in Chapters II to V. Ministry of Defence did not send reply to seven of the eight paragraphs (November 2013) included in Chapter VI of this Report. However, the response of Army Headquarters and Ordnance Factory Board, wherever received, had been suitably incorporated in the paragraphs included in Chapter II to VI.

1.9 Action taken on earlier Audit Paragraphs

With a view to enforcing accountability of the Executive in respect of all issues dealt with in various Audit Reports, the Public Accounts Committee desired that Action Taken Notes (ATNs) on all paragraphs pertaining to the Audit Reports for the year ended 31 March 1996 onwards be submitted to them duly vetted by Audit within four months from the date of laying of the Reports in Parliament.

Review of ATNs relating to the Army as of November 2013 indicated that ATNs on 89 paragraphs included in the Audit Reports up to and for the year ended March 2011 remain outstanding, of which the Ministry had not submitted even the initial ATNs in respect of 13 Paragraphs and 28 ATNs are outstanding for more than 10 years as shown in **Annexure-I**.

1.10 Financial Aspects and Budgetary Management

1.10.1 Introduction

The budgetary allocations of the Ministry of Defence are contained under eight Demands for Grants of which six grants are included under Defence Service Estimates (DSE) and two under Civil Grants.

- Two Civil Grants which include Demand No. 20 - Ministry of Defence (Civil) and Demand No. 21 - Defence Pensions.

- Six Grants of the Ministry of Defence, which include the following:

  Demand No.22, Defence Service - Army

  Demand No. 23, Defence Services - Navy

  Demand No. 24, Defence Services - Air Force

  Demand No. 25, Defence Ordnance Factories

  Demand No. 26, Defence Services - Research & Development (R&D)

  Demand No. 27, Capital Outlay on Defence Services - Includes All Services and Departments other than those covered by the Demands for Grants of Ministry of Defence (Civil)

- The budgetary requirements for the Border Roads Organisation are provided by the Ministry of Road Transport & Highways.

The above mentioned Grants are broadly categorized into Revenue and Capital expenditure.

❖ **Revenue Expenditure:** This includes expenditure on Pay & Allowances, Transportation, Revenue Stores (like Ordnance Stores, supplies by Ordnance Factories, Rations, Petrol, Oil and Lubricants, Spares, etc.), Revenue Works (which include maintenance of buildings, water and electricity charges, rents, rates and taxes, etc.) and other miscellaneous expenditure.

❖ **Capital Expenditure:** This includes expenditure on Land, Acquisition of new weapon and ammunitions, Modernization of Services, Construction Works, Plant and Machinery, Equipment, Tanks, Naval Vessels, Aircraft and Aero-engines, Dockyards, etc.

Approval of Parliament[5] is taken for the Gross expenditure provision under different Demands for Grants. Receipts and Recoveries, which include items like sale proceeds of surplus/obsolete stores, receipts on account of services rendered to State Governments/other Ministries, etc. and other miscellaneous items are deducted from the gross expenditure to arrive at the net expenditure on Defence Services for the six Demands, *viz.* Demands Nos. 22 to 27. A brief analysis of these Grants is given below.

1.10.2 Grant No. 20 - Civil Expenditure of the Ministry of Defence

The budgetary provisions and actual expenditure including Revenue and Capital expenditure for the year 2011-12 under Demand No. 20 is shown in Table - 1 below:

Table-1: Budgetary allocation and Actual expenditure: MoD (Civil)

(₹in crore)

Budget Estimates	Revised Estimates	Actual Expenditure
13156.81	15072.84	14920.10

Major components of gross Revenue expenditure of ₹13296.32 crore for 2011-12 are Canteen Stores Department (CSD) (₹10322.32 crore), Defence Accounts Department (₹953.92 crore), Coast Guard Organisation (CGO) (₹925.84 crore), Defence Estates Organisation (DEO) (₹159.94 crore), Jammu & Kashmir Light Infantry (J&K LI) (₹ 733.82 crore), etc. In the Capital outlay of ₹ 1623.78 crore in the Revised Estimates 2011-12, the major allocations are Capital Outlay of other fiscal services - customs (₹1575.38 crore), housing and office buildings (₹35.44 crore), PSUs (₹4.00 crore) and Miscellaneous Loans for Unit Run Canteen (URC) by CSD (₹2.32 crore).

1.10.3 Grant No. 21 - Defence Pensions

Defence Pensions, under Ministry of Defence, provides for pensionary charges in respect of retired Defence personnel (including Defence Civilian employees) of the three services, *viz.* Army, Navy and Air Force, and of employees of Ordnance Factories, etc. It covers payments of service pension, gratuity, family pension, disability pension, commuted value of pension, leave encashment, etc.

The position of budgetary allocation and expenditure for the year 2011-12 under this grant is as under:

Table- 2: Budgetary allocation and Actual expenditure: Defence Pension

(₹in crore)

Budget Estimates	Revised Estimates	Actual Expenditure
34000	34000	37568.56

[5] Source: Report No.20 of Standing Committee on Defence (2012-13)

1.11 Grant No.22 to 27 - Defence Services Estimates

1.11.1 At a glance

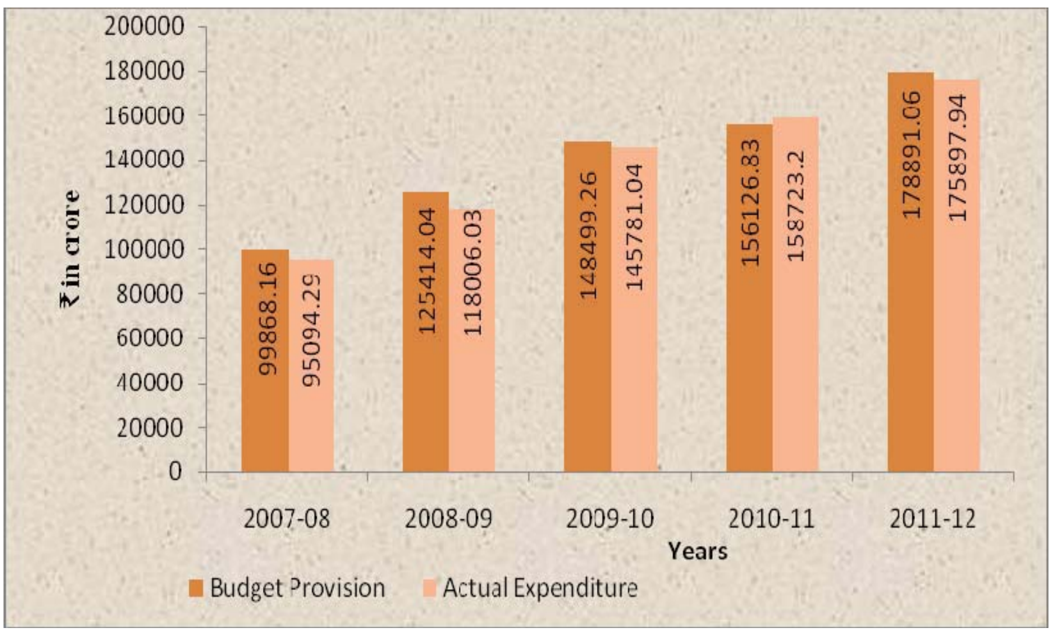
The overall Defence Budget, allocation and actual expenditure (Voted & Charged) for the period 2007-08 to 2011-12 is given in Table-3 and Chart -1 as under:

Table-3: Total Defence Budget allocation and Actual expenditure

(₹ in crore)

Year	Budget Provision	Actual Expenditure
2007-08	99868.16	95094.29
2008-09	125414.04	118006.03
2009-10	148499.26	145781.04
2010-11	156126.83	158723.20
2011-12	178891.06	175897.94

Chart-1: Budget provision Vs Actual expenditure

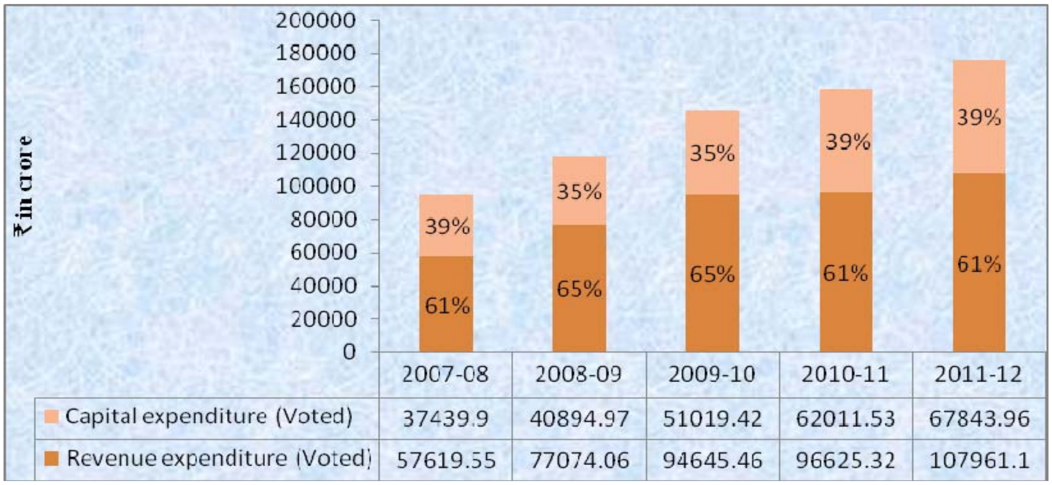


- The data relating to actual defence expenditure shows an overall increase of 84.97 *per cent* during the period 2007-08 and 2011-12 whereas the increase in 2011-12 over the previous year is 11 *per cent.*

1.11.2 Revenue Expenditure vs. Capital Expenditure in Defence Services

Capital and Revenue expenditure (Voted) for the period 2007-08 to 2011-12 is given in Chart - 2 below:

Chart - 2 : Revenue expenditure vs. Capital expenditure



The above data shows that the proportion of Capital expenditure as a percentage of total Defence expenditure has remained between the range of 35 to 39 *per cent* during the period 2007-08 to 2011-12.

1.12 Break-up of Expenditure (Voted) relating to Army, Ordnance Factories and R&D (Capital & Revenue) – Grant No. 22, 25, 26 and 27[6]

A detailed analysis of the expenditure (Voted) for the period 2007-08 to 2011-12 relating to Army, Ordnance Factories and R&D showing Revenue and Capital expenditure is given in Table-4 below.

Table-4: Expenditure (Voted) of Army, Ordnance Factories & R&D

(₹ in crore)

Description of Grant	Components of Expenditure	2007-08	2008-09	2009-10	2010-11	2011-12
Army	Actual	47393.09	59663.53	77512.29	80789.82	86776.05
	Revenue	35481.29 (74.87%)	49052.51 (82.22%)	62716.64 (80.91%)	65001.96 (80.46%)	71832.66 (82.78%)
	Capital	11911.80 (25.13%)	10611.02 (17.78%)	14795.65 (19.09%)	15787.86 (19.54%)	14943.39 (17.22%)
Ordnance Factory	Actual	1424.15	3309.13	3520.27	1527.00	1704.15
	Revenue	1274.14 (89.47%)	2957.00 (89.36%)	3279.98 (93.17%)	1073.42 (70.30%)	1427.94 (83.79%)
	Capital	150.01 (10.53%)	352.13 (10.64%)	240.29 (6.83%)	453.58 (29.70%)	276.21 (16.21%)
R&D	Actual	6137.13	7730.66	8507.87	10191.99	9932.29
	Revenue	3190.61 (51.99%)	3873.55 (50.11%)	4355.57 (51.20%)	5230.88 (51.32%)	5321.24 (53.58%)
	Capital	2946.52 (48.01%)	3857.11 (49.89%)	4152.30 (48.81%)	4961.11 (48.68%)	4611.05 (46.43%)

Note: Figure in brackets represents the Revenue/Capital expenditure as a percentage of the Actual expenditure.

[6] Grant No. 23 - Navy and Grant No.24 - Air Force are analysed in the Compliance Audit Report of the Union Government (Defence Services) Air Force and Navy

- The total Army expenditure during 2011-12 has registered an increase of 7.41 *per cent* over the previous year with the Capital expenditure recording a decrease of 5.35 *per cent* and the Revenue expenditure registering an increase of 10.50 *per cent*

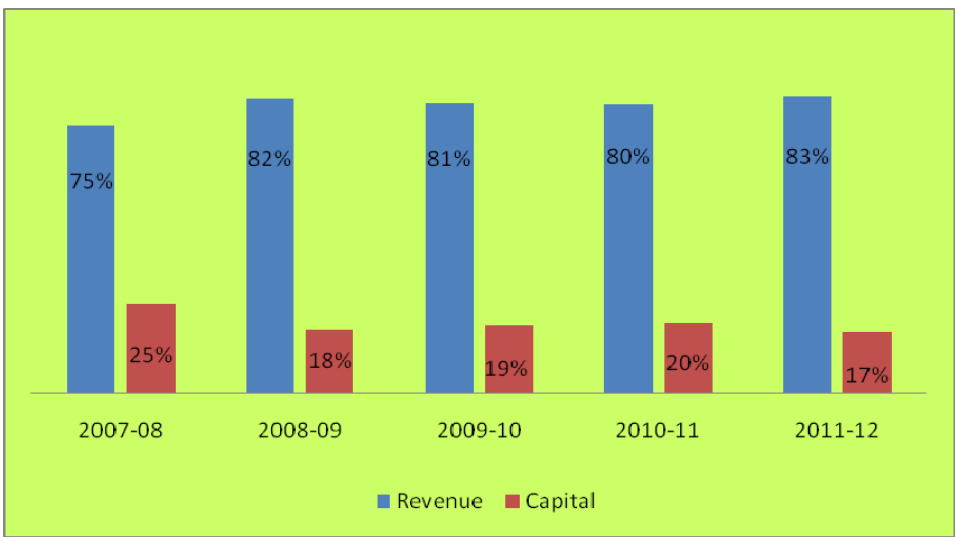
- The total Ordnance Factory expenditure during 2011-12 has recorded an increase of 11.60 *per cent* over the previous year with the Capital expenditure registering a decrease of 39.10 *per cent* and the Revenue expenditure an increase of 33.02 *per cent.*

- The total R&D expenditure during 2011-12 has recorded a decrease of 2.55 *per cent* over the previous year with Capital expenditure registering a decrease of 7.06 *per cent* and the Revenue expenditure a increase of 1.73 *per cent*.

1.12.1 Analysis of total Army Expenditure - Capital and Revenue

A trend of total Army expenditure both Capital and Revenue as a proportion of actual expenditure during the period 2007-08 to 2011-12 is given in Chart - 3 below:

Chart-3: Total Army expenditure - Capital and Revenue



The above chart shows that the Revenue component of the total Army expenditure has increased by 8 *per cent* during the period 2007-08 to 2011-12 from 75 *per cent* in 2007-08 to 83 *per cent* in 2011-12 while the Capital component has recorded a corresponding decrease during the same period from 25 *per cent* (2007-08) to 17 *per cent* (2011-12).

1.12.2 Analysis of Ordnance Factory Expenditure - Capital and Revenue

A trend of total Ordnance Factory expenditure both Capital and Revenue as a proportion of actual expenditure for the period 2007-08 to 2011-12 is given in Chart - 4 below:

Chart-4 : Total Ordnance Factory expenditure - Capital and Revenue

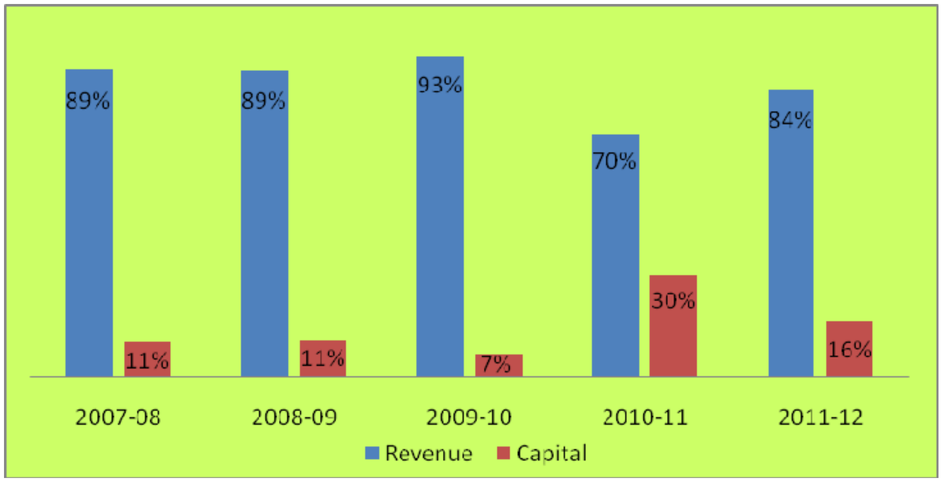


Chart-4 shows that the Revenue component of the total actual expenditure of the Ordnance Factories for the period 2007-08 to 2011-12 decreased by 5 *per cent* from 89 *per cent* in 2007-08 to 84 *per cent* in 2011-12, whereas the Capital component of expenditure increased by a corresponding percentage from 11 *per cent* to 16 *per cent.*

1.12.3 Analysis of Research and Development Expenditure - Capital and Revenue

A trend of total Research and Development expenditure both Capital and Revenue as a proportion of actual expenditure for the period 2007-08 to 2011-12 is given in Chart - 5 below.

Chart-5: Total R&D expenditure - Capital and Revenue

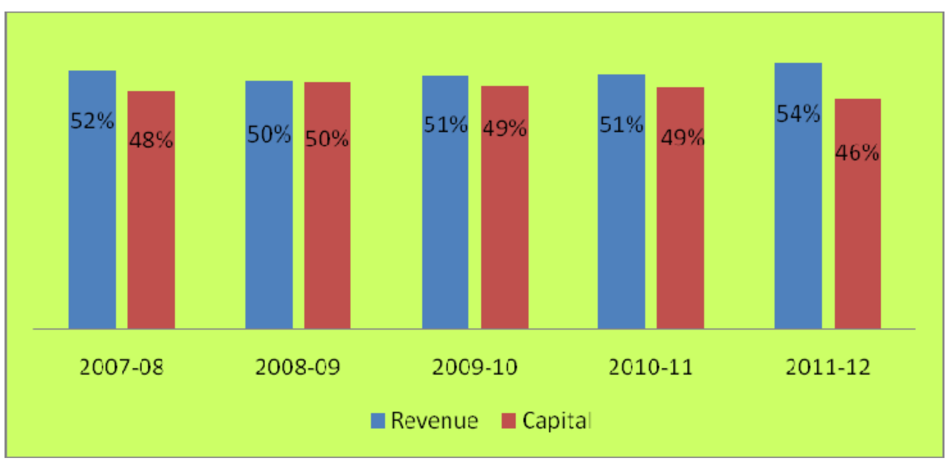


Chart-5 shows that the Revenue expenditure on R&D has increased by 2 *per cent* from 52 *per cent* in 2007-08 to 54 *per cent* in 2011-12 during the period 2007-08 to 2011-12 while the Capital expenditure has decreased by a similar percentage from 48 *per cent* to 46 *per cent.*

1.13 Analysis of Major components of Revenue expenditure

1.13.1 Army (Voted)

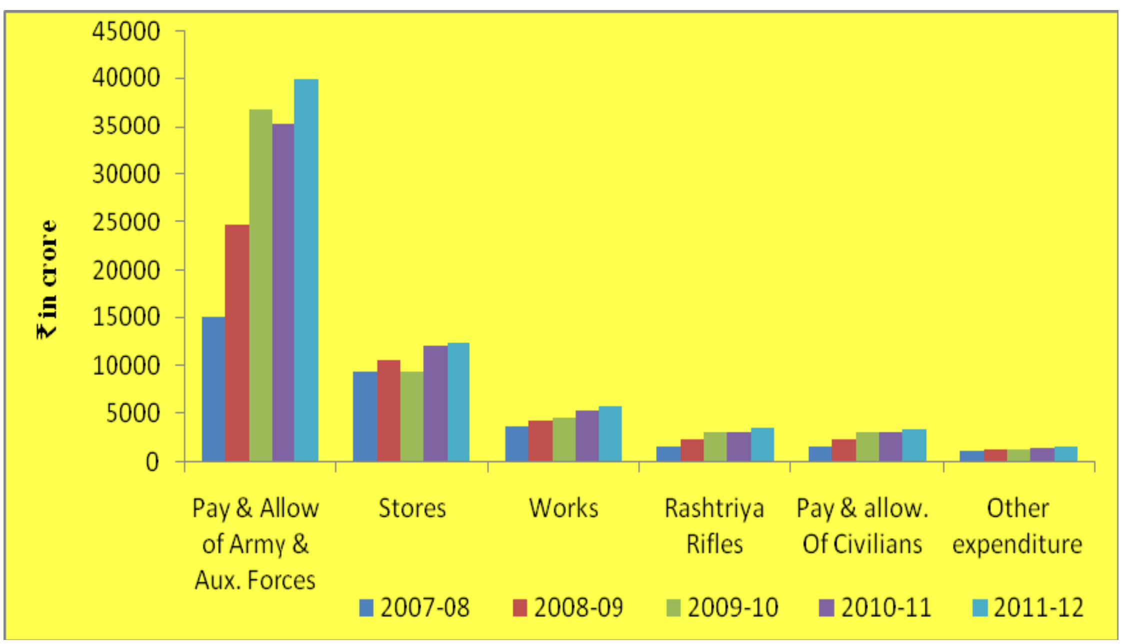
During the period 2007-08 to 2011-12 maximum Revenue expenditure was incurred under six Minor Heads (MH) of the Army as given in Table-5 and Chart-6 below:

Table-5 : Details of Major components of Revenue expenditure of Army

(₹in crore)

Year	Pay & Allowances (MH-101& 103)	Stores (MH-110)	Works (MH-111)	Rashtriya Rifles (MH-112)	Pay & Allowances of Civilians (MH-104)	Other expenditure (MH-800)
2007-08	15147.14	9488.60	3648.24	1603.25	1604.54	1165.81
2008-09	24656.04	10712.51	4282.97	2419.72	2353.11	1370.11
2009-10	36896.23	9404.65	4608.34	3047.58	3132.27	1380.31
2010-11	35445.39	12144.48	5308.35	3098.71	3051.42	1475.79
2011-12	39996.27	12442.20	5708.68	3585.38	3361.21	1644.18

Chart-6 : Major components of Revenue expenditure of Army



- **Rise in expenditure by more than 100 *per cent*:** A rise in expenditure of more than 100 *per cent* has been recorded under Minor Heads of Pay & Allowances of Army & Auxiliary Forces, Pay & Allowances of Civilians and Expenditure relating to Rashtriya Rifles at 164.05 *per cent,* 109.48 *per cent* and 113.6 *per cent*, respectively during the period 2007-08 to 2011-12.

1.13.2 Ordnance Factories

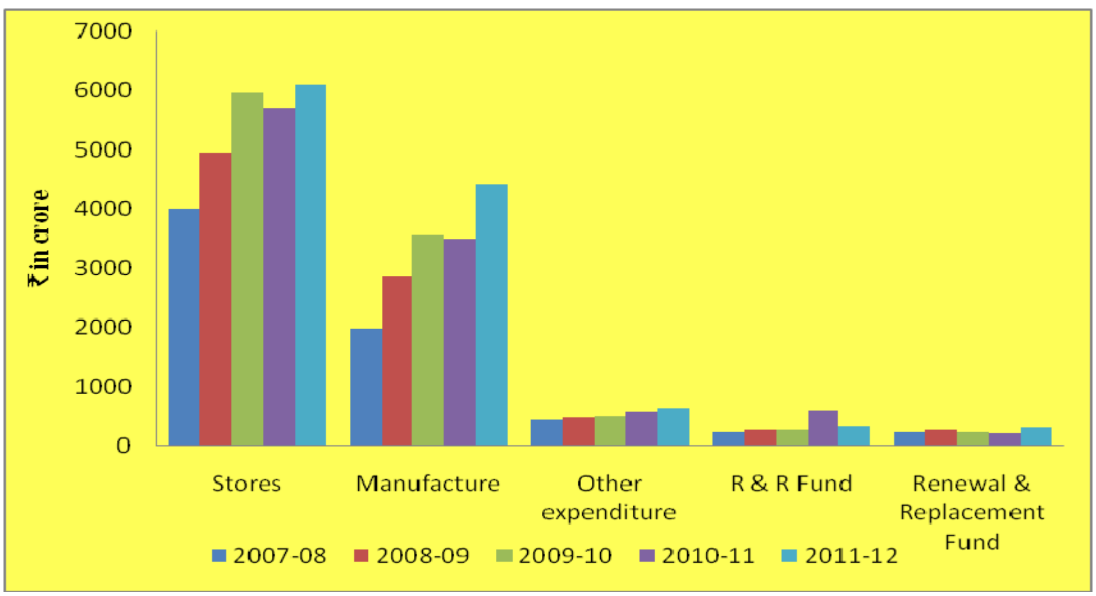
During the period 2007-08 to 2011-12 maximum Revenue expenditure was incurred under five Minor Heads (MH) of the Ordnance Factories as given in Table-6 and Chart-7 below:

Table-6 : Major Components of Revenue expenditure of Ordnance Factories

(₹ in crore)

Year	Stores MH-110	Manufacture MH-054	Other Expenditure MH-800	Renewal & Reserve Fund (R&R) MH-797	Renewal & Replacement MH-106
2007-08	4012.06	1985.14	445.76	230.0000	237.50
2008-09	4948.22	2858.54	483.05	271.0000	276.22
2009-10	5965.16	3566.03	506.74	280.0000	228.24
2010-11	5704.96	3499.75	582.66	600.0000	207.82
2011-12	6101.41	4415.33	649.75	325.0000	310.25

Chart 7: Major Components of Revenue expenditure of Ordnance Factories



- **Increase in expenditure by more than 100 *per cent*:** The Minor Head Manufacture-054 has recorded an increase of 122.41 *per cent* during the period 2007-08 to 2011-12.

- Expenditure under Minor Heads - Store, R&R Fund and Renewal & Replacement has, on the other hand, have shown an increase of 52.07 *per cent,* 41.30 and 30.63 *per cent,* respectively during the same period.

1.13.3 Research & Development

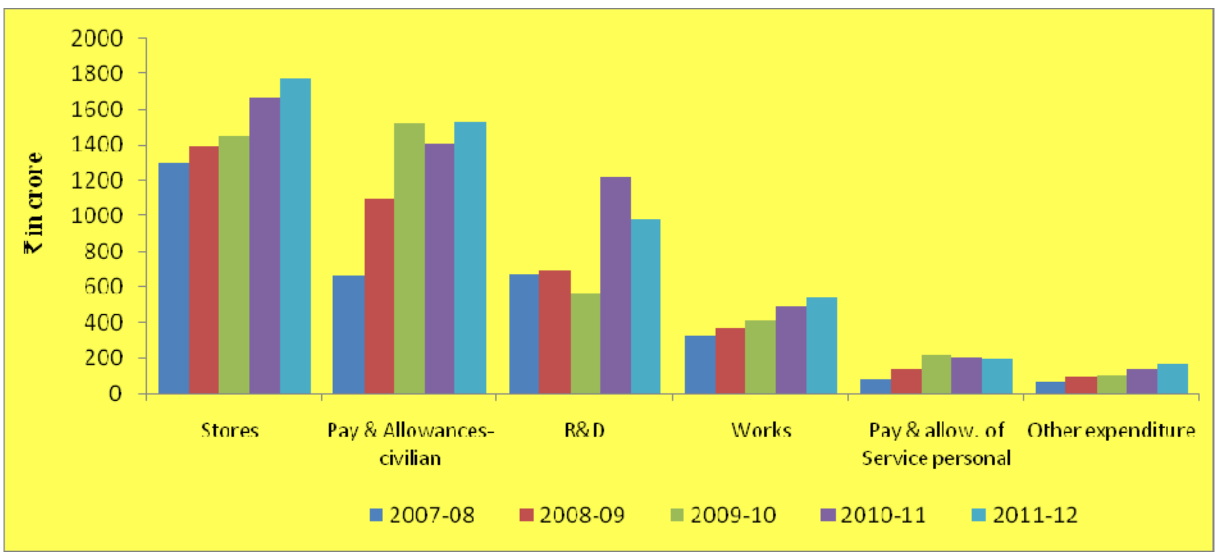
During the period 2007-08 to 2011-12 maximum Revenue expenditure was incurred under six Minor Heads (MH) of the R&D as given in Table-7 and Chart-8 below:

Table-7: Major components of Revenue expenditure of Research & Development

(₹in crore)

Year	Stores MH-110	Pay & Allowances-Civilian MH-104	R&D MH-004	Works MH-111	Pay & Allowance of Service Personnel MH-101 & 103	Other Expenditure MH-800
2007-08	1301.18	661.19	677.58	325.77	83.17	68.78
2008-09	1395.99	1096.76	696.51	374.86	140.67	97.87
2009-10	1453.76	1525.66	562.81	411.80	220.34	101.31
2010-11	1665.91	1409.71	1218.25	492.17	201.61	144.02
2011-12	1774.18	1534.88	983.91	543.20	198.23	167.55

Chart 8: Major components of Revenue expenditure of Research & Development



- **Increase in expenditure by more than 100 *per cent* during last five years:** Under Minor Heads Pay & Allowances of Civilian and Pay & Allowances of Service Personnel the expenditure has increased by 132.13 *per cent* and 138.30 *per cent,* respectively during the period 2007-08 to 2011-12.

- **"Other Expenditure":** The Other Expenditure registered an increase of 143.60 *per cent* during the period 2007-08 to 2011-12.

- The expenditure under Minor Head- Works, R&D-004 and Stores have, on the other hand, shown a corresponding increase of 66.74 *per cent,* 45.20 *per cent* and 36.35 *per cent,* respectively during the period 2007-08 to 2011-12.

1.14. Analysis of Capital expenditure - Major Head-4076-Grant no. 27-Capital Outlay on Defence Services

1.14.1 Components of Capital expenditure: There are eight Sub Major Heads under this Grant, viz. Sub Major Head 01- Army, Sub Major Head 02 - Navy, Sub Major Head 03- Air Force, Sub Major Head 04- Ordnance Factories, Sub Major Head 05 - R&D, Sub Major Head 06 - Inspection Organisation, Sub Major Head 07 - Special Metal and Super Alloys Projects and Sub Major Head 08 - Technology Development.

1.14.2 Trend Analysis of Capital expenditure of Army, Ordnance Factories and R&D (Voted)

The details of Capital expenditure of Army, Ordnance Factories and R&D i.e; Sub Major Head-01, 04 and 05 during the period 2007-08 to 2011-12 is given in Table - 8 below:

Table-8: Total Capital expenditure (Defence Services) Vs Army, Ordnance Factories and R&D

(₹ in crore)

Year	Total Capital Expenditure	Capital Expenditure of Army	Capital Expenditure of Ordnance Factories	Capital Expenditure of R&D
2007-08	37439.90	11911.80	150.01	2946.52
2008-09	40894.97	10611.02	352.13	3857.11
2009-10	51019.42	14795.65	240.29	4152.30
2010-11	62011.53	15787.86	453.58	4961.11
2011-12	67843.96	14943.39	276.21	4611.05

- **Total Capital Expenditure of Defence Services**: The total Capital expenditure of Defence Services has recorded an overall increase of 81.21 *per cent* during the period 2007-08 to 2011-12. Compared to this the component-wise increase in Capital expenditure of Army, Ordnance Factories and R&D were 25.45 *per cent,* 84.13 *per cent* and 56.49 *per cent,* respectively.

- **Army Capital Expenditure:** The component of Capital expenditure of Army against the total Capital expenditure of Defence Services decreased by 10 *per cent* from 31.82 *per cent* in 2007-08 to 22.03 *per cent* in 2011-12. The Capital expenditure of Army during 2011-12 has recorded a decrease of 5.35 *per cent* over the previous year, despite an increase of 9.4 *per cent* in the Capital expenditure of Defence Services.

- **Ordnance Factory Capital Expenditure:** Capital expenditure of Ordnance Factory has not seen any significant variations as a component of the total Capital expenditure during the period 2007-08 to 2011-12. From 0.40 *per cent* of the total Capital expenditure in 2007-08 it has increased to 0.41 *per cent* in 2011-12. Over the previous year, the Capital expenditure of Ordnance Factory in 2011-12 has shown a decrease of 39 *per cent*.

- **R&D Capital Expenditure:** Capital expenditure of R&D has seen a minor decrease of nearly 1 *per cent* i.e. from 7.87 *per cent* (2007-08) to 6.80 *per cent* (2011-12) with respect to total Capital expenditure. Compared to the previous year, the Capital expenditure of R&D has decreased by 7.06 *per cent.*

1.14.3 Trend of Saving/Excess in Capital Expenditure (Voted)

The trend of 'Saving' and 'Excess' in Capital expenditure for the period 2007-08 to 2011-12 is given in Table-9 below:

Table-9: Trend of Saving/Excess in Capital Expenditure

(₹in crore)

Year	Total Grant (Voted)	Total Expenditure	Under Total Capital Grant	
			Saving (-)	Excess (+)
2007-08	41857.60	37439.91	4417.69 (10.55 %)	-
2008-09	47976.10	40894.98	7081.12 (14.76%)	-
2009-10	54779.62	51019.42	3760.20 (6.86%)	-
2010-11	60776.21	62011.52	-	1235.31 (2.03 %)
2011-12	69148.01	67843.97	1304.04 (1.89%)	-

Note: Figure in brackets represents the saving (-)/excess(+) as a percentage of Total Grant (Voted)

- It is evident from the above table that during the period 2007-08 to 2011-12 there were persistent "Savings' except in the year 2010-11 when there was an "Excess" of 2.03 *per cent*. The 'Savings' have ranged between 14.76 *per cent* and 1.89 *per cent* during this period.

- The saving of ₹1304.04 crore (1.89 *per cent*) during the year 2011-12 is in addition to the surrender of funds amounting to ₹3105.71 crore (4.49 *per cent*) on the last working day of the financial year 2011-12.

CHAPTER II : MINISTRY OF DEFENCE

2.1 Improper management of Defence land

Despite instances of unsatisfactory management of Defence estates being repeatedly highlighted in the Reports of the Comptroller and Auditor General of India, there was no significant improvement. Cases relating to misuse of Defence land by the Local Military Authorities, unauthorised occupation of land by the ex-lessees due to non-renewal of lease in time and consequent loss of revenue continued to persist.

Introduction

The Ministry of Defence (MoD) is the owner of all Defence land in custody of the Services and other agencies. The Director General of Defence Estates (DGDE), which is an inter-services organisation, is responsible to the MoD for the management of Defence land. DGDE is assisted by Principal Director/Directors, Defence Estates (PDDE/DDE) at the command level. There are Defence Estates Officers (DEO), under PDDE/DDE at circle level, who are responsible for maintaining land records and managing such land, both inside and outside the cantonments.

Cases of mismanagement of Defence estates and misuse of Defence land have been reported from time to time in various Reports viz., Report No. 4 of 2007, Report No. CA 4 of 2008, Report No. CA 17 of 2008-09, Report No. CA 12 of 2010-11 and Report No. PA 35 of 2010-11 of the Comptroller and Auditor General (C&AG) of India.

The Public Accounts Committee (PAC), while examining the Paragraph 2.1 of Report No. 4 of 2007 of the C&AG of India on "Delay in execution/renewal of leases", had made the following recommendations for strict compliance by the MoD:

i) An effective mechanism be evolved to maintain proper records regarding execution of lease deeds and renewal of leases through a calendar;

ii) Identification of all cases of lease of Defence land pending for more than six months and to prescribe a timeframe for their finalisation;

iii) Adopt a policy for renewing the leases on due dates with an inbuilt clause for reasonable enhancement of rates every five years; and

iv) Pinpoint responsibility for inexplicable delays/inaction/lapses on the part of the concerned officials.

Audit Objectives

We carried out a scrutiny of Defence land management between 2010-11 and 2011-12 with a view to seek assurance that:

- The Defence land is used for authorised and legitimate purposes;
- There is no misuse of land by the Local Military Authorities (LMAs) and other occupants;
- There is no undue delay in renewal/termination of lease;
- Rent and premium are recovered from the lessees at the current rates and there are no arrears of rentals; and
- Adequate steps are taken to ensure timely and correct acquisition/transfer of private/Government land by the DEO.

We noticed that despite highlighting cases of poor management of Defence estates in the various Audit Reports repeatedly and issue of specific directions by the PAC for strict compliance to the concerned Rules and Regulation, there had been no significant improvement in the management of Defence land. As a result, the irregularities relating to misuse of Defence land, inordinate delay in renewal/termination of leases involving huge accumulation of arrears of rentals, unauthorised occupation of Defence land by other departments etc., persisted as given in the following cases;

Audit findings

A. Inordinate delay in renewal of leases of Defence land resulting in non-realisation of revenue

In order to avoid undue delays in renewal of leases, the DEOs are required to initiate action at least one year before the date of expiry of the lease in each case. The lessee would also be advised about the necessity of upto date payments of rentals before renewal action could be considered. However, despite clear instructions of the MoD on the same, we noticed undue delay in renewal of lease in six test checked cases resulting in non-realisation of revenue of ₹829.71 crore as given below:

Table showing loss of revenue due to inordinate delay in renewal of leases

Case	Station	Area of land	Name of the ex-lessee	Lease not renewed with effect from	Amount of outstanding revenue (₹ in crores)
I	Kolkata	153.416 acres	Royal Calcutta Turf Club	2007	814.00
II	Pune	1 acre 36 sq. yard	Indian Oil Corporation	1966	5.39
III	Delhi Cantt.	5525 sq ft. 12000 sq. ft.	M/s Hindustan Petroleum Corporation Ltd.	1995	6.79
IV	Delhi Cantt.	3011.07 sq. ft.	M/s Bharat Petroleum Corporation Ltd.	1992	1.48
V	Thane (Mumbai)	4.983 acres	Thane Sporting Club Committee	2004	1.39
VI	Nainital	10290 sq. ft.	Kumaon Mandal Vikas Nigam Limited	1989	0.66
	Total				**829.71**

Case-I

Defence land measuring 153.416 acres located in Kolkata Maidan under the administration of LMAs was leased out to Royal Calcutta Turf Club (RCTC) with effect from January 1932. The lease was last renewed up to December 2006. The annual rent in respect of land measuring 53 acres was fixed at the rate of 0.5 *per cent* of the gross revenue of the RCTC and for the balance land measuring 100.416 acres at the rate of ₹1000/- per acre per annum, on the condition that the land would continue to be used by the Defence authorities as hitherto forth.

On expiry of lease in December 2006, the RCTC requested (February/April 2007) for renewal of the same for 30 years with effect from January 2007. However, the DGDE, in March 2011, proposed to the MoD to consider grant of lease to RCTC for a further period of 15 years with effect from January 2007, up to December 2021 as the RCTC was engaged in commercial activities as they were paying ₹8 crore per annum to the State Government by way of entertainment tax. As such the DGDE recommended rent and premium for 53 acres of land at commercial rates i.e. ₹31.80 crore per annum lease rent and ₹636.00 crore one time premium as calculated by the DEO. For the remaining 100.416 acres of land, lease rent at the rate of ₹2000/- per acre per annum was recommended. The case for sanction for lease was forwarded to MoD. The renewal of lease was however pending (July 2012).

Thus, the non-renewal of lease of Defence land in Kolkata Maidan for five years and seven months has led to unauthorized occupation and non-realization of revenue of ₹ 814 crore from the RCTC.

Case-II

In August 1966, MoD accorded sanction for licensing of land at Wellesly Road, Pune to Indian Oil Corporation (IOC) for Bulk Petroleum Installation at an assessed rent/fee. Defence land measuring one acre and hired land measuring 36 square yards handed over to IOC Pune on 07 September 1966.

The terms and conditions and the amount of rent at that time could not be finalized as the leasing of land in favour of IOC had been challenged in the Court by the ex-land owner in 1996, which was finally dismissed in October 2006. Meanwhile, though the land continued to be in occupation of IOC, yet the DEO did not enter into any lease agreement for the same.

Despite the occupation of land since 1966, DEO had collected only an amount of ₹4.20 lakh on adhoc basis for the initial 5 years. In May 2011, the PDDE, Southern Command Pune intimated DGDE that the amount of rent and premium due from IOC for the period from September 1966 to March 2012 was ₹5.39 crore in respect of 1 acre of land being used by IOC.

Thus due to non finalization of the terms and conditions including determination of rent, the IOC had occupied the Defence land since 1966 without paying the assessed rent. Further DEO did not enter into any lease agreement even after the case was dismissed by the Court in October 2006.

Case-III

MoD accorded sanction in August 1968 for leasing out of 5525 Sq ft in Dhaula Kuan, Delhi to M/s Hindustan Petroleum Corporation Limited (HPCL) for a period of one year with effect from 05 September 1973 at an annual rent and premium of ₹7072 each. The lease was further extended up to September 1977. In October 1979, MoD renewed the lease with effect from 05 September 1977 up to the date of vacation without changing the rates of rent and premium. Simultaneously, MoD also accorded sanction in October 1979 for lease of land measuring 17525 sqft, which included additional 12000 Sq ft out of the same survey number to HPCL for a period of five years from September 1977, on payment of annual rent of ₹0.17 lakh and a premium of ₹0.84 lakh for the purpose of petrol pump-cum-service station. Further, the MoD extended the lease in December 1994, first up to January 1990, and again up to January 1995, on payment of annual rent of ₹0.98 lakh and premium of ₹4.91 lakh and ₹3.85 lakh (rent) and ₹19.24 lakh (premium), respectively.

On revision of rent and premium HPCL authorities requested (March 2006) to withhold the enhanced rentals on the ground that the new rates were exorbitant thereby affecting their profitability and HPCL continued to make the payment at the earlier rates of ₹0.17 lakh per annum until January 1980.

We noticed however, (November 2012) that in March 2011, the DEO Delhi Cantt intimated HPCL that the lease of land had expired in January 1995 and since then, the petrol pump had been continuing to operate on defence land unauthorisedly without any subsisting lease. An amount of ₹6.79 crore on account of arrears of rent and premium from February 1985 to January 1995 and damage rent from February 1995 onwards along with interest as worked out by the DEO was outstanding against HPCL.

Case-IV

MoD accorded sanction in May 1966 for grant of lease of Defence land measuring 4561 Sq ft at Delhi Cantonment for a period of nine years to M/s Burmah Shell (now renamed as M/s Bharat Petroleum Corporation Limited) (BPCL) for the purpose of setting up a petrol pump.

In July 1994, MoD accorded ex-post facto sanction for renewal of lease of land measuring 4069 sq ft for a period of 20 years from 14 November 1972 to 13 November 1992. The firm had cleared all the dues up to 13 November 1992.Thereafter no sanction for renewal was issued and the BPCL applied in March 1997 for further renewal of lease for 20 years. Station HQ Delhi Cantt after examining the issue from security point of view did not grant 'No Objection Certificate' (NOC) due to administrative security and fire hazard in July 2002. In August 2002, CB forwarded a proposal regarding termination of the said lease to the PDDE Chandigarh.

The land was, however, still in occupation of BPCL and no sanction for termination of lease had been issued (July 2012). Lease rent and premium for the period 14 November 1992 to 13 November 2012 amounting to ₹1.48 crore also remained unrecovered.

Case-V

Defence Land, measuring 24121 square yards (4.983 acres approximately), known as Thane Camping ground situated at Thane and consisting of two parts, was under the management of the DEO Mumbai.

Land measuring 4 acres at City Survey (CS) No. 10-A, was on ten years lease to Thane Sporting Club Committee (Club) since 16 October 1960. In July 1996, DGDE informed DEO, Mumbai that the land held by Club was required for Defence use and the MoD had decided that the possession of land be taken from the Club. However, the DGDE ordered in October 1996 to maintain 'status quo' till a decision regarding allotment/transfer of land in question to the Naval/Air Force authorities was taken by MoD. In February 1998, MoD decided to transfer 19380 square yards of land out of 24121 square yards to Navy and the remaining 4741 square yards to the Air Force.

MoD accorded sanction (April 2004) for retrospective renewal of lease to the Club for a period of 10 years from 16 October 1989 to 15 October 1999 at a nominal premium of ₹1/- and annual rent of ₹12,000/- and for a further period of five years up to 15 October 2004 at a premium of ₹1/- and annual rent of ₹36,000/-. However, in June 2004 the Club requested for reduced rent as the ground was used for sports purposes and not used for any commercial activity. DEO, in July 2004, intimated PDDE that the rate fixed by MoD was reasonable as the annual lease rent chargeable for 1989 would be ₹2.62 lakh and ₹17.44 lakh for 1999.

DEO in June 2009 informed DGDE that the Club had paid the lease rent amounting to ₹3.00 lakh up to 15 October 2004 and in addition also deposited ₹0.72 lakh towards provisional rent for two years up to 15 October 2006 @ ₹36,000/- per annum. However, sanction granting extension of lease beyond 15 October 2004 had not been granted by MoD and the Club continued to occupy the land from 15 October 2004 without any sanction. Considering the market rate of 1999 the revenue accruable on account of annual lease rent worked out by DEO Mumbai was ₹1.40 crore (1744200 X 8) for the period 16 October 2004 to 15 October 2012 and after taking into account ₹0.72 lakh paid by the Club, the revenue outstanding would be ₹1.39 crore.

Case-VI

MoD, in April 1979, accorded sanction for grant of lease of Defence land measuring 10290 sq ft at Ranikhet to Kumaon Mandal Vikas Nigam Limited (KMVNL) Nainital. MoD last renewed the lease in December 1989 for a period of five years from 18 July 1984 to 17 July 1989 on payment of annual rent of ₹4015 and premium of ₹20075. However, the management of this land was transferred from DEO, Bareilly to Cantonment Board (CB) Ranikhet in September 1988. In November 1991, CB Ranikhet asked KMVNL, Nainital for getting the lease renewed as the same had already expired on 17 July 1989.

We found (May 2011) that during the subsequent 13 years i.e, up to 2002 no action was taken by CB Ranikhet to either renew the lease or take back the possession of land. In November 2004, KMVNL requested CB Ranikhet for renewal of the lease for 20 years from July 1989 to July 2009 which was awaited as of September 2012. The total amount recoverable towards rent and premium as per Standard Tables of Rent (STR) worked out to ₹62.34 lakh[7], besides penalty of ₹4.08 lakh for the period from July 1989 to March 2012.

B. Unauthorized Occupation of Defence land by other departments

We observed (October 2009 and April 2012) that two plots of Defence land, measuring 0.7829 acres and 4.73 acres valuing ₹9.29 crore and ₹17.23 crore at Chennai and Pune, respectively were under occupation of Railways and Airport Authority of India (AAI) for twenty five years (from 1988 to 2013) without Government sanction. The amount of rental was due for ₹8.63 crore.

Case-I

Southern Railways, Madras (now Chennai) approached the DEO Madras in May 1985 for transfer of 0.52 acre of Defence land for construction of a train halt station at Trisoolam. In July 1985, HQ TN & K Sub Area conveyed No Objection to Area HQ under intimation to the Railways. Without any formal sanction of the Ministry, the Railways authorities occupied the land and completed the construction work. Subsequently, during inspection in September 1987, the DEO noticed that the Railways authorities had taken over 0.7829 acre of Defence land instead of 0.52 acre for which 'No Objection' had been issued. Despite coming to his notice the DEO failed to issue any show cause notice to the Railway Authorities on encroachment of extra Defence land.

The land continued to be in the occupation of Railways, yet case for obtaining sanction was not pursued. It was only in August 1989 and thereafter in November 1990, the DGDE asked the DEO to furnish the market value of the land along with damages for unauthorised occupation by the Railways for obtaining Government sanction. The DEO furnished the calculation sheets showing the market value of land and the rent/damages to be recovered from the Railways

However, there was no progress in obtaining Government sanction for transfer of land during the period from 1991 to 2000. After a gap of 10 years in June 2000 and again in June 2002 the DDE reminded the DGDE to approach the Government for the necessary sanction. Despite this, no progress was made and the Government sanction was still awaited (October 2011).

We noticed in October 2009, and again in October 2011, that the case which was initiated in 1988 for transfer of Defence land to the Railways had not been finalized as yet. In April 2013, the MoD agreed with the audit findings that there was no progress in obtaining Government sanction though the matter was taken up on a number of occasions. The reasons for the same were not available in the records of the DGDE. The MoD further intimated that the cost

[7] Rent ₹10.39 lakh and Premium ₹51.95 lakh being five times of the rent as per MoD's sanctions of lease issued in April 1979 and December 1989.

of the land measuring 0.7829 acres had increased from ₹7.58 lakh to ₹9.29 crore during the intervening period of time and an amount of ₹4.11 crore on account of rentals was due from the Railways.

Thus, inaction of the Defence Estates Organisation to process the case vigorously to obtain Government sanction for transfer of Defence land to the Railways led to unauthorised occupation of 0.7829 acres of Defence land by the Railways without payment of cost of land as well as rentals for the last 25 years.

Case-II

MoD issued directions to DEOs in November 1995 to closely monitor the misuse of A-1[8] land for commercial purposes and to initiate the proposal for re-classification of the land to 'B-3'[9] category and execution of proper lease at commercial rent and premium.

A proposal to transfer five acres of land to Airport Authority of India (AAI) at Air Force Station Pune from Survey No. 225 for vehicle parking on short term lease for a period of five years extendable by two years in steps of one year at a time was initiated in June 2009.

DEO Pune, in August 2009, forwarded the proposal to PDDE Southern Command for obtaining Government sanction for leasing the land to AAI for a period of five years at an annual rent of ₹91.05 lakh at five *per cent* of the market value of the land. However, the PDDE, did not process the case due to non-availability of the complete documents due to which Government sanction could not be obtained as of March 2013.

We observed in audit (April 2012) that without obtaining Government sanction, AAI had further leased the land for parking to a private contractor M/s Garuda Aviation Services who was collecting parking charges. However, no rent was being recovered from the AAI and credited to Government account.

On being pointed out by Audit, the DEO Pune, in May 2012, took the matter up with AF Station Pune for their comments/ clarification which was awaited as of March 2013. DEO Pune in October 2012, however, admitted that the land was illegally occupied by AAI for parking purpose.

Station Works Officer, Pune, in reply to Audit, stated that no payment had been received as of March 2013 from AAI on account of lease of Defence land and matter had been taken up with AAI regarding irregular occupation of defence land.

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[8] A1 land is the land in the active occupation of the Armed Forces

[9] B3 land is the land held by private persons under leases etc. under which the Central Government reserves to themselves proprietary rights in the soil.

Thus AF Station Pune allowed the AAI to use 4.73 acres of Defence land valuing ₹17.23 crore for commercial purpose as parking area without Government sanction. DEO Pune also failed to take over the management of land and allowed the commercial exploitation without recovering any revenue resulting in revenue loss of ₹4.52 crore to the State on account of non-recovery of lease rent for the period from January 2008 to March 2013.

C. Misuse of Defence land

As per the land policy laid down by the MoD in 1995, in order to ensure appropriate returns to the consolidated Cantonment Fund by way of premium and rent, Old Grant sites which are in the nature of licenses should be converted into leaseholds with Government sanction unless these were desired to be resumed. No activity like change of purpose, any sub-divisions by way of construction or otherwise, construction of additional storey/storeys, addition to the existing plinth area or floor area, demolition of existing construction or putting up new construction on a vacant site in Old Grant sites could be sanctioned unless the grantee was willing to take out a lease in which case proposals were to be submitted to Government for considering whether a lease be granted and if so, on what terms or whether the land or any part thereof be resumed when required for Defence purposes.

We noticed (April 2012 and May 2012) two cases where B-3 Defence land admeasuring 8.09 acres valuing ₹34.61 crore on lease to Wellingdon Clubs since pre-independence era was not reverted to the Defence Estates Officer (DEO) on closure of Clubs. Instead, the Local Military Authorities (LMAs) in one case allowed a girls hostel to be constructed by Army Wives Welfare Association (AWWA) and in the second case a shopping complex was constructed without reclassification of the land from B-3 to A1 as explained below:

Case-I Construction of girls hostel in Pune

B-3 Defence land measuring 5.03 acres in GLR Sy No. 189 under the management of DEO Pune was on lease to "Lady Wellingdon Soldiers Club" under Old Grant terms and holder of occupancy rights were the Trustees of the Club viz the Commander Poona Sub Area (PSA) and the Collector of Poona. The proprietary rights over the land vested in the Government of India. As per lease agreement the buildings would revert to Government on closure of the Club.

The Bungalow on the said land was under occupation of the State Police Department from March 1948 on ex-post facto sanction issued by MoD in January 1951 for leasing of the bungalow to State Police Department. After the Police Department vacated the Bungalow, HQ PSA converted a portion of the land into a Cheshire Home (November 1984) and entered into a lease agreement in June 1986 for a period of 10 years for which approval of the Government was not available on the records of the DEO, Pune.

In August 1996, a girls hostel was constructed in the existing buildings under the management of HQ PSA through Army Wives Welfare Association (AWWA[10]). In January 2001, the Army Headquarters (AHQ) approved the proposal for construction of a girls hostel at Pune under the aegis of AWWA. Two new buildings constructed at a cost of ₹1.97 crore on the said premises by HQ PSA through regimental funds *interalia*, comprised a Cyber Café, CSD Canteen, Library, Gymnasium and facilities for indoor games. We observed (April 2012) that the AWWA was charging ₹2000 per month from the children of Officers, ₹1500 per month and ₹1000 per month from the children of Junior Commissioned Officers and Jawans respectively. In addition to this, security deposit of ₹4000 and admission fee of ₹1000 were also being recovered from the girls, residing in the Hostel.

On being pointed out (April/May 2012) by us, the Station HQ, Kirkee, in August 2012, stated that the girls hostel was a regimental property of HQ PSA. Station HQ also stated that no approval/NOC was given by the DEO for construction of regimental property on Defence land and that the girls hostel was purely welfare oriented and was in no way a profit making commercial institute.

The reply is not acceptable as HQ PSA occupied Defence land as regimental property and allowed AWWA to construct buildings on the Defence land for use as girls hostel without obtaining Government sanction. HQ PSA also diverted prime Defence land valued at ₹20.36 crore to the AWWA, an NGO, in gross violation of MoD’s instructions.

Case-II Running of Shopping Complex

Bungalow No. 34 Kahun Road in Survey No. 329 situated on 3.06 acres of B-3 Defence Land at Pune Cantonment also known as “Wellingdon Club” and comprising of main building, kitchen and servant quarters under the management of DEO was on lease since 1929 to Wellingdon Soldiers Club on perpetuity terms. Condition (1) (b) of the lease deed stipulated that the land and buildings erected thereon were not to be utilized for any purpose other than that of the Club except with the consent of lesser i.e. Government of India. Further, in case of violation of the conditions of the lease the land and buildings would revert to the Government.

After the closure of the Club, the buildings were converted into a shopping complex viz. CSD Canteen, ATM Counter, Tuck Shop (Food Shop), Cloth Shop, Ice Cream parlour, Electrical shop etc. with the approval of HQ PSA in clear violation of the condition of lease deed and Government orders on the subject. We noticed that the DEO (April 2009) approached the HQ PSA seeking the authority and the terms and conditions under which the ATM Counter and other commercial establishments had been permitted on the B-3 land. The DEO also sought the details of income collected from these commercial establishments and its remittance into the Government Account.

[10] The AWWA is registered as Non Governmental Organization with the Registrar of Societies in August 1996.

The HQ PSA, however, did not furnish any reply. No further action was taken by the DEO.

On being pointed out by us in November 2011 and January 2012 about the details of rent received from these establishments, HQrs PSA, in February 2012, stated that a Board of Officers had been detailed in December 2011 for conversion of land from B-3 to A-1 in respect of the Bungalow No. 34 and that a case had been taken up with the MoD for cancellation of the lease executed with the Wellingdon Club. It also stated that the buildings were not in the charge of the MES and rent and allied charges were not being recovered indicating that the HQ PSA had erected the buildings through regimental sources.

Thus, the HQ PSA misused 3.06 acres of B-3 Defence land valuing ₹16.38 crore for commercial activities without crediting any revenue to the Public Fund claiming it to be regimental property. We also noticed that while taking up the case with the MoD for reclassification of the land as A-1, it had concealed the material fact about the running of commercial establishments on the B-3 land.

Thus, the LMAs at Pune misused 8.09 acres of Defence land valuing ₹36.74 crore in gross disregard of MoD orders.

D. Shortfall of 103.026 acres of land transferred from State Government.

In view of the approved force accretions and new raisings in the Eastern Theatre, HQ 2 Mountain Division convened a Board of Officers (Board) in November 2009 to recommend acquisition of suitable land at Khonsa Tirap District, Arunanchal Pradesh. As per the procedure for acquisition of immovable property laid down in Annexures 'B' & 'D', Chapter 29 of the Cantonment Laws Vol-II, the DEO is required to collect the site plan of the selected land from the users and furnish the same to the Board along with the details of khasra numbers of the land selected for acquisition, showing the respective area of each khasra number. The DEO is also required to inspect the land jointly with the local revenue staff to ensure the accuracy and correctness of the land before submitting the proposal for obtaining Government sanction.

The Board recommended, in January 2010, obtaining sanction of the competent financial authority for acquiring 230.93 acres of Government vacant land to locate an Infantry Brigade at Khonsa. Accordingly, the MoD accorded sanction, in March 2010, for transfer of 230.93 acres of State Government land at an estimated cost of ₹93.46 lakh.

A Handing Over/Taking Over Certificate was signed jointly, in June 2010, by the representatives of the State Government, the DEO and the Army without any physical survey/map/demarcation of the land. The DEO Jorhat made full payment of ₹93.46 lakh for the entire land of 230.93 acres, in May 2010. After taking over the land, the Army authorities created substantial infrastructure on this land. However, no shortfall was ever pointed out.

During joint measurement of the land by DEO Jorhat and Deputy Commissioner, Tirap, in April 2011, it was found that the land transferred to the Army was 127.904 acres only instead of 230.93 acres for which complete payment had been made. After prolonged correspondence, the State Government agreed to transfer 21.87 acres of land to the MoD on 99 years of lease on payment of depreciated value of buildings and crops costing ₹13.08 lakh. However, during joint inspection, in February 2012, it was noticed that the land available was 13.065 acres only instead of 21.87 acres. In May 2012, the DEO requested the State Government to hand over the balance 103.026 acres of land on permanent basis instead of 99 years lease without any further payment which was still awaited. No other State Government land contiguous to the land previously transferred to the Army was available at the station.

Thus the transfer of land was sanctioned by the Ministry without joint measurement/demarcation to verify the actual availability of land in violation of the laid down procedure as confirmed by the DEO to Audit in June 2012. Out of 230.93 acres of land sanctioned for transfer, land measuring 127.904 acres only was available with the State Government. However, full payment for the entire land amounting to ₹93.46 lakh had been made to the State Government without proper demarcation of land. The Board convened to assess and recommend the acquisition of land and to hand/take over the land failed to verify the quantum of available land before recommending and taking possession of land. A serious lapse on the part of the DEO resulted in excess payment of ₹41.69 lakh for 103.026 acres of land which was not handed over.

Conclusion

Even though serious lapses and irregularities were pointed out by the PAC while examining the para 2.1 of C&AG's Audit Report No 4 of 2007, no effort was made by MoD to streamline the same. We observed that same irregularities persisted as detailed in the Report. The ex-lessees continued to occupy prime Defence land unauthorisedly even after expiry of leases. The DEOs had also failed to take advance action for renewal or termination of leases in disregard of the guidelines of March 1995 resulting in outstanding rentals of approximately ₹838.34 crore for as long as periods ranging from four to 46 years in respect of eight cases detected during Compliance Audit.

Further, cases of encroachment by other departments and misuse of Defence land by the Local Military Authorities for unauthorised purposes such as running of hostels, shopping complexes etc. constructed from non-public funds continued unabated.

2.2 Non-recovery of service charges from Railways

In contravention of the provisions of the Cantonment Act 2006, the Cantonment Boards Agra, Ambala, Nasirabad and Delhi failed to recover service charges of ₹10.74 crore from the Railways resulting in recurring loss of revenue to the Board.

Failure of the Cantonment Boards to recover service charges resulted in non-recovery of ₹10.74 crore from the Railways.

Section 109 of the Cantonment Act, 2006 stipulates that the Central or State Government, as the case may be, shall pay service charges to the Cantonment Board annually at the prescribed rates for providing municipal services or development works in respect of the Government properties situated in a Cantonment.

Railways have certain properties on Defence land in Agra, Ambala, Nasirabad and Delhi Cantonments. These properties are located in the Cantonments on land measuring 22.96 acres, 167.71 acres, 32.71 acres and 1.33 acres respectively. The respective Cantonment Boards regularly provided municipal services to the Railways properties.

We noticed in Audit (September 2012 and August 2013) that the Cantonment Boards were not claiming service charges from the Railways in respect of these properties, though stipulated in the Cantonment Act, 2006. Over the period of six years (2007-08 to 2012-13), an amount of ₹10.74 crore had accumulated against the Railways on this account. The amount outstanding at Ambala Cantonment was ₹4.83 crore, whereas at Agra, Nasirabad & Delhi Cantonments the amount due for recovery was ₹2.89 crore, ₹2.88 crore and ₹0.14 crore respectively. The Cantonment Board, Agra accepted the audit findings (January 2013) and stated that the matter for claim of service charges from Railway was under progress. Action for recovery of service charges at Ambala, Nasirabad and Delhi Cantonments have also been initiated (August 2013).

The matter was referred to the Ministry in April 2013; their reply was received in November 2013. Ministry agreed with Audit findings and stated that Director General, Defence Estates has forwarded instructions for recovery of service charges from Railways to all Cantonment Boards for necessary action by all concerned Chief Executive Officers.

The case, therefore, reveals that in contravention of the provisions of the Cantonment Act 2006, Cantonment Boards Agra, Ambala, Nasirabad and Delhi failed to claim service charges from the Railways, which resulted in non-recovery of ₹10.74 crore.

2.3 Non introduction of Air Conditioners in Tanks

Despite the recommendations of the trial team for inclusion of Air Conditioners in the Tanks, the Ministry of Defence concluded contracts for procurement of Tanks 'X' valuing ₹9083.36 crore without inclusion of the same. The need for the ACs was eventually accepted by MoD immediately after introduction of these Tanks. Though action was initiated to procure the ACs separately in 2002, the same was yet to materialize.

Defence Procurement Procedure stipulates that once the General Services Qualitative Requirement (GSQR) have been finalised by the Service Headquarters and if an item is to be imported, the sources of procurement of the weapon system/stores shall be ascertained by the Service Headquarters (Service HQ) and a short listing of the prospective manufacturer/supplier carried out. The list of sources thus identified shall, thereafter, be submitted to Ministry of Defence (MoD) for taking a final view before proceeding with the trials and evaluation of the weapon system/Tank. The trials shall, thereafter, be conducted by the user, on the basis of specified parameters, in all types of environment/ terrain and a detailed trial/evaluation report shall be drawn up by the expert committee constituted by the Service HQ concerned. On receiving the trial/evaluation report from the Service HQ, the MoD shall take a view on the recommendations contained in the report. If they are found acceptable, the MoD shall start the procurement action finally culminating in conclusion of a contract with the selected manufacturer for supplying the Tank.

The Tank 'X' is the latest version in its family with advanced technologies in the field of missile firing capability, active defence system, thermal imaging (TI) sight for night vision and fire control system (FCS). It incorporates many new features and state of the art technology.

After carrying out the due procedures required for procurement of Tanks 'X' by MoD, the Cabinet Committee on Security (CCS) accorded in-principle approval (November 1998) to import 310 Tanks. The CCS also accorded approval for gradual indigenization of the Tanks to be carried out. Accordingly, a Memorandum of Understanding, laying down detailed conditions for trials of the Tank 'X' was signed between the two sides (April 1999), on successful completion of which, a contract would be firmed up.

The trial team consisted of representatives of the users from various commands/corps of Army, Director General Quality Assurance, Electrical and Mechanical Engineering, Weapon and Tank Directorate, Director General Mechnised Forces, Defence Research & Development Organisation and production agencies (Ordnance Factories, Bharat Dynamics Limited and Bharat Electronics Limited). Exhaustive trial directives based on the broad parameters of the GSQR for Tank 'Y' and Tank 'Z' were formulated by the Army for Tanks 'X'. The trial team carried out the field evaluation (trials) of Tanks during May to July 1999 and recommended the introduction of Tank 'X' into Indian Army as it met all the current and future operational requirements.

The trial team stated the need for including Air Conditioners (ACs) in the Tank in its recommendations (July 1999) and also expressed that the Tank 'X' should be procured with all systems integrated by the manufacturer in their Tank factory. The recommendation of the trial team, was, however, not considered during General Staff (GS) Evaluation by Army HQ in January 2000, wherein it was felt that the usefulness of the ACs would be restricted since Commanders in Indian environment prefer to move with cupola open. In addition, the prohibitive cost of the ACs was also considered as one of the reasons for not recommending the same. Even though the original Tanks offered by Original Equipment Manufacturer (OEM) were fitted with ACs, the same was not considered necessary by the Army HQ during GS evaluation on the basis that other Tanks viz., the existing Tanks 'Z' were not fitted with ACs. Further, if needed, the same could be procured later through indigenous sources.

Accordingly, the MoD concluded a contract in February 2001 with the OEM for import of 310 numbers of Tanks 'X' at a total cost of ₹4086.90 crore. The procurement was made without the provision of ACs.

To meet the requirement of additional 1000 Tanks, another contract was concluded by MoD in February 2001 with the OEM for Transfer of Technology (TOT) for licence production of 1000 Tanks at Heavy Vehicle Factory (HVF) Avadi, on payment of TOT fee of ₹330.39 crore. These Tanks were also decided to be produced without ACs.

However, immediately after introduction of the Tanks 'X' into service, it was observed by the Army HQ (September 2002) that the performance of various sophisticated and state of the art systems fitted in the Tanks, viz. FCS, TI sights and missile firing mechanisms were degraded due to their prolonged exposure to heat and dust conditions. It was, therefore, considered essential by MoD (September 2002) to procure ACs for Tanks 'X' from OEM to derive optimum level of performance of all systems in the Tanks.

Subsequently, for efficient functioning of the Tanks DGMF initiated a case (September 2002) for procurement of ACs from OEM for the 310 Tanks 'X' and TOT for the balance 1000 numbers. Acceptance of Necessity (AON) for these ACs was accorded in July 2004 by the MoD. Prior to AON the Department of Defence Production and Supply (DDPS) recommended in 2004, that instead of issuing Request for Proposal (RFP) for the ACs, co-production[11] route involving OEM and HVF be adopted to achieve optimum results without delay. The case was, therefore, taken up with OEM for co-production of ACs with HVF Avadi. The trials for co production of ACs were conducted in August 2006 but the same failed. The case was therefore closed in March 2008.

Against a fresh deficiency of 347 Tanks 'X', necessity for their import was accepted by the MoD in January 2007 and procurement of the Tanks was done through a repeat order (November 2007). Tanks procured under this order

[11] co-production involves sharing of the value addition based on respective infrastructure between the parties involved.

were also without ACs as it was decided to procure them separately by clubbing their requirement with the existing requirement of 1310 ACs (310 + 1000).

Subsequently, a proposal for procurement of 1657 (310 + 1000 + 347) ACs at a total approximate cost of ₹597 crore under Buy (Indian) category was approved by the Defence Acquisition Council (DAC) in June 2009. Of these 1657 ACs, DAC accorded its approval to procure 957 ACs in the 11th Five year Plan (2007-12). The RFP for the same was issued by MoD in February 2010. The same was, however, retracted at the trial stage (January 2012) due to non-compliance to RFP parameters by the shortlisted vendors. As of October 2013, further action on the procurement of ACs for all the 1657 Tanks was still awaited and procurements were planned to be carried out under the Annual Acquisition Plan 2012-14.

Audit Scrutiny (June 2013) revealed that ignoring the recommendations of the trial team, the MoD procured Tanks 'X' without ACs. MoD also ignored the fact that the FCS of Tank 'Z' was not as sophisticated as that of the Tank 'X' and inbuilt state-of-the-art capabilities provided by FCS are temperature sensitive and get degraded under prolonged heat and dust conditions.

The Draft Paragraph was issued to the MoD in June 2013; their reply was received (October 2013). In its reply the MoD stated that in the GS Evaluation it was recommended to import Tanks without ACs as Commanders operate with cupola open, thereby limiting the effectiveness of ACs. The decision not to import the Tanks fitted with ACs was based on trials of three Tanks in which detrimental effects of prolonged exposure to heat and dust were not noticed. The aspect of degradation of sophisticated and state of the art systems fitted in the Tank due to prolonged exposure to heat and dust came to light only after the exploitation of Tanks post its induction in service.

The Ministry's reply is, however, not factually correct, as before finalization of the contract the trial team had already highlighted the instances of overheating of components noticed during the field trials, in the trial questionnaire, and therefore, recommended for addition of ACs in the configuration of the Tank. The MoD had also subsequently accepted the necessity for the Tanks fitted with ACs (September 2002). The subsequent contract entered into (November 2007) also did not include ACs fitted in Tanks.

Thus, despite the recommendations in the field trials for inclusion of ACs in the Tanks 'X' being procured, MoD procured 657 Tanks at total cost of ₹9083.36 crore and also concluded a contract for ToT for another 1000 Tanks at a fee of ₹330.39 crore without the provision of ACs.

Further, even though the MoD had accepted the necessity for procurement of ACs to be fitted into the Tanks in 2002, the subsequent contract (2007) also did not include this provision nor could it procure the same (October 2013), despite the approval of the DAC in June 2009, thus, rendering the fleet of Tank 'X' vulnerable to degradation of sensitive components.

2.4 Non-synchronization of payments without corresponding progress of work

Failure of Monitoring Cell in judiciously releasing payments without linking the same to corresponding progress of work resulted in release of ₹ 110 crore as interest free advance to M/s Bharat Earth Movers Limited. Further, order placed in 2001 for supply of Pontoon Mid Stream bridges did not fructify despite advance payment of ₹313.72 crore made almost nine years ago.

Ministry of Defence (MoD) made advance payments amounting to ₹313.72 crore to M/s Bharat Earth Movers Limited (BEML) between 2000 and 2004 for supply of six sets of Pontoon Mid Stream (PMS) bridges valuing ₹399 crore to the Army. Out of this, a sum of ₹110 crore was paid between March 2003 and December 2004 without relating the payments with corresponding progress of work. Army has received only two complete sets of PMS bridges till date (November 2013).

MoD decided, in March 2000, to purchase six sets of PMS bridges from BEML and accorded sanction for an advance payment of ₹87.72 crore to commence the activities leading to production. Accordingly, in March 2001, Army Headquarters (AHQ) placed Supply Order (SO) on BEML at a total cost of ₹399 crore. These bridges were to be delivered between 2004 and 2009. As per the SO, interest free advance payments up to and equivalent to 100 *per cent* of the total contract price were to be made to BEML by July 2006 as per the schedule given therein. The terms of the SO also stipulated constitution of a Monitoring Cell (MC) consisting of members from Army and BEML to monitor the progress of manufacture and supply on half yearly basis. The MC was also responsible for recommending the payment of interest free advances to the firm, based on the progress of work. Before Bulk Production Clearance (BPC) from Army, BEML was to offer certain Tank of PMS for user confirmatory trials by March 2003. The duration of trials would be of 30 working days. BEML, however, offered the PMS bridges for trials in December 2003. Owing to several defects detected during trials and inordinate time taken by BEML to rectify these defects, the confirmatory trials were completed only in May 2008, i.e. after four years and five months. In the meantime, in October 2007, conditional BPC proposing certain modifications was accorded in which delivery period was amended as October 2008 for the first set and up to October 2011 for the balance five sets. As the firm could not adhere to the extended delivery schedule, further extension in delivery was granted up to September 2013.

We observed (February 2013) that notwithstanding the inordinate delay in manufacture and supply of the bridges by BEML, the MoD had made 79 *per cent* advance equivalent to ₹313.72 crore to the firm by December 2004. Out of the above payment, an amount of ₹203.72 crore was paid up to March 2003 i.e., the schedule date for offering the bridges for trial. The balance payment of ₹110 crore was paid between July 2003 and December 2004 on the recommendations of MC, despite the failure of BEML in timely offering and obtaining the BPC for the bridges.

In reply to the Audit observation issued (February 2013), AHQ replied (August 2013) that the payments were released only after the MC was fully satisfied about the progress of the project.

The reply was, however, not acceptable as we noticed that in the meeting held in December 2002, i.e., before the scheduled date for offering the bridges for trials, MC clearly deliberated on issues related to progress of work and distinctly examined the utilisation of advances already paid. In subsequent meetings held after March 2003, when the progress on ground was held up for want of BPC, MC recommended release of payments without reviewing the expenditure against the advances made to BEML or specifically quantifying the progress of work.

This resulted in total payment of ₹313.72 crore (79 *per cent* of total contract price) by December 2004 of which ₹110 crore was paid without corresponding progress in manufacture and supply. MoD, however, did not release any further payment after December 2004, as the MC had recommended subsequently to make further payments only after delivery of three complete sets of PMS bridges. Delivery of first two sets was completed in 2011 followed by another two sets in 2012 which were without crucial components such as Motor Tug Launching (MTL-boat), Dozer Blade for roadway laying truck, etc. Complete components in respect of two sets were received only by November 2013. Thus, as of November 2013, Army received only two complete sets of PMS bridge, despite an advance payment of ₹313.72 crore made almost nine years ago.

The case therefore, reveals that despite a specific responsibility for monitoring the manufacture and supply of PMS bridges and accordingly recommending payment of advances to BEML, the MC recommended payment of ₹110 crore without ensuring corresponding progress of work.

The matter was referred to the Ministry in June 2013; their reply was awaited (November 2013).

2.5 Absence of effective controls resulting in non recovery of outstanding dues

Absence of effective controls in accounting of remittances due from the United Nations Peace Keeping Missions resulted in accumulation of huge outstanding balances, including an unlikely reimbursement of ₹73.84 crore due from four Missions which have since been closed.

India contributes Troops, Formed Police Units (FPU), Military and Contingent Owned Tank (COE) to the United Nations Peace Keeping Missions (PKM) in various countries under a Memorandum of Understanding (MoU) with the United Nations (UN). The UN provides reimbursement to the Government of India for such contributions based on the rates fixed by the General Assembly.

Payments are made by the UN at the end of each calendar quarter, with reimbursement for personnel cost made up to the end of previous month and Tank cost up to the end of the preceding quarter. These payments to Government of India are made through the Permanent Mission of India, (PMI) in New York which maintains separate bank accounts for each PKM and remits money to the respective Ministries/Departments.

Government of India oversees the transactions with the UN through PMI. The PMI engages with the UN Secretariat through regular discussions and with UN General Assembly through meetings and deliberations of the Fifth Committee (Administrative and Budgetary) on the issues regarding outstanding reimbursements. Ministry of Defence (MoD) delegations also visit UN for negotiations*, inter-alia*, to clear outstanding dues.

Audit scrutiny of the documents at PMI relating to reimbursements for India's contribution to PKMs (February 2012), revealed that despite the stipulated timeline for reimbursement of payments, a substantial amount, mainly for the COE, was outstanding against the UN. Total amount outstanding against various PKMs, as of January 2012, was US$81.15 million. Breakup of the amount is as follows:

a) US$67.78 million equivalent to ₹374.19 crore pertained to the reimbursements against active Missions. The amount included current liabilities as well as liabilities pending for the earlier periods.

b) US$13.37 million equivalent to ₹73.84 crore related to the four PKMs which had been closed by the UN more than seventeen years back as shown in the Table below:

S.No	Name of the Mission	Year of closure	Amount Due	
			US$ (in millions)	₹ (in crore)
1.	UNOSOM	1995	12.16	67.11
2.	UNTAC	1993	0.52	2.88
3.	UNEF	1967	0.26	1.44
4.	ONUC	1964	0.43	2.41
Total			**13.37**	**73.84**

In respect of the amounts outstanding against the closed Missions, UN informed (November 2012) PMI, New York that the payments of US$ 12.68 million against UNOSOM and UNTAC could not be made since the Missions were closed with cash deficit. Hence the prospect of recovery of US$ 12.68 million remains quite unlikely.

Audit examined (February 2012) the documentation related to maintenance and control of accounts of various PKMs in PMI, New York to ascertain the reasons for delay in settlement of claims. We observed that PMI did not maintain the necessary documentation to keep a trail of payments due from the UN and as result, the amount of outstanding reimbursements against various PKMs at any point of time was not readily known to PMI. For such details both PMI and MoD essentially relied on the data furnished by the UN. Evidently, the requisite controls to monitor recovery of outstanding dues were deficient, which resulted in accumulation of huge outstandings including an amount of ₹73.84 crore , doubtful of recovery.

Audit observed (February 2012) that while PMI/MoD relied on the data furnished by the UN, even the data provided by the UN was also not consistent and complete. The amount of US$43570 outstanding against the closed Mission ONUC and US$261339 outstanding against the closed Mission UNEF was not being reflected in its reports up to January 2011, though these Missions had been closed in the year 1964 and 1967 respectively. These anomalies underscore the deficiencies in the very source of information on which Government of India relied and therefore necessitates the requirement of a well defined accounting system with proper internal controls.

The matter was referred to the Ministry of External Affairs (MEA) in November 2012; their reply was received (April 2013).In their reply MEA stated that PMI was the primary interface for interaction with the UN and its role was limited to intimating credit receipts from UN to Principal Controller of Defence Account (PCDA). It further stated that the nodal points for accounts pertaining to India's participation in UNPKM are the MoD and PCDA. The contention of MEA was contrary to the assertion of MoD, which stated (July 2009) that monitoring of reimbursement claims for India's participation in PKMs essentially pertained to the domain of PMIs. Hence, it is evident that the responsibility for accounting and recovery of dues from UN relating to PKMs was unclear both to PMI and MoD.

The matter was also taken up with MoD. MoD stated in June 2013 that there was no specific procedure in vogue to deal with outstanding dues of closed Missions. In response to the query about the effectiveness of existing accounting procedures, MoD replied that the existing accounting procedure was not fully in force as some of the items therein had become obsolete. It however added that delegations from the Ministry periodically visit UN headquarters for negotiations, *inter alia,* to clear the outstanding dues.

The case therefore reveals that absence of effective controls in accounting and the ambiguity about the responsibility for recoveries pertaining to PKMs from the UN resulted in accumulation of huge outstanding balances which included an amount of ₹73.84 crore, doubtful of recovery.

CHAPTER III: ARMY

3.1 Acceptance of sub-standard stores without prior technical inspection from an unregistered and inexperienced firm

Integrated Headquarters of the Ministry of Defence (Army) concluded a contract with a new and unregistered firm for supply of Mask Face Extreme Cold Weather for ₹2.54 crore without prior approval of sample. The Masks purchased were subsequently found sub-standard by the users. As a result 92,783 Masks valuing ₹1.82 crore could not be used.

Paras 4.4.1 and 4.4.2 of the Defence Procurement Manual (DPM) 2005 and 2006 (Revenue Procurement) respectively stipulate that, in open tender enquiry cases, where an unregistered firm claims compliance of technical specifications to meet the technical parameters of the proposed item, approval of sample and capacity verification of the firm by the AHSP[12]/designated inspection agency is mandatory before opening the commercial bid of such firm.

The Mask Face Extreme Cold Weather (Mask) developed by the Defence Materials and Stores Research & Development Establishment (DMSRDE) Kanpur in 1988, is a special clothing item fabricated from 12 different materials which were required to be procured from the list of suppliers quoted in DMSRDE specifications. The AHSP of the item was the Controllerate of Quality Assurance (Textile & Clothing) [(CQA (T&C)] Kanpur.

Against the indents of Director General, Ordnance Services (DGOS) for August and November 2005, Integrated Headquarters of Ministry of Defence (Army) [IHQ of MoD (Army)] concluded a contract with M/s Heritage Creations, Delhi (firm), in December 2006, for supply of 1,29,873 Mask at a total cost of ₹2.54 crore. In violation of DPM (2006) the order was, however, placed without prior approval of the sample. Since the item was new and the firm was also new and unregistered, CQA (T&C) suggested (February 2007) DGOS to incorporate the requirement of advance sample in the contract so as to ensure that proper manufacturing technique had been established by the firm before the commencement of the bulk production. The DGOS, however, turned down the suggestion stating that the sample of the firm had already been approved by DMSRDE and therefore the clause for advance sample had not been incorporated in the contract.

Audit scrutiny revealed (February 2013) that the contention of DGOS of the sample having already been approved by DMSRDE was factually incorrect as DMSRDE confirmed that the sample of the firm had not been approved by them. CQA (T&C) also contested the assertion made by DGOS and clarified in June 2007 that the sample submitted by the firm had been examined only visually by DMSRDE for make, shape and design without observation on

[12] Authority Holding Sealed Particulars is the authority empowered to draw up the specification of the item and hold the detailed particulars of the item.

technical parameters and hence there was need for advance sample clause to have been duly incorporated in the contract.

The firm eventually made all the supplies without getting the samples technically approved. All quantities ordered were received by the Central Ordnance Depot (COD) Kanpur between April 2008 and August 2008. However, during a presentation to Army Commander, users' concerns regarding quality of clothing items including Masks were raised by the Headquarters Northern Command (HQNC). HQ NC accordingly took up the case with IHQ of MoD (Army) in March 2011 for improving the quality of the item. Further, in response to a specific query by Audit (July 2011) to the user units, regarding quality of masks, two units, viz., 71 Ordnance Maintenance Platoon and 8 Mountain Division Ordnance Unit, to whom a large number of masks had been issued, confirmed (August 2011 and June 2012) the deficiency in quality of the Masks. It was intimated that the difficulty was mainly in wearing, breathing and skin irritation caused by poor quality of cloth used, etc.

We further examined the matter and enquired (February 2013) about the stock position of Masks, from the Master General Ordnance (MGO) Branch, IHQ of MoD (Army). It was intimated by the MGO (April 2013) that out of the total quantity of 1,29,873 Masks received between April 2008 and August 2008, 22,169 Masks were still held in stock at COD Kanpur as of March 2013. Given the prescribed life of three years, this stock valuing ₹43.35 lakh had, therefore, outlived its shelf life in storage. We also observed from the MGO's reply that a quantity of 26,908 Masks valuing ₹52.67 lakh was released from COD Kanpur in 2012 after expiry of their shelf life. In addition, 43,706 Masks valuing ₹85.55 lakh were condemned in Northern, Eastern and Western Commands between July 2009 and July 2011.

Thus, Masks valuing ₹2.54 crore were accepted from an unregistered and inexperienced firm, without proper survey and prior approval of the sample, as necessitated by the DPM. The Masks so procured were also found deficient in quality by the users and 92,783 numbers valuing ₹1.82 crore were either used/stocked even after expiry of their prescribed shelf life or had to be condemned.

The matter was referred to the Ministry in December 2012; their reply was awaited (November 2013).

3.2 Holding of X-ray generators in stock for nine years

X-ray generators imported in September 2004 for ₹ 2.28 crore, for detection and disposal of Improvised Explosive Devices in the militant affected area, were not issued to the users for want of release orders from IHQ. Consequently 90 *per cent* of the in-service life of the Generators had expired in storage.

Out of 124 X-ray generators procured in September 2004 for detection and disposal of Improvised Explosive Devices, 32 X-ray generators costing ₹2.28

crore could not be issued to the users even after expiry of 90 *per cent* of their in-service life.

Real Time Viewing System MK-IV i.e. X-Ray generator is an essential tool for detection and disposal of Improvised Explosive Devices (IED). Necessity of the item assumed enhanced significance due to increased IED threat in militancy affected areas of the country. In order to meet the deficiency of this critical class 'A' Tank, Ministry of Defence (MoD) concluded a contracts, on 15 February 2002 with M/s Sector -6 Technologies, Belgium for the supply of 124 X-Ray generators, at a cost of € 2.073 million equivalent to ₹8.85 crore. The in-service life of X-Ray generator was 10 years and as per the contract provisions the firm was required to provide product support for 10 years to the Tank after delivery.

Against the contracted quantity, 117 numbers of X-Ray generators (complete with all accessories) were received in Central Ordnance Depot (COD), Agra in September 2004 and the balance seven numbers were received in March 2006. Out of this quantity, only 49 Tank could be issued to user units against release orders issued by the Army Headquarters. The remaining 75 Tank were declared 'Factory Repair (FR)', as the batteries were not holding charge. A quality claim for the FR Tank was accordingly raised by COD on 29 July 2005. The firm replaced the 75 defective batteries in June 2006. However, even after their replacement of the batteries, only 36 X-ray generators could be issued to user units. Remaining 39 which included 32 for free issues stock, two awaiting base overhaul and five as Integrated Headquarters (IHQ) reserve, were still held in the stock of COD as of August 2013. In reply to an audit query raised in December 2011, about the continued holding of the Tank in stock, COD stated that the Tank being class 'A' is issued against Release Orders/issue Orders (RO/IO) released by IHQ of MOD (Army). The RO/IOs were not received from the IHQ of MOD (Army), as such the same were lying in the depot.

During inspections carried out by COD in May 2011, these 38 X-Ray generators were again declared FR as their batteries had outlived their shelf life. Hence Tank was still held in COD as of August 2013 awaiting issue.

The case reveals that despite the specialized need of the Tank and its specific requirement as a IED Tank, 32 X-Ray generators worth ₹2.28 crore[13], procured on the basis of urgent requirement, were not issued timely for their utilization in the field. As the Tank was lying idle in free issue stock of COD Agra for nine years after their receipt, 90 *per cent* of their in-service life and product support period had expired in storage.

The matter was referred to Ministry in April 2013; their reply was awaited (November 2013).

[13] EURO 20.73 Lakh x ₹42.699 per EURO = ₹885.15 lakh x32/124 =₹228.42 lakh = ₹2.28 crore.

3.3 Loss due to non-maintenance of batteries

Army HQ/Central Ordnance Depot Delhi Cantonment procured 37957 low maintenance batteries for vehicles at a cost of ₹21.32 crore. Out of these, 6993 batteries became defective/unserviceable due to inadequate maintenance required during their storage, resulting in a loss of ₹4.18 crore.

Director General of Quality Assurance (DGQA) replaced (January 2007) the old Controllerate of Quality Assurance (Electronics) (CQAL) specification 540 for batteries with new CQAL specification 637: 2006, which envisaged less charging time, low maintenance, having higher cranking performance[14] and better longevity for the batteries. The new specification batteries were to be supplied with electrolyte filled and fully charged. As the batteries had a shelf life of six months and a service life of two years, they were required to be used within six months from the date of supply by the manufacturer and stored for the barest minimum period in fully charged condition in the depots. The voltage was to be checked periodically during the stocking period (maximum six months) and if it fell below 10.75 volt and 4 volt in respect of 12 volt and 6 volt batteries respectively during this period, it was to be revived to its full capacity.

Integrated Headquarter of Ministry of Defence (Army) (IHQ of MoD (Army)) placed a supply order on M/s Exide Industries in February 2008 for procurement of 8620 batteries (12 volt AH 70)[15] valuing ₹3.20 crore. Central Ordnance Depot (COD) received the entire quantity in July/August 2008. To meet further requirement of batteries, COD placed two more supply orders against Director General Supplies and Disposal (DGS&D) rate contract on M/s Amar Raja in September 2008 and October 2008 for 8714 batteries (12 V AH 70) and 20623 batteries (12 V AH 120) valuing ₹3.25 crore and ₹14.87 crore respectively. Supplies were made by M/s Amar Raja between December 2008 and November 2010 against the first order and between May 2009 and November 2010 against the second order.

Audit scrutiny (September 2010) regarding functioning of these batteries in respect of 29 units revealed that 6993 batteries received against the above three supply orders during 2009 and 2010 were not retaining charge and had therefore, become defective/unserviceable in 2010 and 2011. On detailed analysis of some of these cases CQAL Bangalore, noticed (February 2011) that defects in batteries were not due to manufacturing flaws but due to prolonged storage in Ordnance Depots without the required maintenance charge. The CQAL further stated that such batteries could not be revived and utilised. The case was also taken up with both the firms in July 2010 and September 2010 for repair and replacement of defective batteries. The firms refused to replace defective batteries on the ground that those batteries were not stocked as per CQAL specification.

[14] Performance of the battery to give the higher discharge current for a specified period of time (in Seconds) to start the vehicle.

[15] 12 Volt is the nominal voltage of the Batteries, which a battery can provide at the output terminals. 70 AH is the Capacity in Ampere-Hours of the Batteries.

In response to audit queries COD, Delhi Cantonment stated (April 2012) that the low maintenance batteries were introduced in service as per CQAL specification 2006, the storage life of these batteries was only six months and maximum warranted service life two years. The Army till such time had no experience in carrying out the specialized functions required for handling of these batteries and therefore CQAL should not have arbitrarily superseded its specification without taking the stocking echelons and related testing facilities into consideration. Further, these batteries are packed in pallets and the pallets have to be broken for charging the batteries and repalletisation was not feasible due to lack of infrastructure. Meanwhile DGOS, in August 2010, had instructed all commands to trickle charge[16] all batteries to ensure their effective utilization within the shelf life.

Thus, procurement of newly introduced low maintenance batteries without adequately sensitising the holding depots about its storage and without catering for infrastructure for their recharging during storage had resulted in a loss of ₹4.18 crore for batteries declared defective/unserviceable prematurely.

The case was referred to the Ministry in May 2013; their reply was awaited (November 2013).

3.4 Avoidable expenditure on re-transportation of stores

Central Ordnance Depot Mumbai received tyres and Integrated Field Shelters from various suppliers and re-dispatched them to dependent units instead of the Suppliers dispatching them direct to such units as envisaged in the transportation model. Re-transporting of 67652 tyres and 64 Integrated field Shelters during 2008-09 to 2011-12 by COD Mumbai resulted in avoidable expenditure of ₹5.45 crore.

Central Ordnance Depots (COD) operates as Mother Depots for All India provisioning and supply of full range and depth of stores of specified commodities to dependent lower Ordnance Depots. The existing system of supply chain management operates on the basis of lower formations recouping their stores from the higher formations through demands.

In 1979, the Master General of Ordnance Branch (MGO), Army Headquarters (AHQ) introduced the system of 'Transportation Model' (model) for select categories of stores. The model envisaged direct dispatch of the select stores by the suppliers to the consignees. The objective of introducing the model was to achieve economy in cost of transportation of stores arising from direct dispatch by the suppliers to the consignees instead of routing them through CODs. Besides, reduction was also envisaged in the scope for damages arising from multiple handlings. To start with, the model was to be applied to select range of items, which were bulky, fast moving and occupy more volumetric space. Commandants, CODs were, however, authorised to select other items on their own initiative.

[16] Charging a fully charged battery under no-load at a rate equal to its self-discharge rate, thus enabling the battery to remain at its fully charged level.

We observed, during Audit (September 2010 and January 2012), that in the following two cases transportation model was not invoked in respect of stores received by COD, Mumbai, which resulted in avoidable expenditure of ₹5.45 crore.

Case A

Audit scrutiny (September 2010) of supply orders for tyres placed by the AHQ during 2005-06 to 2009-10 revealed that while only one supply order each in 2005-06 to 2006-07 was placed on the basis of the Transportation Model, the balance 96 supply orders were placed as per earlier procedure with COD Mumbai as the initial consignee. Tyres so received were re-dispatched to the ultimate consignees by the COD through civil hired transport. We worked out the extra expenditure due to dual transportation of the tyres as per the formula adopted by the AHQ. The avoidable expenditure on re-transportation worked out to ₹4.15 crore during 2008-09 to 2011-12 in respect of 67652 tyres re-transported from COD Mumbai to five dependent depots/units in respect of 16 supply orders test-checked for supply of 1.59 lakh tyres which were placed by AHQ.

In reply to the audit observation raised in September 2010, the COD stated (September 2010) that the model was applicable only when there are a number of sources and destinations and the item has to be substantive, fast moving and of continuous use all over India. It also stated that certain items of tyres were not fulfilling these criteria and as such it was not possible to adopt the model for all orders placed during a particular financial year.

The reply is however not factually correct as "Tyres" featured in the initial selected list of items approved by the AHQ in November 1979. Further, the Commandants of CODs were empowered[17] to select other items which lend themselves to easy application in meeting mounting dues-out quantities. The supply orders also qualified against other criteria, i.e. number of destinations involved (five Dependent depots), substantive nature and the item being fast moving and of continuous use. Therefore, the transportation model, as approved by the AHQ should have been invoked for direct dispatch of stores.

COD Mumbai, however, subsequently clarified in October 2011, that all the indents and demands pertaining to 2009-10 and thereafter were forwarded to the AHQ based on Transportation Model.

Case B

Ministry of Defence concluded two contracts in July 2008, one each with M/s Dass Hitachi Ghaziabad and M/s Titagarh Wagons, Kolkata for supply of 101 numbers of Integrated Field Shelters (IFS) with COD Mumbai as consignee. Out of 101 Shelters, 50 numbers were to be dispatched to Northern Command, 34 numbers to Western Command/South Western Command and 17 numbers to Southern Command. COD Mumbai received all the stores between March

[17] Para 27 of Master General of the Ordnance Branch, Army Headquarters letter No. A/05240/104/OS-12 dated 14.11.1979 refers.

2009 and May 2012, out of which 64 Shelters were issued to various units up to March 2012.

In March 2009, Commandant COD pointed out that one IFS comprises 295 packages and requires four to five civil hired transports for dispatch to a particular destination and that an amount of approximately ₹2 crore would be required for dispatching all the IFS from COD Mumbai to various units. The Commandant advised AHQ to dispatch all the IFS directly to various Regional Ordnance Depots to save on double handling and avoidable expenditure on hiring of transport. However, AHQ did not amend the ultimate consignee, which resulted in re-transportation of 64 IFS to various units up to March 2012. The expenditure on re-transportation of those stores worked out to ₹1.30 crore, which was avoidable.

On being pointed out in audit in January 2012, COD Mumbai took up the case with the AHQ. AHQ accepted the audit contention (April 2012) and stated that the transportation model has been implemented for the upcoming contracts.

Thus, failure of the AHQ to implement the 'Transportation Model' resulted in an avoidable extra expenditure of ₹5.45 crore, defeating the purpose for which the transportation model was envisaged.

The matter was referred to the Ministry in May 2013; their reply was awaited (November 2013).

3.5 Extra expenditure on account of provision of unauthorised strengthening measures in buildings

Concerned competent financial authorities accorded sanctions incorporating additional plinth area rates for construction of buildings in seismic zones II and III in violation of Indian Standard 1893:2002, National Building Code of India 2005 and Central Command Works Specifications resulting in extra expenditure of ₹2.34 crore.

Based on the approximate estimates prepared by the engineers by wrongly including additional plinth area rates, concerned competent financial authorities (CFA) in the Army accorded sanctions for construction of buildings in seismic zones II[18] and III[19] resulting in extra expenditure of ₹2.34 crore.

Scales of Accommodation stipulate that the engineers prepare design and specification of structures with due regard to economy, consistent with local architecture and normal building practices. As per Indian Standard 1893: 2002, National Building Code of India 2005 and the Central Command Works Specifications, Military Stations Raipur, Jabalpur/ Pachmarhi and Mhow fall under seismic zones II and III.

[18] Zone II- This is said to be the least active seismic zone.
[19] Zone-III- It is included in the moderate seismic zone

Engineer-in-Chief, Integrated Headquarter of Ministry of Defence (Army) (E-in-C) notified plinth area rates for various groups of buildings in April 2001 and July 2007 based on Standard Scheduled Rates 1996 and 2004, respectively. While the basic plinth area rates were applicable to all seismic zones, additional plinth area rates over and above the basic rates were admissible in respect of buildings in framed construction, in seismic zones IV[20] and V[21], for strengthening measures. Additional plinth area rates were not authorised for buildings in framed construction in seismic zones II and III.

Our scrutiny of sanctions issued between October 2003 and March 2012 revealed, that based on estimates prepared by the engineers, concerned CFA had issued sanctions for construction of buildings having framed construction at Military Station[22] falling in seismic zones II and III by incorporating additional plinth area rates duly concurred by the Integrated Financial Adviser. Against 39 such sanctions 33 contracts were concluded to execute the works leading to extra expenditure corresponding to ₹2.34 crore on account of strengthening measures. Contracts in respect of the remaining sanctions were yet to be concluded.

The Chief Engineer Jabalpur Zone (CEJZ) stated, in June 2011 and March 2012 that though Jabalpur and Pachmarhi areas were falling under zone III, certain additional amount had been considered for providing additional reinforcement due to recent earthquake and other factors like soil conditions, sub soil water, etc. In future, extra amount for seismic zone would not be considered. Further, in the light of the audit observation, all subsequent sanctions were issued without including additional plinth area rates.

Thus, the case reveals that the CFA accorded sanctions for construction of buildings in seismic zones II and III on the basis of plinth area rates, by including additional plinth area rates, in violation of the E-in-C's instructions. Contracts concluded by the Military Engineer Services based on these inflated sanctions led to an extra expenditure of ₹2.34 crore.

The matter was referred to the Ministry in May 2013; their reply was awaited (November 2013).

3.6 Unauthorised use of Defence accommodation

In gross disregard of Government orders, the local Commanders misused their delegated powers by re-appropriating Government buildings for non-bona fide purposes

Keeping in view the unauthorized use/re-appropriation of defence assets by local Commanders of the Army as reported by the Comptroller & Auditor General of India (C&AG) from time to time, Ministry of Defence (MoD), in October 2001, issued directions that cases of re-appropriation involving

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[20] Zone IV- This is considered to be the high seismic zone
[21] Zone V- It is the highest seismic zone
[22] Zone-II – Raipur Zone-III- Jabalpur, Panchmarhi, and Mhow.

increase in scales or introducing a new practice, requires sanction of Government. It was also instructed that disciplinary action would be taken against those violating these regulations.

Mention was made again in Reports No. 4 of 2008 and 16 of 2011 of the C&AG, Union Government (Defence Services) Army and Ordnance Factories regarding misuse of delegated powers by Station Commanders by re-appropriating Government buildings for unauthorised purposes. In the Action Taken Note to the Report No. 4 of 2008 the MoD agreed with audit conclusions and confirmed in October 2011 that the said building had been vacated by the Girls Hostel and handed over to the Local Military Authorities.

Notwithstanding the laid down regulations, instructions on the subject issued by the Ministry and regular audit paragraphs raised by the C&AG, we further noticed the following cases of misuse of delegated powers by local Commanders by way of re-appropriating Government buildings for non-bona fide purposes in gross violation of the laid down regulations:

Case I

Based on the recommendations of the Board of Officers convened by HQ Delhi Area, MoD in March 2007, sanctioned a work for provision of transit accommodation for 20 Officers, 20 Junior Commissioned Officers (JCOs) and 60 Other Ranks (ORs) for accommodating the patients and their escorts near Base Hospital (BH) Delhi Cantonment as a special work at an estimated cost of ₹4.40 crore. However, while the work comprising three blocks was nearing completion, Station HQ Delhi Cantonment initiated a case in January 2011, for re-appropriation of two of the three blocks to accommodate Army Boys Hostel (ABH), already running in old BH barracks. The ABH was raised in the year 2000 on the directions of HQ Western Command for the wards of all ranks pursuing higher education/vocational training courses in the National Capital Region.

The work for transit accommodation was completed on 28 February 2011 at a cost of ₹4.98 crore. In July 2011, General Officer Commanding (GOC), HQ Delhi Area accorded sanction for temporary re-appropriation of two blocks of JCOs and ORs transit accommodation for its use as ABH for a period of one year, from January 2011 to December 2011, on the ground that the key location plan (KLP) of the BH was likely to come up at a different location away from the existing site; hence the newly constructed transit accommodation would not be put to optimal use. The re-appropriation sanction was further renewed by GOC Delhi Area from January 2012 to December 2012 and, again from January 2013 to December 2013.

Third block of the transit accommodation was being used to run a Palliative Care Center (PCC), established from Adjutant General's Welfare Fund, by a Non-Government Organisation. Between 12 July 2011 and 31 August 2012, the PCC functioned under a Memorandum of Understanding executed between BH Delhi Cantonment and Global Cancer Concern India for treatment of terminally ill patients. The BH Delhi Cantonment eventually took over the management of PCC with effect from September 2012.

Thus the entire new accommodation constructed at a cost of ₹4.98 crore for the benefit of patients and their attendants was being unauthorisedly used for non-bona fide purposes. The attendants/escorts for whom the accommodation was sanctioned by the Government as a special case, were being put up in barracks, messes and guest rooms.

Case-II

A government building built over land measuring 1302.43 square metres valuing ₹49.49 lakh in Pune Cantonment was originally constructed as Junior Commissioned Officers' Mess of an Infantry Brigade and other than married accommodation. These buildings, including two buildings constructed subsequently during 2003-04, were occupied by the Army Wives Welfare Association (AWWA), a non-government organisation, for use as Girls Hostel from June 2004. On shifting of the AWWA Girls Hostel to its new location at Kirkee, the Boys Hostel started functioning there with effect from September 2005 under the name 'Southern Command Boys Hostel'.

In April 2007, and then in April 2008, we took up the matter with HQ Southern Command (SC) and HQ Pune Sub Area (PSA) regarding use of government buildings for non-bona fide purposes. In July 2008, HQ PSA stated that ex-post facto sanction of the competent authority for re-appropriation of the Building had been obtained and a Board of Officers had also been convened for recovery of licence fee.

The reply that 're-appropriation sanction of the competent authority was obtained' was factually incorrect as instead of obtaining re-appropriation sanction from the MoD as per rules, the sanction had been obtained from Station Commander, Pune, in May 2007.

Thus despite specific Government orders and various Reports of the Comptroller and Auditor General highlighting such serious irregularities the local Commanders continued to misuse the delegated powers by according re-appropriation sanctions for use of Government buildings for non-bona fide purposes without obtaining sanction from the MoD which warrants detailed investigation and appropriate action.

The matter was referred to the Ministry in June 2013; their reply was awaited (November 2013).

3.7 Recoveries, savings and adjustment in accounts at the instance of Audit

Based on our observations, the audited entities had recovered overpaid pay and allowances, sundry charges, electricity & rent charges, cancelled irregular works sanctions and amended annual accounts, having a net effect of ₹68.94 crore.

During the course of audit, we observed several instances of irregular payments, under/non-recovery of charges, issue of irregular sanctions and accounting errors. Acting on the audit observations, the audited entities took corrective action, the net effect of which is summarised below:

Recoveries

The check of records of Defence Research and Development Organisation, Principal Controllers of Defence Accounts, Military Engineer Services (MES), Pay and Accounts Offices, Canteen Stores Department (CSD) HQ and Border Roads Organisation revealed instances of irregular payment of pay and allowances, sundry charges, non-recovery of fixed charges of electricity from Defence Personnel (Officers, Junior Commissioned Officers and Other Ranks) and rent and allied charges, etc amounting to ₹7.04 crore. On being pointed out, the entities concerned recovered/ agreed to recover the irregular payments.

Savings

Various sanctioning authorities such as the Ministry of Defence, Area/Sub-Area HQ of the Army, Station HQ, Corps HQ, etc cancelled irregular administrative approvals to works. Some of the MES officers reduced the administrative approval amount by issue of reduction statements in respect of works under execution by them. The net result of these actions was a saving of a total of ₹42.57 crore.

Amendment of annual accounts

When we pointed out instances of irregular accounting such as overvaluation of closing stock, inadequate provision towards liabilities and under-reporting of amounts due from State Governments, etc, the CSD HQ corrected the annual accounts. But for these corrections, profit would have been inflated and sundry debtors underreported. The net effect of these corrections was ₹19.33 crore.

CHAPTER IV : WORKS AND MILITARY ENGINEER SERVICES

4.1 Avoidable extra expenditure of ₹1.03 crore due to acceptance of conditional contract

The Chief Engineer Delhi Zone concluded a conditional contract involving uncertain liability without Government approval in violation of Regulations for the Military Engineer Services, which resulted in an avoidable payment of ₹1.03 crore to the Contractor

The Chief Engineer, Delhi Zone (CEDZ) accepted a conditional tender leading to an avoidable payment of ₹1.03 crore to the contractor.

Para 394 of the Regulations for the Military Engineer Services (RMES) stipulates that contracts involving an uncertain liability or any condition of an unusual character should be avoided. However, if it is necessary to include any such provision in a contract, prior approval of the Government of India will be obtained.

The Ministry of Defence (MoD) accorded sanction, in September 2004, for provision of Army Mess and Auditorium at Delhi Cantonment, at an estimated cost of ₹31.78 crore. The CEDZ invited tenders, in September 2004, for the civil works estimated at ₹21.37 crore in the sanction. Tenders received in the first call in January 2005 could not be accepted as the lowest bid of ₹48.03 crore was found to be unreasonably high. Quotations with revised specifications were issued for second call in April 2005 and the lowest tender of M/s Ktech Engineer Builders Co. Pvt Ltd for ₹38.44 crore was considered reasonable. The offer of the tender was valid for 60 days i.e. up to 06 September 2005.

Since the amount of the lowest tender was more than the amount available for the acceptance of the contract, the CEDZ initiated a case on 28 July 2005 for obtaining Financial Concurrence (FC) of the MoD. MoD rejected the proposal in November 2005, and directed to forward the case for revision of cost attributable to market variations of major essential items and within the cost attributable to market variations of major essential items and within the approved specifications. In the meantime, the firm extended the validity of the tender up to December 2005, at the request of CEDZ.

Subsequently, revised sanction for the work was given by MoD on 17 March 2006 at an estimated cost of ₹44.18 crore. Since the validity of the tender has expired by then, the CEDZ approached the tenderer for extending the validity further. The tenderer, while extending the validity up to 25 March 2006, requested the CEDZ for favourable consideration in respect of abnormal increase in the price of cement. Without contesting the contractor's request for favourable consideration in respect of abnormal increase in prices of cement, CEDZ concluded the contract on 22 March 2006 for a lump sum of ₹38.27

crore. The work, commenced in April 2006 and was completed in December 2010. However, during the currency of the contract, claims relating to reimbursement for increase in price of the cement submitted by the contractor were not paid by the CEDZ, resulting in disputes between the two parties. The matter was therefore referred for Arbitration.

The Sole Arbitrator, appointed by the Engineer-in-Chief's Branch, New Delhi, (E-in-C Branch) in November 2008 stated (August 2009) that CEDZ has accepted the contract without any amendment to the contractor's letter which also forms part of acceptance letter and awarded a sum of ₹0.89 crore in favour of the contractor, over and above the escalation amount of ₹15.90 lakh already paid. Though CEDZ was not convinced with the Arbitrator's award yet it failed to file objection within the limitation period of three months. The objection petition filed, in January 2009, for condonation of delay was dismissed by the Court. Accordingly, CEDZ paid a sum of ₹1.03 crore to the contractor, which included an amount of ₹0.14 crore as interest for delay in making the payments by the stipulated timeframe.

The Draft Paragraph was issued to the Ministry in January 2013; their reply was received (August 2013). The Ministry stated in reply, that the Arbitrator had not interpreted the contractor's letter correctly. The contractor had only requested for consideration of price increase of cement and therefore this condition was not absolute in terms of the Contract Act.

The contention of the MoD about incorrect interpretation by the Arbitrator is, however, not acceptable as in case it was felt that the award was unacceptable, CEDZ should have filed an objection against it, as provided under the rules. Failure in filing the objection petition against the Arbitration award within the prescribed limitation period resulted in dismissal of petition by the Court and consequent payment of ₹1.03 crore on account of increase in price of cement.

The case, therefore reveals that conclusion of the contract by CEDZ in violation of Para 394 of RMES and with uncertain liability resulted in undue payment of ₹1.03 crore to the contractor.

4.2 Poor planning resulting in suspension of work and damage to the Government property

Acquisition of land worth ₹9.04 crore, without considering the provision for approach road, resulted in suspension of construction work after incurring ₹3 crore. Assets so created sustained damages worth ₹37 lakh and necessitated preventive works worth ₹1.87 crore.

As per E-in-C's standing orders (1995), while implementing a project under consideration, availability of approach road for construction has to be taken into account, among various other aspects, in the Engineer Appreciation[23].

[23]The purpose of preparing an Engineer Appreciation is to present to the higher authorities any engineering problems that are anticipated in implementing the project under consideration. This facilitates a decision on any engineering problems before work is commenced.

In November 2007, Army acquired land measuring 2063 Kanals and 2 Marlas (257.887 acres) at a cost of ₹9.04 crore for the construction of formation ammunition dump[24] at Kathua in J&K. However, land for approach road was not marked and acquired. The acquired land was accessible from National Highway-1A through an existing 7 Kilometers long approach road with black top surface up to 5.5 km. Remaining 1.5 km was a kachha track on private land.

In September 2008, the Board of Officers comprising representatives of Chief Engineer (CE) Pathankot Zone, recommended the construction of boundary pillars, perimeter fencing and internal roads for security and demarcation of the acquired land. However, the representative of the CE did not bring out non availability of proper approach road to the work site in the Engineer Appreciation, which formed a part of the proceedings of the Board of Officers.

Quarter Master General, Integrated Headquarter of Ministry of Defence (Army), in February 2009, sanctioned the above work at an estimated cost of ₹7.08 crore. CE in July 2009, concluded the contract for ₹5.68 crore and the execution of work commenced in August 2009. In June 2010, when the progress of work was 40 *per cent,* the local population of the village opposed the movement of contractor's vehicles and machinery through their land. Due to the protests, the contractor could not progress with the work with effect from December 2010. Certain items of work, viz. construction of drainage system, causeways, culverts/hume pipe culverts included in the scope could also not be carried out which caused excessive damage to the roads and the retaining walls due to heavy rainfall in July/August 2011. The assessed damage was valued at ₹37 lakh by a Technical Board of Officers, held in November 2011, which also recommended repairs to the damage and remedial measures to prevent further damage at an additional cost of ₹1.87 crore.

In the meantime, due to the protest of the local population of the village, the contractor, in October 2010, proposed to foreclose the contract which was not agreed to by the department. The contractor, thereafter, invoked the arbitration clause and the Arbitrator appointed by E-in-C's branch in December 2010 published its award in December 2012. As per the award, the contract was closed and the contractor was absolved of the defect liability on the ground that the work had remained standstill since December 2010. Further, the CE was directed to go in for a fresh contract for the balance work as and when proper approach road to the site was constructed. The progress of work as in December 2010 was 42 *per cent* and expenditure booked ₹3.00 crore.

It was further observed (May 2013) that the work for construction of the above ammunition dump was proposed for deletion from Annual Major Works Plan for the year 2011-12 as the work site was inaccessible and the land for approach road was yet to be acquired.

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[24] "Formation ammunition dump" is a place where provisions are made to stock the ammunitions of various units either under shelter or in open

The matter was referred to the Ministry in January 2013. The Ministry in its reply (May 2013) stated that a State Public Works Department road already existed upto village Mehtapur from where a 1.2 Km long Kachha approach path connected to the defence land. This path had been earlier used for common purposes. Since the approach road existed, the work was sanctioned. It was during the execution of the work that the local population of the village objected to the use of the kachha path and filed a court case.

The reply is however, not acceptable as the Board of Officers held in August 2007 to assess the cost of topographical survey, had clearly stated that the acquired land had to be approached through private and other lands and that the land pocket for approach road had to be decided and acquired at the earliest.

Thus, due to poor planning by the CE, the work on a proposed ammunition dump had to be suspended, apart from damages caused of ₹37 lakh to Government property. An additional burden of ₹1.87 crore on the exchequer, was also necessitated for preventive works. Besides, the Army was deprived of the operational necessity for acquisition of the dump despite incurring an expenditure of ₹9.04 crore on acquisition of land and ₹3 crore towards incomplete work thereon.

4.3 Avoidable extra expenditure due to non installation of meter

Agreement for 33 KV bulk electric supply entailed Chief Engineer, Udhampur Zone to install metering unit at the Military Engineer Services (MES) receiving station. Failure to do so not only resulted in payment for assessed consumption, which was inflated, but also deprived MES of part energy rebate. Consequently, MES incurred an extra expenditure of ₹8.83 crore.

Chief Engineer, Udhampur Zone (CE) entered into an agreement with Jammu and Kashmir State Electricity Department (JKSED), in March 2008, for 33 KV bulk electric supply for a period of five years, at MES receiving station Udhampur. The rate charges for the bulk supply were as per the tariff sanctioned rate, which was subject to further revision by the J&K State Electricity Regulatory Commission (JKSREC) from time to time. The conditions of the agreement stipulated that supply would be registered by a meter, to be provided by the supplier at monthly hire charges. In case supplier failed to provide the meter, the consumer had to provide the meter by himself, in which case no hire charges would be levied. The agreement also clarified that in case the meter becomes inoperative, the supply of energy would be assessed from the readings of previous three months.

We observed (February 2012), that despite the fact that need for a meter was clearly enunciated in the agreement and that the responsibility for providing the same was also specified in unambiguous terms, the CE did not install the meter. The case for installation of the meter was initiated by the Garrison Engineer (Utility) Udhampur (GE) in November 2010, i.e. after more than half of the terms of agreement was over. Though the matter was also followed up by the GE in February 2011 and September 2011 but the meter was not provided by JKSED. Based on audit observation (February 2012), GE projected a case for provision of their own meter, which was eventually installed in November 2012 at a cost of ₹1.52 lakh. In the absence of the meter, between March 2008 and November 2012, JKSED charged MES for assessed consumption, which was highly inflated. From December 2012 onwards, the charges for electricity consumed were levied on actual consumption. The average actual consumption of electricity from December 2012 to July 2013 was only 781973 units, whereas JKSED had charged MES for assessed consumption ranging from 840000 to 1866550 units, between March 2008 and November 2012. Thus, MES had to pay for the extra units due to non-installation of the meter at their receiving station. The avoidable extra expenditure for the electricity units paid in excess of average actual consumption worked out ₹8.04 crore from March 2008 to November 2012.

Further, as per the tariff orders notified by JKSREC, an energy rebate at a rate of 2.5 and 5 *per cent* for 11 KV and 33 KV respectively was applicable to departments of State and Central Government, defence and para military forces. The rebate, at 5 *per cent*, was however applicable only after installation of Current Transformer/Potential Transformer (CT/PT) which formed a part of metering unit. Since, the meter and CT/PT were not installed at the receiving station up to November 2012, JKSED offered a rebate of 2.5 *per cent* only. As a result, an amount of rebate equivalent to ₹0.79 crore could not be availed. After installation of meter and CT/PT in December 2012, a rebate of five *per cent* over the total energy charges was given by JKSED.

The case therefore reveals that the failure on the part of the CE to safeguard Government interest under the agreement with JKSED resulted in avoidable extra expenditure of ₹8.83 crore.

The matter was referred to the Ministry in April 2013; their reply was awaited (November 2013).

4.4 Inadmissible payment of escalation charges to the contractors

The Chief Engineers concluded works contracts incorporating price variation clause in tender documents based on clarifications issued by Engineer-in-Chief in contravention of provisions of Defence Works Procedure leading to inadmissible payments to the Contractors.

Paragraphs 29 (g) of Defence Works Procedure (DWP) 2007, stipulated that in case of works scheduled to be completed within two years, no escalation, except statutory increases, will be allowed in the contracts for execution of such works. The Approximate Estimates (AE) for such works would be framed accordingly. According to Paragraph 58 (b) of DWP, the AE for such works would be so framed as to cater for escalation for two years. However, the contract would not include any escalation clause except statutory increases.

Contrary to the provisions of DWP, the Engineer-in-Chief (E-in-C) Integrated Headquarters of Ministry of Defence (Army), in May 2008, however, issued clarifications to the lower formations allowing them to take decisions for inclusion of escalation clause in the contracts, depending upon whether or not the element of escalation had been added in the AEs of the jobs with probable date of completion (PDC) of two years or less. In the light of these clarifications, the Chief Engineers (CE) concluded contracts for the execution of the jobs with PDC of up to two years by incorporating escalation clause in the tender documents. However, in November 2011, the E-in-C, based on observations made by the Controller General of Defence Accounts (October 2011) reversed their earlier decision and instructed all the lower formations not to include escalation clause in contracts for jobs with PDC of two years or less. Necessary action for regularization of the payment for escalation already made to the contractors was asked to be taken.

Scrutiny in audit revealed (March/April 2012) that three CEs in the Central, Western and South Western Commands had concluded eight contracts between 2008-09 and 2010-11 incorporating escalation clause against eight different jobs with PDC of two years or less, involving escalation payment of ₹1.39 crore to the contractors. Out of the eight jobs, the element of escalation was explicitly included as a separate item in the AEs of two jobs. In the remaining six jobs, the element of escalation was not distinctly shown in the AEs. E-in-C (April 2012), however, revoked the earlier decision of November 2011 for regularization of inadmissible payments made to the contractors on account of escalation stating that clarification issued in May 2008 was only intended for exceptional circumstances, so as to avoid initial teething problems and not as a matter of routine as DWP-2007 had come into effect from 21 June 2007.

Thus, the case reveals that the CEs concluded contracts by incorporating escalation clause for execution of jobs with PDCs of two years or less, in violation of Paragraph 29(g) and 58 (b) of DWP which disallowed the escalation in contract for execution of work scheduled to be completed within two years. This resulted in inadmissible payments of ₹1.39 crore under contracts concluded by three CEs. Further, the action of the E-in-C revoking the earlier decision for regularization of the above direction amounted to validating the inadmissible payments, which requires detailed investigation and appropriate action.

The matter was referred to the Ministry in May 2013; their reply was awaited (November 2013).

CHAPTER V: DEFENCE RESEARCH AND DEVELOPMENT ORGANISATION

5.1 Extra avoidable expenditure by ANURAG

Violation of the prescribed procurement procedure and allowing M/s ITI to execute the job through outsourcing at a higher price resulted in extra expenditure of ₹2.12 crore by Advanced Numerical Research and Analysis Group (ANURAG).

Defence Research and Development Organisation (DRDO) Procurement Procedure 2006, stipulates that for non-proprietary items single tender system should be adopted with the approval of Competent Financial Authority (CFA) only when single response is available inspite of limited tendering on more than one occasion.

ANURAG designed and developed a 384 node Linux Cluster System under project "Center for High-Performance Computing and Research" (CHITRA) which was connected to all DRDO Labs via DRDO's Rapid Online Network Access (DRONA) network in 2007. Due to speed limitation of DRONA network, it was proposed by ANURAG (March 2010) to upgrade the system as huge amounts of data could not be transferred. Accordingly, ANURAG proposed (June 2010) to upgrade the supercomputing facility by adding 300 computing nodes to the existing CHITRA facility at an estimated cost of ₹14.50 crore.

The existing system (CHITRA) had been installed by M/s ITI Limited Hyderabad (ITI) in 2007, through an open tender process. As ITI had successfully integrated and maintained the existing system, ANURAG proposed the upgradation on single tender basis through ITI only, in order to have a seamless upgradation.

In response to a tender enquiry, in September 2010, ITI quoted a price of ₹17.50 crore for upgradation of CHITRA computing facility at ANURAG. However, Tender Purchase Committee (TPC) considered the rates as high and negotiated the price to ₹16.38 crore.

Director General (DG) DRDO accorded financial sanction for ₹16.38 crore in December 2010 and ANURAG placed supply order (SO) on ITI at a cost of ₹16.38 crore. Initially, the delivery was to be completed by June 17, 2011 which was extended up to October 17, 2011. However, the firm supplied the system in parts from September 2011 to November 2011.

Our scrutiny in January 2012 revealed, that ITI had outsourced the entire job and placed back to back supply order at a cost of ₹14.26 crore on M/s Real Time Tech Solution Bangalore (RTTS). M/s RTTS was registered with ANURAG for electronics, software development, and supply of computers etc on the terms and conditions stipulated by ANURAG.

On this being pointed in audit in January 2012, ANURAG justified the SO on ITI on the ground that the existing system had been established, integrated and maintained by them successfully. ANURAG further added that above jobs needed multidisciplinary expertise which included configuration of high end servers, design of efficient cooling systems and design of optimal power distribution and that ITI had the requisite expertise for the same. Further, in February 2013, ANURAG stated that they were not aware of the sub-contract on RTTS by ITI and became aware of it only in April 2011. The statement was however, not factually correct as representatives from vendor associates of ITI, included member from RTTS who were to attend Price Negotiation Committee (PNC)/TPC meeting on behalf of ITI, in December 2010.

Our scrutiny further revealed that ITI was responsible only for overall supervision, control and management for the execution of the contract and the entire system including installation and commissioning was outsourced to RTTS. ITI by way of outsourcing of the work for DATA center design, power and cooling system including plumbing and mechanical work had earned 8 *per cent* net profit amounting to ₹1.24 crore on customer purchase order without any value addition.

The matter was referred to Ministry in December 2012 and Ministry in reply (October 2013) stated that ANURAG was not aware of association of RTTS with ITI for the upgradation work and any back to back arrangement with a third party. The reply is not factually correct as representatives from vendor associates of ITI, included member from RTTS who were to attend Price Negotiation Committee/TPC meeting on behalf of ITI, in December 2010.

Thus, the case revealed that ANURAG violated DRDO's Procurement Procedure by resorting to single tender instead of calling open tenders from other vendors registered in its vendor base. ANURAG as a result allowed ITI to execute the entire work at a higher price which resulted in additional cost of ₹2.12 crore.

5.2 Unwarranted procurement of CATIA V6 software

The procurement of ten out of the 12 licences of CATIA V6 CAD/CAM software by ANURAG centrally at a cost of ₹11.05 crore without conducting a proper feasibility study/need analysis proved to be unwarranted as the software continuous to remain unused since its procurement in March 2011. Three beneficiary Laboratories incurred an expenditure of ₹1.38 crore on procuring different software despite the availability of centralised software for managing their activities.

Laboratories (labs) of Defence Research and Development Organisation (DRDO) have been extensively using CAD[25]/CAM[26] facilities in design of Missiles, Combat vehicles, Aircraft engines, Airframes, Radar systems, Sonar systems, Naval systems, Electronic systems, etc. On the advice of the DRDO Headquarters, Advanced Numerical Research & Analysis Group (ANURAG)

[25] Computer Aided Design
[26] Computer Aided Manufacturing

organized a workshop, in September 2010, to obtain the opinion of various DRDO labs on the use of CAD/CAM software centrally. Therefore, CATIA V6 software, a multi platform CAD/CAM commercial software suite developed by M/s Dassault Systemes, which enables advanced systems simulation, was identified as the software to be used.

In the workshop, 12 probable user labs were also identified who were to use the software. ANURAG would act as the nodal agency to host the software centrally in 'CHITRA' supercomputing facility for user labs to access this software on DRDO's network 'DRONA'.

Subsequently, the requirement was reassessed by ANURAG, in February 2011, and ten users were identified, which included six users originally identified and four new users. Even though only ten users had been identified, ANURAG, proposed to procure 12 licences of CATIA V6 software with hosting servers from M/s Dassault Systemes on a single tender basis.

After obtaining financial sanction from DRDO Headquarter, on 25 March 2011, ANURAG placed a supply order on M/s Dassault Systemes India Pvt. Ltd., on the same date, for the supply of CATIA V6 software with 12 user licences, at a cost of ₹11.05 crore with three years warranty from the date of installation and acceptance. The software was installed, inspected and accepted on 30 March 2011.

Audit scrutiny (January 2012) revealed that no proper feasibility study/ need analysis based on the existing availability of CAD/CAM software with various user labs and the specific additional functionality, as required by individual labs, likely to be available through acquisition of CATIA V6 software, was carried out before procurement. The Statement of Case for procurement of CATIA software, processed by ANURAG, was based on a general perception of numerous advanced features available in the software rather than on the specific requirement expressed by the individual labs. Further, there was nothing on record to indicate as to what were the other CAD/CAM softwares considered by ANURAG on specific parameters of performance before selecting the CATIA V6 as a CAD/CAM tool suitable for DRDO's requirement.

We also found (January 2012) that though ANURAG had installed the software licences in March 2011 itself, the software had remained unused in six out of the eight labs. In reply, ANURAG stated (July 2012) that the software had been made available on DRONA during April 2011 and eight users, who are expected to use 12 licences, had been informed about the availability of the software on DRONA. The reply is however not factually correct as ANURAG had informed the user labs about the availability of CATIA V6 only in February 2012, after being pointed out by Audit (January 2012).

We further observed that licences were eventually issued to only eight users, out of which only two labs were using the software. The other labs intimated Audit (April 2012 to March 2013) that the software was either not required or required at a later date. We also observed that three labs, viz. R&DE (E), RCI and ASL had incurred ₹1.38 crore on purchase of different softwares, viz. Auto CAD Mechanised 2011 software, Solid Works 2011 Professional software and CATIA Hybrid Design-2 software between August 2011 and May 2012 i.e. after the availability of CATIA V6 on DRONA.

The matter was referred to Ministry in June 2013; their reply was received in October 2013. MoD stated in their reply that CATIA V6 Software was procured as part of DRDO's initiative to make available commonly used software modules to be accessed by any labs over DRONA and was not intended to be a fixed set.

The reply is however not factually correct as requirement for procurement of licence had been assessed specifically with reference to the needs of particular labs indentified by DRDO and the number of licences was procured accordingly. Thus the procurement of CATIA V6 CAD/ CAM was made without having conducted a feasibility/ need analysis as only two labs were using the same and the user labs had continued to procure different software despite availability of centralized software for managing their activities.

Thus, the procurement of ten out of the 12 licences of CATIA V6 CAD/CAM software by ANURAG centrally on a single tender basis at a cost of ₹11.05 crore without a proper feasibility study/need analysis was unwarranted as even after more than two years, the software continued to remain unused since its procurement in March 2011.

5.3 Procurement in violation of norms by DRDO

In violation of the procurement procedure, DRDO procured (2007) a component required in production of NAG missile at a cost of ₹52.58 crore, in anticipation of an order from the Army, which resulted in blocking of Government money of ₹34.70 crore.

As per General Principles of Purchase contained in the Defence Research & Development Organisation (DRDO) Purchase Management 2006, all expenditure on purchases will only be need based and Government funds will not be spent on anticipatory requirements, not having immediate use.

In August 2005, Defence Research & Development Laboratory (DRDL) initiated a Statement of Case for the sanction of funds for procurement of 400 Detector Dewar Cooling Assembly (DDCA), a critical component required in production of 'NAG' missile. A production line at Bharat Dynamics Limited (BDL), the production agency in this case, was established and production schedule chalked out. The missiles, on successful completion of user trials scheduled to be held in December 2005 and June 2006, and after completion of General Staff (GS) evaluation, were planned to be inducted in the Army by 2012. An Army project team, in September 2005, suggested negotiations at the earliest for the commercial deal for stock-piling but also indicated that the placement of the final order for procurement could await the successful completion of user trials.

In June 2006, Directorate of Materials Management, DRDO accorded the approval for procurement of 200 DDCA from M/s Sofradir, France at an estimated cost of ₹46.50 crore under Build up[27]. These were not intended to be used in the missiles in the development phase and hence, were not procured under project 'NAG'. A contract was concluded (January 2007) with M/s Sofradir, France for the supply of 200 DDCA at a cost of EURO 77, 80,000. The stores were received between July 2008 and July 2009 at a total cost of ₹52.58 crore. As per the contract condition, the stores had a warranty of 24 months from the date of delivery. The storage/shelf life of DDCA was about 10 years.

Subsequently, DRDL carried out a number of user trials in June- August 2009, June 2010 and July-August 2012. However, since problems were encountered in the performance of 'NAG'missile carrier during the user trials, the product was yet to be successfully tested (June 2013). It was further noticed that 68 out of 200 DDCA had been utilized so far (April 2012), out of which 37 had been used for trial purposes for the project 'NAG' and balance 31 for other projects.

We noticed (March 2009) that DRDO had procured 200 DDCA before successful completion of user trials in anticipation of final order from the Army in violation of the standard procurement practice and despite the recommendation of the Army project team to place the supply order only after successful completion of user trials and GS evaluation. We further observed (June 2013) that the project had been delayed and as against the target of June 2006, the user trials have been re- scheduled to summer of 2014. This resulted in expiry of half of the warranty and shelf life of DDCA already procured.

In reply to the Audit observation on procurement of DDCA(March 2009), Project Director (Project NAG) stated (March 2009) that the procurement had been initiated to avoid delay in initial production as DDCA is a long lead, critical component.

The reply is however, not acceptable since as recommended by the Army project team, the negotiations for commercial deal for stockpiling could commence prior to placing of an order by Army and not the procurement which was to be made only after successful completion of user trials.

Thus, the case reveals that in violation of procurement procedure, DRDO procured 200 DDCA without assessing the immediate requirement, at a cost of ₹52.58 crore in anticipation of an order from the Army for 'NAG' missiles resulting in blocking of Government money ₹34.70 crore for more than four years. Besides, the Army is yet to place the orders as even user trials have not been completed as of June 2013.

The matter was referred to the Ministry in June 2013; their reply was awaited (November 2013).

[27] Expenditure sanctioned for purchase of scientific equipment and materials for Laboratories/Workshops and maintenance thereof.

CHAPTER VI: ORDNANCE FACTORY ORGANISATION

6.1 General Performance of Ordnance Factory Organisation

6.1.1 Introduction

The Ordnance Factory Board (OFB) functioning under the administrative control of the Department of Defence Production, Ministry of Defence is headed by the Director General Ordnance Factories. There are 39 factories divided into five products based Operating Groups[28] as given below:

Sl. No.	Name of Group	Number of Factories
(i)	Ammunition & Explosives	10
(ii)	Weapons, Vehicles and Tank	10
(iii)	Materials and Components	8
(iv)	Armoured Vehicles	6
(v)	Ordnance Tank (Clothing & General Stores)	5

Two more factories *viz.* Ordnance Factory Nalanda and Ordnance Factory Korwa are under project stage for which ₹812.82[29] crore and ₹120.36 crore respectively, had been spent up to March 2012 against the original sanctioned cost of ₹941.14 crore (revised subsequently to ₹2160.51 crore in February 2009) and ₹408.01 crore. The Ordnance Factory Nalanda - earmarked to manufacture two lakh Bimodular Mass Charge System per annum and Ordnance Factory Korwa - being set up to manufacture 45,000 carbines per annum, were scheduled to be completed by November 2005 (revised to August 2011) and October 2010 (revised to May 2012) respectively. But they were yet to start regular production (October 2013).

6.1.2 Core activity

Ordnance Factories were basically set up to cater to the requirement of Indian Armed Forces. The core activity of Ordnance Factories is to produce and supply arms, ammunition, armoured vehicles, ordnance stores, *etc.* based on the requirements projected by Indian Armed Forces during the Annual Target Fixation meeting held every year. These requirements are later on confirmed by Indian Armed Forces in the form of Indents.

[28] On a functional basis, the factories are grouped into Metallurgical (5 factories), Engineering (13 factories), Armoured Vehicles (6 factories), Filling (5 factories),Chemical (4 factories), Equipment and clothing (6 factories)

[29] Since advance payment Bank Guarantee for BMCS plant has been invoked, total expenditure reduced to ₹ 812.82 crore in 2011-12.

However, to utilise spare capacity, the Ordnance Factories also supply arms and ammunition to Paramilitary Forces of the Ministry of Home Affairs, State Police, and Other Government Departments and also for Civil Indenters including Export.

During 2011-12, Ordnance Factories manufactured 903 principal items as against 938 items during 2010-11. The above items include anti Tank guns, anti-aircraft guns, field guns, mortars, small arms, sporting arms including their ammunitions, bombs, rockets, projectiles, grenades, mines, demolition charges, depth charge, pyrotechnic stores, transport vehicles, optical and fire control instruments, bridges, assault boats, clothing and leather items, parachutes, etc. These product ranges collectively constitute nearly 87 *per cent* of the gross value of production of ₹15,933.44 crore of all the Ordnance Factories for the year ended 31 March 2012.

6.1.3 Manpower

The employees of the Ordnance Factories are classified as (i) “Officers” of senior supervisory level, (ii) “Non-Gazetted” (NGO) or “Non-Industrial” (NIEs) employees who are of junior supervisory level and the clerical establishment and (iii) “Industrial Employees” (IEs), who are engaged in the production and maintenance operations. The number of employees of various categories during the last five years is given in the Table below:

Category of employees	2007-08	2008-09	2009-10	2010-11	2011-12
Gazetted Officers	4036	3947	3481	8306	7917
Percentage of gazetted officers to total manpower	3.77	3.84	3.50	8.40	8.20
NGO/NIEs	32359	31105	30482	25302	25058
Percentage of NGOs/NIEs to total manpower	30.22	30.27	30.67	25.58	25.95
Industrial Employees (IEs)	70666	67717	65411	65306	63572
Percentage of IEs to total manpower	66.01	65.89	65.82	66.02	65.85
Total	**107061**	**102769**	**99374**	**98914**	**96547**

As evident from the foregoing Table, there had been a steady decline in the manpower of Ordnance Factory organization. When compared to 2007-08, the manpower strength decreased by nearly 10 *per cent* in 2011-12. The number of Group A and B Gazetted officers increased significantly by 96.16 *per cent* from 4036 in 2007-08 to 7917 in 2011-12. The number of NGOs/NIEs and IEs declined by 22.56 *per cent* and 10.04 *per cent* respectively in 2011-12, as compared to 2007-08.

While accepting the facts, OFB stated (October 2013) that sharp increase in number of gazetted officer was due to the fact that posts of Assistant Foreman/Foreman/Store Holder, all Gr B non-gazetted posts were merged with the grade of Junior Works Manager/Technical and Non-Technical (Group B gazette posts) in February 2011.

6.1.4 Analysis of the performance of OFB

6.1.4.1 Revenue Expenditure

The revenue expenditure[30] of the Ordnance Factory Board, from 2007-08 to 2011-12 is given in the Table below:

(₹ in crore)

Year	Total expenditure incurred by ordnance factories	Receipts against products supplied to Armed Forces	Other receipts and recoveries [31]	Total receipts	Net surplus of ordnance factories (5-2)
1	2	3	4	5	6
2007-08	7125.63	5850.65	1464.12	7314.77	189.14
2008-09	9081.28	6123.38	1474.54	7597.92	(-) 1483.36
2009-10	10812.10	7531.08	1545.01	9076.09	(-) 1736.01
2010-11	10903.21	9824.99	1665.78	11490.77	587.56
2011-12	12140.91	10702.79	2172.99	12875.78	734.87

The expenditure for the year 2011-12 increased 11.35 *per cent* over that of 2010-11. Similarly, the total receipts against issue of supplies to the Armed Forces, other indentors and miscellaneous increased by 12.05 *per cent* from ₹11490.77 crore in 2010-11 to ₹12875.78 crore in 2011-12.

We observed that the Accounts Officers of the six Ordnance Factories, in violation of the instruction issued by the Chief Controller of Defence Accounts (CGDA) in October 2007 and further, by Principal Controller of Accounts (Factories) Kolkata (PCA) in March 2011 accepted advance issue vouchers submitted to them by the factories during the month of February/March of 2012 and debited the Armed Forces/other establishment ₹1581.12 crore towards issue of stores to them despite the fact that these items were not physically issued to them during 2011-12 (See details in **Annexure-II**). Repeated Audit observations on the issue were overlooked. Persistent deficiency in accounting the issues to different indenters had thus inflated the total receipts by ₹1581.12 crore enabling OFB to show a surplus during 2011-12.

OFB attributed (October 2013) their inability to physically issue the items to the indentor by 31 March 2012 owing to certain practical difficulties and non-accounting of expenditure incurred for production and supplies to indentors would affect the Net Budget. Principal Controller of Accounts (Fys) Kolkata (PCA) stated that booking of issue values by their Branch Accounts Office was based on documentary evidences.

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[30] Source-Appropriation Accounts

[31] Other receipts and recoveries includes receipt on account of transfer of RR funds, sale of surplus/obsolete stores, issues to MHA including Police, Central and State Governments, Civil trade including Public Sector Undertaking, export and other miscellaneous receipts.

Replies of OFB and PCA are not acceptable because acceptance of advance issue vouchers without corresponding physical issue of stores is contrary to the accepted accounting principles. Further, Branch Accounts Office had prepared Issue Vouchers without physical issue of products to the indentors in gross violation of CGDA's instruction of October 2007. Reply is silent on corrective action taken to avoid this deficient accounting despite our repeated comment.

6.1.4.2 Trend of revenue expenditure

The trend of revenue expenditure during 2010-11 and 2011-12 was as indicated in the Table below:

(₹in crore)

Sl No	Revenue Head of Expenditure	Expenditure		Increase (+) / Decrease (-)	
		2010-11	**2011-12**	**Total**	**Per cent**
1	Direction and Administration	74.36	79.68	(+) 5.32	(+) 7.15
2	Research	39.95	35.71	(-) 4.24	(-) 10.61
3	Maintenance	20.86	21.78	(+) 0.92	(+) 4.41
4	Manufacture	3502.60	4416.14	(+) 913.54	(+) 26.08
5	Transportation	110.73	115.98	(+) 5.25	(+) 4.74
6	Stores	5706.32	6101.69	(+) 395.37	(+) 6.93
7	Works	57.81	75.93	(+) 18.12	(+) 31.34
8	Renewal and Replacement	207.82	310.25	(+) 102.43	(+) 49.29
9	Transfer to Renewal and Replacement (RR) Fund	600.00	325.00	(-) 275.00	(-) 45.83
10	Other Expenditure	582.76	658.75	(+) 75.99	(+) 13.04
	Grand Total	**10903.21**	**12140.91**	**(+) 1237.70**	**(+) 11.35**

As can be seen from the Table above that –

- The total revenue expenditure during 2011-12 increased by ₹1237.70 crore (11.35 *per cent*) over 2010-11. Analysis of trend of element-wise expenditure revealed that in 2011-12 expenditure on stores, manufacture and renewal/replacement had increased by 6.93 *per cent*, 26.08 *per cent* and 49.29 *per cent* respectively as compared to 2010-11, while there was decrease under the Head "Transfer to Renewal/Replacement Fund" (45.83 *per cent*) and "Research" (10.61 *per cent*).

- At the beginning of the year, based on the budget estimate, certain sum of money is earmarked for parking in the "Renewal and Replacement Fund" under Minor Head No 797 (Transfer to RR Fund) of the Major Head 2079. When plant and machinery are procured, booking is made by making a credit to Minor Head No 797 of Major Head 2079 *viz.* Transfer from RR Fund with corresponding debit to Minor Head 106 of Major Head 2079 *viz.* Renewal and Replacement. We noticed that there was an opening balance of ₹490.45 crore under Depreciation

Reserve Fund under the Public Fund Accounts as of 1 April 2011. Ordnance Factory Board got an allotment of ₹325 crore under the Budget head 'Transfer to RR Fund' and drew only ₹311.42 crore during 2011-12 for purchase of plant and machinery and parked the remaining amount of ₹13.58 crore in the Public Fund of India instead of surrendering the same to the Consolidated Fund of India as required under General Financial Rules. Resultantly, the closing balance under the Depreciation Fund Reserve stood inflated by ₹504.03 crore. However, the same had been shown as incurred towards 'Transfer to RR Fund' in the Appropriation Account. Consequently, the expenditure in the Appropriation Account was overstated to the extent of ₹504.03 crore cumulatively as of 31 March 2012.

Justifying the excess transfer of funds, the Principal Controller of Accounts (Fys) (PCA) stated (18 October 2012) that the Renewal and Reserve fund, created under the Public Account in compliance with Government of India, Ministry of Finance (Department of Economic Affairs) order (30 January1991) for financing the replacement of the ageing plants and machinery, is financed by transfers from revenue head under the Consolidated Fund of India and it is a non-lapsable, revolving and non-interest bearing fund. PCA also added (October 2013) that fund in the Public Account was not getting accumulated but is being utilized for modernization endeavours of the OFB and issue of surrender of unspent RR amount does not arise. The contention of PCA is not acceptable because in violation of provisions of GFR the unspent fund was not surrendered to the Consolidated Fund of India at the closure of each financial year. Further, the balance of amount shown in the Depreciation Fund Reserve in the Public Fund Account was not revolving but only getting accumulated as is evident from the fact that Depreciation Fund Reserve in the Public Account enhanced from ₹98.39 crore as of April 2010 to ₹504.03 crore as 31 March 2012. Further, OFB stated (October 2013) that the accumulated balance is expected to be utilized during 2014-15 based on investment plan. However, reply did not indicate any details of the investment plan during 2014-15.

As per the instructions, Ordnance Factories are required to recover from Armed Forces the actual cost of issues. We noted 20 cases where six factories *viz.* Ordnance Factory Khamaria, Ordnance Factory Chanda, Ordnance Factory Badmal, Ordnance Factory Trichy, Gun Carriage Factory Jabalpur and Heavy Vehicle Factory Avadi had under-recovered ₹201.58 crore due to acceptance of issue prices lower than the estimated cost. In respect of 35 other cases involving supplies to the Armed Forces/other Government organizations, 12 ordnance factories[32] fixed issue prices at abnormally higher rates than the estimated cost resulting in earning an abnormal profit of ₹1229.24 crore.

[32] Ordnance Factory Medak, Vehicle Factory Jabalpur,Heavy Vehicles Factory Avadi,Ordnance Factory Dehu Road,Opto Electronic Factory Dehra Dun,Gun and Shell Factory Cossipore,Gun Carriage Factory Jabalpur,Machine Tool Prototype Factory Ambarnath, Ordnance Factory Khamaria, Small Arms Fact ory Kanpur, Ammunition Factory Kirkee and Ordnance Cable Factory Chandigarh

PCA while accepting the audit observation stated (October 2012) that the matter regarding anomaly in price fixation was highlighted to the executives through Review of Accounts every year. The fact, however, remains that after considering the excess booking on account of issues by ₹1581.12 crore and net abnormal profit of ₹1027.66 crore earned due to non-adoption of OFB's pricing policy, the total recoveries under various heads for the year 2011-12 worked out to ₹10267.00 crore instead of ₹12875.78 crore as shown by OFB in the Appropriation Accounts for the year 2011-12. Thus, while the OFB had obtained budgetary support of ₹1873.91 crore from the Government of India, it had reflected a contribution of ₹734.87 crore to the Consolidated Fund of India in their Appropriation Accounts (2011-12) which is not factually correct.

6.1.5 Cost of production

The following Table indicates the group-wise/element-wise analysis of cost incurred as well as the percentages of various elements of cost to the total cost of production, during 2011-12.

(₹in crore)

Sl No	Group of Factories	Cost of Product-ion	Direct Store	Direct Expense	Direct Labour	Overhead Charges		
						Fixed Overhead	**Variable Overhead**	**Total Overhead**
1	Material & Components (M&C)	2074.91	968.47 **(46.68)**	84.82 **(4.09)**	248.24 **(11.96)**	539.13 **(25.98)**	234.25 **(11.29)**	773.38 **(37.27)**
2	Weapons, Vehicles and Tank (WV&E)	3812.50	2176.03 **(57.08)**	19.09 **(0.50)**	407.11 **(10.68)**	811.74 **(21.29)**	398.53 **(10.45)**	1210.27 **(31.74)**
3	Ammunition and Explosive (A&E)	5266.51	3613.24 **(68.61)**	38.04 **(0.72)**	390.47 **(7.41)**	1004.25 **(19.07)**	220.51 **(4.19)**	1224.76 **(23.26)**
4	Armoured Vehicles (AV)	3818.35	2932.42 **(76.80)**	16.64 **(0.44)**	183.74 **(4.81)**	544.66 **(14.26)**	140.88 **(3.69)**	685.54 **(17.95)**
5	Ordnance Tank (OE)	961.17	380.18 **(39.55)**	0.36 **(0.04)**	260.53 **(27.10)**	246.39 **(25.63)**	73.71 **(7.67)**	320.10 **(33.30)**
	Total	15933.44	10070.34 **(63.20)**	158.96 **(0.99)**	1490.09 **(9.35)**	3146.17 **(19.75)**	1067.88 **(6.70)**	4214.05 **(26.45)**

Note : Figures in the bracket represent the percentage of particular element of cost to total cost of production

As can be seen from the Table above, amongst all the five group of factories A&E group of factories registered the highest cost of production at ₹5266.51 crore. The OE group of factories, on the other hand, registered the lowest cost of production at ₹961.17 crore. The average overhead charge of OFB across all groups was 26.45 *per cent* of cost of production. The M&C, WV&E and OE group of factories had exceeded the average overhead cost, while in the A&E and AV group of factories it was below the average.

6.1.6 High Supervision and Indirect Labour Charges

The details of direct/indirect labour charges, supervision charges and percentage of indirect labour to direct labour as well as percentage of supervision charges to direct labour charges are given in the **Annexure -III**.

It can be seen that except for OE Group, in all other Groups the supervision charges as a percentage of the direct labour charges during 2011-12 was high. For every ₹1.00 spent on direct labour, the supervision charges ranged between ₹1.18 and ₹1.41.

On this being pointed out (October 2012) by us, PCA stated (October 2012) that pay and allowances of supervisors were quite high in comparison to IEs and this, being one of the factors, escalated supervision charges.

The fact, however, remains that since the number of Group 'A' and 'B' officers whose remuneration forms a major element of supervision charges was only 7917 and as the Industrial Employees whose remuneration forms a significant factor of direct labour were 63572 in number, the correlation of supervision charges to direct labour cost was out of pattern. Hence, the supervision charges to the direct labour charges need to be brought down to a reasonable level.

OFB stated (October 2013) that high supervision charges were partly attributed to payment of OT areas in respect of NGO, NIE category and DSC. However, OFB accepted the audit recommendation for detailed examination.

6.1.7 Production profile

The production programme for ammunition, weapons and vehicles, materials and components and armoured vehicles was fixed for one year, which in the case of Tank items has been fixed for four years. The details of demand, targets fixed and shortfall in achievement of the targets during the last five years are shown in the Table below:

Year	Number of items for which demands existed	Number of items for which target fixed	Number of items manufactured as per target	Number of items for which target were not achieved	Percentage of shortfall with reference to target fixed
2007-08	628	507	360	147	28.99
2008-09	419	419	296	123	29.36
2009-10	605	434	300	134	30.88
2010-11	1016	639	416	223	34.90
2011-12	982	547	195	352	64.35

During 2011-12, demand of items had marginally declined by 3.35 *per cent* to 982 items over 2010-11. However, targets were fixed mutually only in respect of 547 items. Even then, there was a shortfall of 64.35 *per cent* in achieving the target.

Failure of OFB to achieve the targets on all the items for which the demand existed foreclosed the possibility of offloading fixed cost burden to these items as well as escalated the cost of other products due to excessive apportionment of overheads.

OFB stated (October 2013) that major reasons for shortfall in some of the targeted stores were attributed to (i) less supply of Tank and Mortar Ammunition on account of prolonged breakdown of RDX plant; (ii) non-receipt of bulk production clearance of certain stores like MultiMode Grenade; (iii) indent coverage not sufficient to complete the target for certain items; (iv) non-availability of input material ex-import/trade in time; (v) delay in proof due to inadequate proof infrastructure and (vi) capacity constraint in few cases and also due to design problem in some areas.

6.1.8 Capacity utilization

The Table below indicates the extent of utilization of the machine hour capacity during the last five years.

(Capacity utilization in terms of Machine Hours)

(Unit in lakh hours)

Year	Machine hours available	Machine hours utilized	Percentage of Capacity utilization
2007-08	1351	1147	85
2008-09	1696	1294	76
2009-10	1839	1261	69
2010-11	1830	1311	72
2011-12	1577	1232	78

The percentage of utilization of machines by the Ordnance Factories had improved to 78 *per cent* in 2011-12 as compared to 72 *per cent* in 2010-11. However, they were yet to achieve the capacity utilization at the level of 85 *per cent* in 2007-08. Necessary action may be initiated by OFB to ensure optimum utilization of machine hours available at the Ordnance Factories.

6.1.9 Issue to users (Indentors)

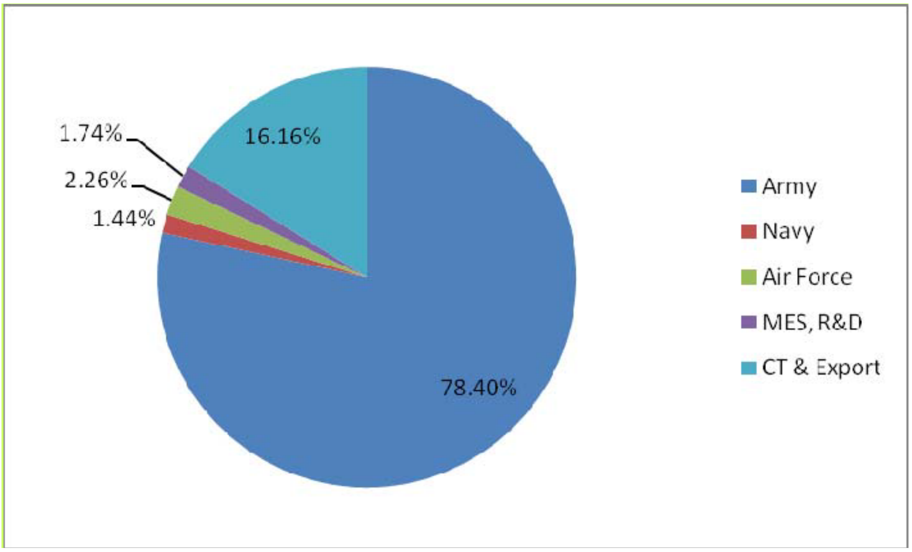
The indentor-wise value of issues as extracted from the Appropriation Account of OFB during the last five years, was as under:

(₹ in crore)

Name of Indentors	2007-08	2008-09	2009-10	2010-11	2011-12	Issues in 2011-12 excl. Spill over
Army	5252.15	5557.66	7054.12	9225.15	10078.82	8530.58
Navy	119.39	179.41	124.40	243.98	157.67	156.43
Air Force	239.53	221.02	208.20	219.58	275.67	245.88
MES, Research and Development (Other Defence Department - ODD)	145.63	124.67	116.40	169.04	190.63	189.77
Total Defence	**5756.70**	**6082.76**	**7503.13**	**9857.20**	**10702.79**	**9122.66**
Civil Trade and Export	1181.11	1146.55	1212.13	1357.76	1759.20	1758.21
Total issues	**6937.81**	**7229.31**	**8715.25**	**11214.96**	**12461.99**	**10880.87**

Though the total value of issues (₹12461.99 crore) during 2011-12 increased by 11.12 *per cent* as compared to the previous year whereas the actual physical issues during 2011-12 (₹10880.87 crore) decreased by 2.98 *per cent*. Nevertheless, the Army continued to remain the major recipient of the products of the Ordnance Factories, accounting for nearly 78.40 *per cent* of the total issues during the year 2011-12 with Civil Trade and Export being a distant second at 16.16 *per cent*, as can be seen from the chart below.

Supplies made to Services and other indentors during 2011-12



6.1.10 Civil trade

With the objective of optimal utilisation of spare capacities and to reduce dependence on budgetary support, the Ordnance Factories commenced civil trade since July 1986. The turn-over from civil trade (excluding supplies to the Ministry of Home Affairs and State Police Departments) during 2007-2012 was as under:

(₹in crore)

Year	Number of factories involved	Target	Achievement	Percentage of achievement to the target
2007-08	32	335.01	359.56	107.33
2008-09	39	351.12	329.30	93.79
2009-10	27	374.23	425.18	113.61
2010-11	27	464.50	466.86	100.50
2011-12	27	470.00	499.89	106.36

As can be seen from the Table above, the value of issues to the civil trade increased from ₹466.86 crore in 2010-11 to ₹499.89 crore in 2011-12 and the achievement had exceeded the target by 6.36 per cent.

6.1.11 Export

The following Table shows the achievement with reference to target in export from 2007-08 to 2011-12:

(₹in crore)

Year	Factories involved	Target	Achievement	Shortfall (-) / Excess (+)	Percentage of shortfall (-) / Excess (+) w.r.t. target
2007-08	10	30.00	27.44	(-) 2.56	(-) 8.53
2008-09	11	35.00	41.07	(+) 6.07	(+) 17.34
2009-10	13	41.30	12.30	(-) 29.00	(-) 70.22
2010-11	8	44.00	35.70	(-) 8.30	(-) 18.86
2011-12	6	40.00	46.08	(+) 6.08	(+) 15.20

As can be seen from the Table above, the value of export increased by ₹6.08 crore in 2011-12 over the previous year and that exceeded the target by 15.20 *per cent*.

6.1.12 Inventory Management

The position of total inventory holdings at the Ordnance Factories as a whole during 2007-08 to 2011-12 was as under:

(₹in crore)

Sl. No	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12	*Per cent* of increase/ decrease during 2011-12 in comparison to previous year
1.	Working stock						
a.	Active	2160.00	2354.00	2732.00	4093.00	4185.00	2.25
b.	Non-moving	333.00	322.00	297.00	346.00	507.00	46.53
c.	Slow moving	211.00	287.00	507.00	574.00	476.00	(-) 17.07
	Total Working Stock	**2704.00**	**2963.00**	**3536.00**	**5013.00**	**5168.00**	**3.10**
2	Waste & Obsolete	14.00	26.00	39.00	20.00	15.00	(-) 25
3.	Surplus/ Scrap	81.00	68.00	64.00	68.00	64.00	(-) 5.89
4.	Maintenance stores	79.00	73.00	73.00	76.00	89.00	17.10
	Total	**2878.00**	**3130.00**	**3712.00**	**5177.00**	**5336.00**	**3.07**
5.	Average holdings in terms of number of days' consumption	160	149	177	199	178.00	(-) 10.55
6.	Percentage of total slow-moving and non-moving stock to total working stock	20.12	20.55	22.74	18.35	19.02	3.65

The stock in hand had increased by 3.07 *per cent* from ₹5177 crore in 2010-11 to ₹5336 crore in 2011-12 with 12 Ordnance Factories holding working stock above the authorised limit. This was attributed to OFB's decision to initiate procurement action for input material against indents for three years' requirement (two years plus 50 per cent option clause) with price variation clause and staggered delivery schedule conforming to budget allotment and shelf life of the stores. However, the staggered delivery mechanism was not properly implemented by at least five factories (Ordnance Factory Kanpur, Ordnance Factory Ambajhari, Ordnance Factory Trichy, Ordnance Factory Khamaria and Opto Electronic Factory Dehra Dun,) leading to excess stock holding in these factories as of 31 March 2012 as detailed in **Annexure IV.** These factories need to review the excess stock holding and strengthen inventory management to avoid blocking up of funds.

While accepting the facts, OFB stated (October 2013) that due to non-availability of matching items either from trade or Inter Factory Demand, the final achievement was less than the target, resulting in higher inventory. OFB also added that they had advised the factories to strictly adhere to the directives regarding coverage, keeping in view the total budget allotment, shelf life of the stores and incorporating staggered delivery schedule in the supply orders.

6.1.12.1 Finished Stock holding

Position of Finished stockholding (completed articles and components) during the last five years as extracted from the Review of Annual Accounts of the Ordnance Factory Organisation for the year 2011-12 as prepared by the Principal Controller of Accounts (Fys) Kolkata was as under:

(₹ in crore)

Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
Holding of Finished articles	79.00	506.00	166.59	112.62	92.43
Total cost of production	9312.61	10610.40	11817.89	14012.12	15933.44
Holding of finished stock in terms of number of days' issue	3	17	5	3	2
Holding of finished stock in terms of percentage of total cost of production	0.85	4.77	1.41	0.80	0.58
Holding of finished component	617.00	458.00	1015.04	1101.73	1119.16
Holding of finished components in terms of number of days' consumption	44	38	85	65	62
Holding of finished components in terms of percentage of total cost of production	6.63	4.32	8.59	7.86	7.02

Though as on 31.3.2012, there was decrease in the value of finished (completed) articles by 17.93 *per cent*, the value of finished components in hand increased by 1.58 *per cent* in 2011-12 when compared with 2010-11. Immediate action needs to be taken for early utilisation of huge finished components to ensure that holding of finished components in terms of number of days' consumption be brought down to the 2008-09 level of 38 days.

We observed that actual cost of finished components consumed by the Ordnance Factories during the year 2011-12 had not been reflected in the accounts. Only, a footnote under the Annual Production Account for the year 2011-12 indicated that the cost of finished components consumed in production was ₹6644.69 crore.

In reply, PCA assured (October 2012) that information relating to Opening balance and closing balance, components produced during the year, utilized during the year would be furnished factory-wise as an annexure to the Annual Accounts from 2012-13 onwards. However, it might not be feasible to reflect the cost of finished components consumed in production in the Consolidated Annual Accounts.

6.1.13 Work-in-progress

The General Manager of an Ordnance Factory authorizes a production shop to manufacture an item of requisite quantity by issue of a warrant whose normal life is six months. Unfinished items pertaining to different warrants lying at the shop floor constituted the work-in-progress. The value of the work-in-progress during the last five years was as under:

(₹in crore)

As on 31 March	Value of work-in-progress
2008	1265.00
2009	1961.82
2010	2121.75
2011	2297.06
2012	2551.84

The total value of work-in-progress as on 31 March 2012 increased by 11.09 *per cent* in comparison to 2010-11. As on 31 March 2012, a total of 28,893 warrants were outstanding, of which 4657 warrants pertained to 2010-11 and prior to 2010-11, the oldest being of 1993-94.

The position of outstanding warrants was predominant in Heavy Vehicles Factory Avadi (4342 warrants valuing ₹462.14 crore), Ordnance Factory Chanda (326 warrants valuing ₹210.23 crore), Ordnance Factory Medak (2874 warrants valuing ₹328.44 crore), Ordnance Factory Ambajhari (1113 warrants valuing ₹183.24 crore) and Ordnance Factory Khamaria (130 warrants valuing ₹251.99 crore).

PCA stated (October 2013) that necessary instructions had been issued to all Branch Accounts Offices to take up the matter with factory management for immediate closure of all old outstanding warrants.

6.1.14 Losses

The Table below depicts losses written off during the last five years ending 31 March 2012 :

(₹ in lakh)

Sl. No	Particulars	2007-08	2008-09	2009-10	2010-11	2011-12
1	Overpayment of pay & allowances and claims abandoned	Nil	0.22	Nil	Nil	2.88
2	Losses due to theft, fraud or neglect	29.11	0.28	0.17	4.97	Nil
3	Losses due to deficiencies in actual balance not caused by theft, fraud or neglect	Nil	Nil	Nil	Nil	Nil
4	Losses in transit	0.16	6.46	16.85	21.38	Nil
5	Other causes (*e.g.* conditioning of stores not caused by defective storage, stores scrapped due to obsolescence, *etc.)*	19.58	180.41	1.07	122.64	149.95
6	Defective storage loss	Nil	Nil	Nil	Nil	Nil
7	Losses not pertaining to stock	333.90	73.75	233.19	518.20	92.51
	Total	**382.75**	**261.12**	**251.28**	**667.19**	**245.34**

During 2011-12, the losses written off had decreased by ₹421.85 lakh when compared to the previous year. However, the losses written off owing to other causes had indicated an increase of 22 *per cent* in 2011-12, when compared with the previous year. However, as of June 2012, 253 cases of losses amounting to ₹123.17 crore were awaiting regularisation by the Ministry of Defence and the oldest items pertain to the year 1964-65. Losses awaiting regularisation were pronounced in Ordnance Factory Khamaria (₹43.06 crore), Ordnance Factory Varangaon (₹20.22 crore), Ammunition Factory Kirkee (₹17.08 crore) and Metal & Steel Factory Ishapore (₹11.10 crore). Effective steps need to be taken by OFB to pursue with the Ministry to regularise these losses.

OFB stated (October 2013) that (i) the status was being reviewed quarterly by the Board in the Board meetings, and (ii) the matter was being pursued with the Ministry for early sanction of the case. There is a need to strengthen the monitoring mechanism for expeditious regularisation of loss.

The matter was referred to the Ministry in July 2013; their reply was awaited (November 2013).

NOTE : The figures incorporated in this paragraph are mainly based on the figures of the Consolidated Annual Accounts of Ordnance and Ordnance Tank Factories in India finalised by Principal Controller of Accounts (Fys.), Kolkata for the year 2011-12, documents maintained and information supplied by Principal Controller of Accounts (Fys.), Kolkata as well as Ordnance Factory Board, Kolkata.

Procurement of Stores/ Machinery

6.2 Avoidable extra expenditure on procurement of a component

Procurement of Tail Unit 8A by Ammunition Factory Kirkee/Ordnance Factory Dehu Road from Ordnance Factory Kanpur (OFC) despite the OFC's material cost being higher than the total trade cost of Tail Unit 8A led to avoidable extra expenditure of ₹24.79 crore.

Mention was made in Audit Paragraph 8.4 of the Comptroller and Auditor General of India's Report No 6 of 2005 that in deviation of Ordnance Factory Board (OFB)'s Circular (October 1997), Ordnance Factory Dehu Road (OFDR) procured component (Tail Adapters)[33] from Ordnance Factory Kanpur (OFC), though material cost alone of Tail Adapters supplied by OFC was higher than the trade cost of finished goods, leading to an additional expenditure of ₹3.04 crore.

Ministry in their Action Taken Note (ATN) stated (November 2009) that OFB had reviewed (November 2006) the policy guideline on trade procurement *vis-a-vis* Inter Factory Demand (IFD) expenditure and issued a Circular (December 2006) directing Senior General Managers/General Managers of all Ordnance Factories, to procure 100 *per cent* of the total requirement of any item from trade if the material cost of that item at the component making factory is more than the total trade cost.

During 2008-09 to 2011-12, OFDR and Ammunition Factory Kirkee (AFK) procured Tail Unit 8A[34], a component required for manufacture of 51mm ammunition, from trade firms as well as from Ordnance Factory Kanpur (OFC). We examined (April 2012 and October 2012) the cost pattern at OFC and noticed that the material cost of Tail Unit 8A during 2008-09 to 2011-12 ranged between ₹337 and ₹504 each, which had exceeded the total unit cost of finished goods ex-trade (ranging between ₹63 and ₹81) by nearly six times. Ignoring this abnormal material cost trend in OFC, as compared to trade prices, AFK/OFDR, in violation of OFB's Circular (December 2006) procured 6.51 lakh Tail Unit 8A from OFC against eight IFDs placed during 2008-09 to 2011-12 at rates ranging between ₹371 and ₹494 per unit. During the same time, AFK/OFDR also purchased 6.42 lakh Tail Units 8A from trade at much cheaper rates ranging between ₹58.50 and ₹81 per unit against 20 supply orders (May 2009 -September 2011).

Despite repeated placement of IFDs at higher rates in violation of existing Circular, neither did the Ministry nor OFB address this issue in any of its Board meetings held after issue of its Circular of December 2006.

Justifying the procurement at higher cost from OFC, OFB stated (October 2013) that 50 *per cent* of the requirement of Tail Unit 8A was procured from

[33] A component used to fit Tail Unit with Shell body of ammunition by adjustment.
[34] A component used in the 51mm Mortar Bomb to stabilize the direction of the ammunition during its flight.

OFC and the balance 50 *per cent* from trade which was in line with their Circulars of December 2006 and February 2009[35].

The reply is factually incorrect as OFB's contention contradicts its own Circular of December 2006 which clearly mentioned that 100 *per cent* requirement should be procured from trade if the material cost of the item at component making factory was more than the trade cost. Further, OFB's Circular of February 2009 is not relevant because it relates to instances where marginal costs of a product of ordnance factories origin are higher than the trade price.

Thus, procurement of 6.51 lakh Tail Units 8A from OFC, at a significantly higher cost than the trade cost in violation of OFB's Circular of December 2006 , resulted in extra expenditure of ₹24.79 crore.

The matter was referred to the Ministry of Defence in July 2013; their reply was awaited (November 2013).

6.3 Undue benefit to a foreign supplier by allowing Exchange Rate Variation

Ordnance Factory Board, in violation of Defence Procurement Manual and without obtaining approval of the Ministry of Defence, granted undue benefit to a foreign supplier by making extra payment of ₹1.22 crore on account of Exchange Rate Variation.

Paragraph 13.14 of the Defence Procurement Manual (DPM), 2005 stipulates that in case of delivery period exceeding one year from the date of contract involving import (foreign exchange), Exchange Rate Variation (ERV) was to be provided. In case delivery period (DP) was refixed/extended, ERV would not be admissible if it was due to default of the supplier. The base date for ERV would be the date of entering into the contract.

Ministry of Defence (MoD) accorded sanction (October 2008) for procurement of Nitrocellulose (NC) plant for Ordnance Factory Nalanda. Accordingly, OFB concluded (January 2009) a contract with M/s Bowas Induplan Chemie, Austria (firm) for procurement of NC plant with foreign exchange element of EURO 15386085[36] (₹100.53 crore), which was duly approved by the MoD. As per the contract, delivery of NC plant was to be completed by July 2011.

We noticed (July 2013) that the firm failed to adhere to the delivery period and OFB, on the firm's request, extended the time schedule for supply of plant periodically till May 2013. The NC plant, after satisfactory performance trial (December 2012), was taken on charge (April 2013).

[35] Operating Divisions of both the supplying and receiving factories, in consultation with Finance, will review the cases wherever marginal cost of the product of ordnance factories origin is found to be higher than the trade price and procurement of such item from sister factories will be resorted only after approval of Ordnance Factory Board.

[36] At the exchange rate of 1 EURO = ₹65.34 as on the date of entering into the contract.

We also noticed that despite delayed delivery of NC plant by M/s Bowas Austria, OFB allowed ERV for the delayed period in violation of DPM, and released (3 June 2013) EURO 1610485.90 at the exchange rate of 1 EURO = ₹72.91 instead of exchange rate of 1 EURO = ₹65.34 prevailing on the date of contract. Even though the contract was approved by MoD, OFB did not send the request to MoD for releasing ERV beyond scheduled delivery period. OFB was not empowered to release any additional ERV as per the DPM.

Ministry stated (October 2013) that DPM 2005, which was not applicable to OFB, was superseded by DPM 2009 wherein it was clearly mentioned that ERV clause was to be included only in the contracts concluded with the Defence Public Sector Undertakings (DPSUs) which involved import content.

The reply is factually incorrect as the provision of DPM 2005 was applicable to all wings of MoD and supersession of this Manual by DPM 2009 is irrelevant because these contracts had been concluded (January 2009) before the applicability of DPM 2009. Ministry's reply is also contradictory since on the one hand they stated that DPM 2005 was inapplicable to the OFB and on the other hand, reference was made to DPM 2009 citing inclusion of ERV clause only for contracts concluded with the DPSUs.

Thus, violation of the provisions of DPM by OFB led to undue benefit to the contractor besides incurring an extra expenditure of ₹1.22 crore on account of ERV.

6.4 Undue benefit to a foreign firm by diluting the conditions in Tender Enquiry and contract

Ordnance Factory Badmal, in violation of Defence Procurement Manual, accorded undue benefit to a foreign firm by accepting the PC Sheets valuing ₹2.58 crore without ascertaining its manufacturing month. This coupled with delayed issue of PC Sheets to Ordnance Factory Chanda had resulted in accumulation of shelf life expired PC Sheets valuing ₹0.67 crore.

Paragraph 7.1.2 of the Defence Procurement Manual (DPM), 2009 stipulates that the contract must include conditions specific to a particular case as mentioned in the Request for Proposal (RFP)/Tender Enquiry (TE).

The indigenous manufacture of 125mm High Explosive and 125mm High Explosive Anti Tank Ammunition (ammunition) at Ordnance Factory Badmal (OFBL) and Ordnance Factory Chanda (OFCh) was undertaken based on Transfer of Technology received from M/s Rosoboronexport, Russia (OEM).

To manufacture 125mm High Explosive and High Explosive Anti Tank ammunition, OFCh and OFBL required Pyroxylene Cellulose Sheets of 0.52mm-0.56mm (PC-1) and 0.29mm-0.34mm (PC-2) thickness. Accordingly, Ordnance Factory Board nominated OFBL as the nodal agency for procurement of PC Sheets for OFCh.

OEM's Technical specification of PC Sheets stipulated that storage period of PC Sheets was six months from the date of manufacture. In case of storage for more than six months but less than two years, PC Sheets should be subjected to complete repeated analysis. Thus, PC Sheets which were more than two years from the date of manufacture, were not fit for utilization.

For procurement of 29120 Kgs of PC-1 and 9920 Kgs of PC-2, a Tender Enquiry was issued by OFBL on 19 September 2009 to five foreign suppliers. The Tender Enquiry provided that the material to be offered should be from the lots of recent manufacture and year as well as month of manufacture should be confirmed while forwarding the requisite documents. We observed (January 2012) that though the storage period of PC Sheets would be reckoned from the date of manufacture, TE mentioned only the "month of manufacture" but not the "date of manufacture".

In response to the TE, two offers were received from M/s Rosonboronexport Russia and M/s Tasko Export Ukraine (TEU) and the offer of M/s TEU was found to be the lowest. Accordingly, a contract was concluded between OFBL and M/s TEU in October 2009 for procurement of 29120 Kgs (PC-1) and 9920 Kgs (PC-2) at a total cost of USD 554368 (₹2.70 crore at 1 USD= ₹14.20). However, it was observed (January 2012) that OFBL, in violation of DPM and OEM's technical specifications, had not incorporated a clause relating to "actual date of manufacture" in the contract.

Subsequently, OFBL received (April 2010) 29120 Kgs (PC-1) and 9920 Kgs (PC-2) Sheets from M/s TEU (₹2.58 crore). These were received and accepted by OFBL based on the Inspection Certificate and Acceptance Test Report (Test Certificate) issued by M/s TEU without the incorporation of the "actual date of manufacture" in the Test Certificate. Of the PC Sheets received, OFBL issued 11951 Kgs (PC-1) and 2550 Kgs (PC-2) to the OFCh between August 2010 and February 2012, *i.e.* after more than nearly two years, owing to delay in finalization of transport contract. However, scrutiny of records by us in June 2013 revealed that OFCh had 8880 Kgs PC-1 and 1266 Kgs PC-2 Sheets valuing ₹67.03 lakh lying in their stock (June 2013). Since the shelf life of PC Sheets had expired, the possibility of its utilisation appeared remote.

OFBL stated (January 2012) that it was clearly mentioned in the contract that the stores to be supplied were new *i.e.* manufactured in the current year and would incorporate all the latest improvements and modifications thereto. OFBL also added (November 2013) that the actual date of manufacture of PC Sheets received by them was not mentioned by M/s TEU but the year of manufacture was mentioned by M/s TEU as "Current Year *i.e.* 2009-10" in the Test Certificate.

The reply is, however, not acceptable because only the "month of manufacture" was incorporated in the TE, while "year of manufacture" was incorporated in the contract. This diluted the requirement of OEM's technical specification as well as the Paragraph 7.1.2 of the DPM. Further, for sensitive items, with limited shelf life such as PC Sheets where the storage period is limited, specific incorporation of the actual date of manufacture should have been insisted upon during the procurement and receipt of PC Sheets based on the Test Certificate.

While accepting the delay in finalization of transport contract by OFBL, OFB stated (September 2013) that in order to gainfully utilize the available PC Sheets at OFCh, the matter was being taken up with CQA (Ammunition) Kirkee/CQA (ME) for retesting the same and the imported chemicals required for retesting, would arrive in November 2013.

The reply is, however, not acceptable because the shelf life of the Sheets lying in the stock of OFCh had already expired even if reckoned from the date of receipt and hence cannot be subjected to repeated analysis. Thus, import of chemicals to retest PC Sheets at OFCh would not serve any purpose.

Thus, failure of OFBL to incorporate a clause relating to actual date of manufacture of PC Sheets in the contract and its acceptance on the basis of firm's Test Certificate had foreclosed the possibility of ascertaining the actual expiry date of PC Sheets worth ₹2.58 crore. This coupled with the delayed issue of PC Sheets to OFCh owing to slippages in finalization of transport contract by OFBL resulted in accumulation of life expired 10146 Kgs PC Sheets valuing ₹0.67 crore at OFCh.

The matter was referred to the Ministry of Defence in June 2013; their reply was awaited (November 2013).

Manufacture

6.5 Loss due to rejection of empty shells and consequent blocking of inventory

The production and inspection agencies failed to resolve the proof methodology which arose due to rejection of one lot (manufactured by Ordnance Factory Kanpur) of empty shell valuing ₹2.78 crore. As a result, inventory worth ₹10.28 crore remained unutilized.

Based on a Transfer of Technology (ToT) agreement (June 1998) with a South African firm[37] (OEM), Ordnance Factories undertook indigenous manufacture of Shell 155mm Illuminating Ammunition (ammunition) from October 2000. Ordnance Factory Kanpur (OFC) and Ordnance Factory Dehu Road (OFDR) have been engaged with manufacture of empty shells and assembling/filling of the ammunition respectively, under the inspection coverage of Controllerate of Quality Assurance Establishment (Ammunition) Kirkee (CQA/A). CQA/A is responsible for the quality assurance including proof methodology for ammunition.

A Task Force, headed by the Senior General Manager of Ordnance Factory Ambajhari (OFAj) and with the representatives from Ordnance Factories[38] and Directorate General of Quality Assurance[39] (DGQA), was constituted (July

[37] Naschem, a division of M/s Denel,South Africa.
[38] Ordnance Factory Ambajhari,Chanda, Dehu Road, Bolangir and Itarsi.
[39] Controller of Quality Assurance (Ammunition) Kirkee and Senior Quality Assurance Establishment, Ambajhari.

1998) by Ordnance Factory Board (OFB) to finalise the proof methodology. The proof methodology *inter alia* specified that the empty shells (empties) of ammunition should be at a Charge-9 increment to realise the Maximum Obtainable Pressure of 397 ± 8 MPa[40].

Subsequently, pilot batch of 100 empties manufactured (October 2000) by OFC and filled by OFDR, was tested and passed (June 2001). OFC, thereafter, received Inter Factory Demands (17018 empties) from OFDR against which OFC supplied 9410 empties under 18 lots, which were duly cleared in recovery proof by CQA/A. Subsequently, OFDR filled these empties and issued 9069 filled ammunition to the Army between April 2002 and June 2009.

We observed in Audit (February 2012) that OFC manufactured 19th lot comprising of 966 empties in November 2007 which was rejected due to detachment of driving band, partial smoothness of driving band and heavy double engraving on driving band, by CQA/A during proof conducted in January 2008. The rejection was attributed by CQA/A to defective manufacture of empties by OFC.

OFC/OFB attributed rejection of 19th lot to conduct of proof at higher charge (Charge - 9 increment) than what was prescribed by ToT, which generated more energy on the empties than was required. However, DGQA stated that the empties were rejected on the basis of adoption of proof methodology finalized (to subject the empties at Charge- 9 increment to realise pressure of 397 ± 8 MPa) by a Task Force.

Even though a series of meetings were held (December 2008 - June 2011) at various levels of the Ministry, DGQA and Ordnance Factories, the issue remained unresolved. DGQA, thereafter, referred the matter to the OEM who clarified (August 2010) that the empties could withstand pressure up to 440 MPa and instructed to carry out recovery proof of empties up to a maximum pressure of 440 MPa.

However, no testing could be carried out since the 19th lot of empties lying at OFDR were rusted due to improper storage resulting in returning of these empties (₹2.78 crore) to OFC (July 2012). DGQA, thereafter, directed (June 2012) OFB/OFC to produce fresh lot of 100 shell bodies for evaluation of Strength of Design (SoD) which was, however, awaited (October 2013).

As a result, no further filled ammunition was issued to the Army by OFDR since June 2009 on account of non-availability of proof passed empties from OFC. Consequently, inventory valuing ₹10.28 crore remained blocked at three Ordnance Factories[41].

In response to our Audit observation (July 2013) on defective empties, CQA/A stated (October 2013) that as pilot lot and 18 other lots did not show any

[40] Megapascal- unit of Pressure.
[41] Ordnance Factory Kanpur, Ordnance Factory Dehu Road and Machine Tool Prototype Factory Ambarnath.

defect, these were processed as per the stipulations of the proof schedule which was adopted by the Task Force and the reported defect in the 19th lot of empties arose due to defective manufacture by OFC. CQA/A further added that improper storage at OFDR led to rusting of 19th lot comprising 966 empties.

OFB stated (September 2013) that the empties manufactured by OFC under first 14 lots had been proof fired with the Charge-9 to realize pressure varying from 270 MPa to 314 MPa whereas, consequent to an amendment in pressure by CQA/A in April 2007, proof firing from 15th lot had been conducted at 397 ± 8 MPa (which was 15 per cent higher than service pressure of 345 MPa). OFB further added that even at higher pressure, 16th lot to 18th lot of empties had passed in proof. OFB also added that fresh lot of 100 shells manufactured by OFC was yet to be tested for SoD for want of probable date of dispatch schedule from Senior Quality Assurance Establishment (Armament) Kanpur.

OFB's reply is, however, not acceptable since the proof methodology finalized by a Task Force constituted with the representatives from Ordnance Factories as well from DGQA had decided (May 1999) to subject empties at Charge-9 increment to realise the pressure of 397 ± 8 MPa and empties manufactured by OFC under 16th lot to 18th lots had also been cleared in proof even at Charge-9 increment to realize the pressure of 397 ± 8 MPa.

The fact, however, remains that the failure of production and quality assurance agencies to resolve the issue relating to rejection of just one lot of empties (₹2.78 crore) since January 2008, led to blocking of inventory valuing ₹10.28 crore. Further, improper storage at OFDR also led to the rusting of empty shells valuing ₹2.78 crore which delayed the Strength of Design testing of empties.

The matter was referred to the Ministry of Defence in July 2013; their reply was awaited (November 2013).

6.6 Inadequate quality control resulting in loss of ₹7.42 crore due to rejection of 7.62mm brass cups and ammunition

Ordnance Factory Katni issued 7.62mm brass cups with manufacturing defects, because of deficient quality control, to Ordnance Factory Varangaon which used these brass cups to produce ammunition. This resulted in rejection of brass cups and ammunition valuing ₹7.42 crore.

The Quality Control (QC) section of Ordnance Factories (OFs) is responsible for carrying out stage/inter-stage inspection during the manufacturing process. As per Quality Plan for 7.62mm brass cups prepared by Ordnance Factory, Ambarnath (OFA) 100 *per cent* checking is required to be conducted during different production operation. In the meeting held amongst Ministry of Defence (MoD), Director General of Quality Assurance (DGQA) and Ordnance Factory Board (OFB) in July 2011, it was envisaged that it is the responsibility of the QC section of Ordnance Factory to carry out 100 *per cent* inspection and weeding out of all non-conformities. Quality assurance of the products before issue to the indentors is the responsibility of the Director General of Quality Assurance (DGQA). Thus, OFs and DGQA are jointly and severally responsible for ensuring the quality of the items produced in the OFs.

OFA and Ordnance Factory, Katni (OKAT) are both engaged in the production of NATO[42] brass cups used by Ordnance Factory Varangaon (OFV) for manufacturing 7.62mm ammunition. During the manufacture of brass cups, strict quality control *i.e.* 100 *per cent* inspection is required because rupture of even a single round, rejects the entire lot of the ammunition as per acceptable quality level (AQL). However, both the factories carry out QC inspection based on sampling method.

During 2009-10 to 2012-13, OKAT supplied 191.72 MT brass cups, duly inspected and passed by QAE (M)[43] Katni, to OFV. We observed during audit scrutiny (November 2011) that cups supplied by OKAT to OFV since November 2009, were found to have manufacturing defects[44]. Trial by Senior Quality Assurance Establishment (Ammunition) Varangaon (SQAE/A)[45], of one ammunition lot of 2010 manufactured by OFV using these cups, demonstrated five splits with one rupture during the first double re-proof. OKAT team, while attending to the complaint of OFV, admitted in a joint meeting with OFV (September 2010) that the defects in cups were due to poor workmanship as also metallurgical defects. The team, however, assured OFV that defective cups would not be supplied in future.

OFB constituted (October 2010) a team to carry out Process Audit at OKAT, under the Chairmanship of General Manager OFA, for the manufacture of 7.62mm brass cups. The team observed major deviations in quality control of OKAT along with the manufacturing defects. The team recommended (October 2010) four major remedial measures[46] for implementation by OKAT.

We observed (November 2011) during our scrutiny of production records that OKAT had not installed direct reading spectrometer and not introduced use of hardness tester, as recommended by the Process Audit Team to control the quality problems. Instead, it manufactured and issued (February 2011) 9.69 MT cups with the same deficiencies to OFV, of which 6 MT cups valuing ₹23.93 lakh were rejected by OFV owing to low dome thickness. The Metallurgical Investigation Report (April 2011) by OFA attributed the defects to hardness above the specified limits, presence of heavy oxide and sticking of material on the press tools. Subsequently, 15 MT cups valuing ₹97.35 lakh produced by OKAT were again rejected (September 2011) by QAE (M) Katni as it could not again meet the AQL. However, OKAT, without the concurrence of QAE (M), dispatched (September/ October 2011) these 15 MT cups to OFV

[42] North Atlantic Treaty Organisation

[43] Quality Assurance Establishment (Metal) under DGQA responsible for quality assurance of brass cups before issue to OFV

[44] Deep scratches at dome of the cups, cut on mouth of cups, irregular shape of dome, lamination/cut on cup dome, scaly dome, low weight/height, *etc*.

[45] SQAE(A) under DGQA is responsible for quality assurance of ammunition before issue to indentors

[46] (a) Not to use the milling swarf arising from the continuous cast coil making process; (b) to control the melting temperature and holding furnace temperature as per requirement; (c) to install direct reading spectrometer; (d) to use hardness tester at every stage of cup processing

at its own risk. OFV again rejected the whole consignment and returned 13.50 MT cups to OKAT in June 2013 after consuming 1.50 MT cups in trials.

Further, we also observed (November 2011) that 22.50 lakh 7.62mm ammunition[47] valuing ₹6.20 crore produced by OFV in 2011 with the defective cups (supplied by OKAT between December 2010 and May 2011), failed to pass the proof test and were rejected between February and July 2011 due to complete rupture. The Board of Enquiry (BoE) constituted (May 2012) by OFV to examine the reasons for the same, attributed (June 2012) the failure to defective/damaged brass cups which on processing could have developed hair line cracks and rupture during firing. The loss statements pertaining to rejected ammunition worth ₹6.20 crore were under preparation/finalization as of October 2013.

While accepting the facts, OFB stated (October 2013) in response to audit observation issued (June 2013) that defective cups would always be available in the lots which might result in failure of ammunition finally due to inherent drawback of quality control. OFB further added that removal of defects by 100 *per cent* check would involve huge cost on account of manpower and machine.

The reply of OFB itself indicates deficient quality control leading to manufacturing of defective brass cups. The reply is also silent as to why the production of brass cups continued despite non-implementation of all the recommendations of the Process Audit Team. Further, as per the requirement, it is mandatory to carry out 100 *per cent* inspection and weeding out of all non-conformities before issue to the indentors.

Thus, non-adherence to quality control checks led to manufacturing of defective brass cups, thereby incurring a loss of ₹7.42 crore on account of rejected cups and ammunition. No accountability mechanism has been also put in place to ensure that such defective brass cups are not dispatched for future indents.

The matter was referred to the Ministry in June 2013; their reply was awaited (November 2013).

6.7 Blocking of inventory due to bulk manufacture before clearance of pilot samples

Bulk manufacture of empty bodies of an ammunition by Ordnance Factory Kanpur even before successful performance of its pilot lots in proof resulted in blocked inventory of ₹2.13 crore.

Ordnance Factory Board's Procedure Manual (OPM) stipulates that bulk production of a new item should not normally commence until a pilot batch of a suitable size has passed through inspection so as to avoid losses due to rejection in inspection of large quantities on account of faulty material or faulty technique.

[47] OFV lot No. 4/11, 24/11 and 31/11

Ordnance Factory Board (OFB) entrusted (August 2008) Ordnance Factory Kanpur (OFC) to manufacture and issue empty body (empties) of 84mm Target Practice Tracer ammunition (ammunition) to Ordnance Factory Khamaria (OFK) in order to meet the huge load for the ammunition as well as to supplement the production capacity at Gun and Shell Factory Cossipore and Ordnance Factory Ambajhari.

Accordingly, OFC received an Inter Factory Demand from OFK (February/March 2010) for supply of 17500 empties subject to successful establishment of prototypes, production of pilot batch after process validation and successful proving of the proof samples and clearance in type testing by the Controller of Quality Assurance (Ammunition) Kirkee (CQA/A) and Controller of Quality Assurance (Metal) Ishapore for the metallurgical aspect respectively. Bulk Production Clearance (BPC) was to be subsequently obtained from CQA/A after successful proving of pilot batch.

We observed (November 2011/April 2012) that despite rejection of the pilot batch of 125 empties during consistency proofs conducted on five occasions between December 2010 and April 2012, due to recording of high Horizontal Standard Deviation, Vertical Standard Deviation and Mean Point of Impact than the specified norm, OFC went ahead and manufactured 10,366 empties at a total cost of ₹0.83 crore against two warrants issued in September 2010 and December 2010. We also observed, during audit scrutiny, that BPC was not obtained from CQA/A before bulk manufacture of empties.

Justifying the bulk production, OFB stated (December 2012) that OFC's shop floor technical team had after a thorough study of the already established process of empties at GSF, assessed that complete infrastructure existed to undertake the in-house manufacture of the components completely with support from the technical expertise of the tool room. Further, based on the confidence instilled in the shop floor, OFC decided to embark on bulk manufacture and assembly of the store after successful development of prototypes which was duly cleared in critical examination followed by manufacture of pilot lot duly accepted by the Quality Assurance, although formal BPC was awaited from CQA/A.

OFB stated in October 2013, to a further audit query (May 2013) on acceptance of pilot lot by the Quality Assurance, that the pilot lot had passed through in all three parameters (Mean Point of Impact, Horizontal Standard Deviation and Vertical Standard Deviation) individually but had not passed on these three parameters simultaneously. It further stated that OFC had received permission from CQA/A for manufacture of fresh pilot lot of 160 empties and after obtaining BPC, available inventory would be utilized in bulk production.

The reply of OFB is not acceptable because even before receipt of performance of their pilot batches, the bulk manufacture of empties was contrary to the extant direction of OFB. Further, in none of the proofs conducted during December 2010 and April 2012, had the pilot lot achieved the specified limit of three parameters individually as claimed by OFB. The salvaging activities of the assembled store for liquidating the inventory holding cannot not in any way absolve OFC of its responsibility of bulk manufacture of empties (₹0.83 crore) which could not be gainfully utilized in the filling process till date (October 2013).

Thus, production of 10366 empties in bulk without successful clearance of pilot batch in proof by OFC, in gross violation of OPM, had resulted in accumulation of empties valuing ₹0.83 crore and inventories valuing ₹1.30 crore.

The matter was referred to the Ministry of Defence in May 2013; their reply was awaited (November 2013).

Miscellaneous

6.8 Recoveries at the instance of Audit

At the instance of Audit, 18 Ordnance Factories and three Inspectorates of Directorate General of Quality Assurance New Delhi recovered ₹2.09 crore.

During the course of audit (May 2011 - February 2012), we observed instances of irregular payments, under/ non-recovery of charges etc. Acting on the audit observations, 18 Ordnance Factories and three Inspectorates of Directorate General of Quality Assurance New Delhi took corrective action and cumulatively recovered ₹2.09 crore on account of non- recovery of licence fees/electricity charges/fuel adjustment charges/cost of damaged cartridge cases, motor cycle/moped advance, children education allowance/pay and allowance.

The matter was referred to the Ministry of Defence in July 2013; their reply was awaited (November 2013).

(VENKATESH MOHAN)
New Delhi **Director General of Audit**
Dated: 2013 **Defence Services**

Countersigned

New Delhi **(SHASHI KANT SHARMA)**
Dated: 2013 **Comptroller and Auditor General of India**

ANNEXURE-I

(Referred to in Paragraph 1.9)

Position of outstanding ATNs

Ministry of Defence - excluding Ordnance Factory Board

(i) Pending for more than ten years

Sl.No.	Report No. and Year	Para No.	Subject
1.	Audit Report, Union Government (Defence Services) for the year 1985-86	34*	Loss due to delay in pointing out short/ defective supply.
2.	No.2 of 1988	9**	Purchase of Combat dress from trade.
3.	No. 2 of 1989	11**	Purchase and licence production of 155mm towed gun system and ammunition
4.	No.12 of 1990	9**	Contract with Bofors for (a) purchase and licence production of 155mm gun system and (b) Counter Trade
5.		10*	Induction and de-induction of a gun system.
6.		19*	Import of ammunition of old vintage.
7.		46**	Ration article-Dal.
8.	No.8 of 1991	10*	Procurement of stores in excess of requirement.
9.		13*	Central Ordnance Depot, Agra.
10.		17**	Infructuous expenditure on procurement of dal chana.
11.	No.8 of 1992	20**	Procurement of sub-standard goods in an Ordnance Depot.
12.		28**	Avoidable payment of maintenance charges for Defence tracks not in use.
13.	No. 8 of 1993	15**	Non-utilisation of assets.

Sl.No.	Report No. and Year	Para No.	Subject
14.		22**	Over-provisioning of corrugated card board boxes
15.		29*	Import of mountaineering equipment and sports items
16.		31*	Avoidable payment of detention charges
17.	No. 7 of 1997	18*	Management of Defence Land
18.		23**	Avoidable expenditure on Demurrage charges
19.		27**	Non-realisation of claims from the Railways.
20.		69**	Defective construction of blast pens and taxi track
21.	No. 7 of 1998	30**	Avoidable payment of container detention charges
22.		32*	Infructuous expenditure on procurement of substandard cylinders
23.		36**	Procurement of batteries at higher rates
24.	No. 7 of 2000	52***	Repowering of Vijayanta Tank
25.	No. 7 of 2001	15**	Procurement of an incomplete equipment
26.		19**	Infructuous expenditure on procurement of entertainment films
27.		32*	Wrongful credit of sale proceeds of usufructs to regimental fund
28.	No.7A of 2001	@Entire Report (ATN for 8 out of 42 paras yet to be received even for the 1st time)	Review of Procurement for OP VIJAY(Army)
(ii)	**Pending more than 5 years upto 10 years**		
29.	No. 6 of 2003	2*	Exploitation of Defence lands
30.		11**	Recoveries effected at the instance of Audit

Sl.No.	Report No. and Year	Para No.	Subject
31.		14*	Irregular recruitment of personnel
32.	No. 6 of 2004	3.2*	Recoveries/Savings at the instance of Audit.
33.	No. 6 of 2005	3.2*	Recoveries/savings at the instance of Audit
34.	No.18 of 2005 (Performance Audit)	Standalone Report**	Performance Audit of the Directorate General of Quality Assurance
35.	Report No. 4 of 2007	3.3**	Unauthorised use of Defence assets and public fund for running educational institutes
36.		3.5*	Recoveries/savings at the instance of Audit
37.		6.2**	Irregular payment of counter insurgency allowance
(iii)	**Pending more than 3 years upto 5 years**		
38.	Report No. CA 4 of 2008	3.2**	Avoidable extra expenditure in procurement of blankets
39.		3.3**	Recovery and savings at the instance of Audit
40.		3.4**	Avoidable loss due to acceptance of defective ammunition
41.	Report No. PA 4 of 2008 (Performance Audit)	Chapter I*	Supply Chain Management of General Stores and Clothing in the Army
42.	Report No. CA 17 of 2008-09	2.7*	Non-renewal of lease of land occupied by Army Golf Club
43.		3.4*	Unauthorized use of A-1 Defence land by Army Welfare Education Society
44.		3.5***	Utilisation of Government assets for non-governmental purposes
45.		3.10***	Recoveries and savings at the instance of Audit
46.		4.1*	Irregular diversion of savings of a project for execution of new works
(iv)	**Pending upto 3 years**		

Sl.No.	Report No. and Year	Para No.	Subject
47.	Report No. 12 of 2010-11	2.1**	Defective import of SMERCH Multi Barrel Rocket Launcher System
48.		3.2*	Irregular procurement of Punched Tape Concertina Coil
49.		3.6***	Recoveries and savings at the instance of Audit
50.		4.1*	Irregular sanction and construction of accommodation for a Golf Club
51.		4.3*	Additional expenditure on execution of a work due to indecision by the users
52.		5.2**	Misappropriation of Government stores
53.	Report No. 6 of 2010-11 (Performance Audit)	Standalone Report***	Supply Chain Management of Rations in Indian Army
54.	Report No. 14 of 2010-11 (Performance Audit)	Standalone Report***	Canteen Stores Department
55.	Report No. 35 of 2010-11 (Performance Audit	Standalone Report*	Defence Estates Management
56.	Report No. 11 of 2011-12 (Performance Audit)	Entire Report*	Special report on Adarsh Co-operative Housing Society, Mumbai
57.	Report No. 24 of 2011-12	2.5*	Deficient pre-despatch inspection
58.		3.1*	Extra expenditure due to acceptance of higher rates
59.		3.3**	Irregular payment of field area allowance
60.		3.4**	Irregular de-hiring of house constructed on leased land
61.		3.5*	Deficiency of fire fighting staff at Central Ammunition Depot
62.		3.6**	Loss of ₹ 1.19 crore due to irregularities in the accountal of Hay

Sl.No.	Report No. and Year	Para No.	Subject
63.		3.8***	Avoidable expenditure due to rejection of a valid tender
64.		3.9*	Loss due to non-inclusion of laid down clause-in wheat grinding contracts
65.		3.10**	Injudicious procurement of Tippers
66.		3.11**	Irregular payment to Civil Hired Transport Contractors
67.		3.13*	Procurement of defective spares from foreign vendor
68.		3.14***	Recoveries and savings at the instance of Audit
69.		4.1**	Overpayment in Electricity Bills
70.		5.1**	Loss due to collapse of a bridge
71.		5.2**	Non-completion of bridge after twelve years of sanction
72.	Report No.16 of 2012-13	2.1*	Loss of revenue on renewal of lease of Government land
73.		2.2*	Illegal sale of Defence land
74.		2.3*	Loss due to non-levy of licence fee on vehicles entering Cantonment Board Ahmednagar
75.		2.5***	Loss of indigenously designed/manufactured ammunition
76.		3.1***	Unauthorised use of defence assets and manpower for the benefit of Army Welfare Education Society
77.		3.2*	Unfruitful expenditure on development of Modular Charge System fo field guns
78.		3.3**	Failure of HQ Southern Command to Safeguard Defence land from commercial exploitation
79.		3.4*	Overpayment of conservancy charges to Cantonment Board Pune
80.		3.5**	Projection of inflated requirement of ammunition
81.		3.6***	Extra expenditure due to non-acceptance of reasonable L1 rates

Sl.No.	Report No. and Year	Para No.	Subject
82.		3.7***	Recoveries, savings and adjustment in accounts at the instance of Audit
83.		4.1*	Overpayment of water charges by Garrison Engineer Kamptee
84.		4.2**	Excess payment of water charges by Garrison Engineer Hisar
85.		4.3**	Construction of sub standard bunkers
86.		4.4*	Extra payment to a contractor
87.		5.2***	Undue benefit to a supplier
88.		7**	Project management in R&D Establishment
89.	Report No. 18 of 2012-13	Entire Report*	Performance Audit of the Medical Establishments in Defence Services

***** **Action Taken Notes examined by Audit but yet to be finalised by the Ministry in the light of Audit remarks – 37**

****** **ATNs vetted by Audit but copy of the finalised ATNs awaited from Ministry – 38**

******* **Action Taken Notes not received even for the first time - 13**

@ **Part ATN received – 01**

ANNEXURE-II

(Referred to in paragraph 6.1.4.1)

Details of Spillover Issues in Ordnance Factories for the year 2011-12

(₹ in crore)

Sl No	Name of the Factory	Cost of Production[1]	Spill over Issues					
			Army	Navy	Air-Force	MHA incl State Police	R&D/ other Def Dept	Total
1	Vehicles Factory Jabalpur	1433.67	854.92	Nil	Nil	0.99	Nil	855.91[2]
2	Ordnance Factory Badmal	605.74	281.68	Nil	Nil	Nil	Nil	281.68 [3]
3	Ordnance Factory Khamaria	1183.09	278.16	1.24	29.79	Nil	Nil	309.19[4]
4	Gun Carriage Factory Jabalpur	525.94	87.74	Nil	Nil	Nil	Nil	87.74 [5]
5	Gun Shell Factory Cossipore	342.78	16.10	Nil	Nil	Nil	0.86	16.96 [6]
6	Ordnance Clothing Factory Shahjahanpur	297.06	29.64	Nil	Nil	Nil	Nil	29.64 [7]
	Grand Total	**4388.28**	**1548.24**	**1.24**	**29.79**	**0.99**	**0.86**	**1581.12**

[1] Data of Cost of Production taken from Annual Accounts of Ordnance & Ordnance Equipment Factories in India Vol-II for the year 2011-12

[2] Production Status Report of Vehicle Factory Jabalpur for the year 2011-12

[3] OFBL letter No. 7501/AQ/CA/LTA Party-II dated 16 March 2013

[4] Data extracted from the records of P Issue Voucher Register during Feb/March 2012 and Nominal Issue Voucher Register of OF Khamaria

[5] Data extracted from PPC package of GCF Jabalpur

[6] Data extracted from the records of P Issue Voucher issued on Feb/March 2012 and connected Inspection Note of GSF Cossipore

[7] Data extracted from the records of P Issue Voucher issued on 31.03.12 and connected non-returnable material gate pass register OCF Shahjahanpur.

ANNEXURE-III

(Referred to in paragraph 6.1.6)

Details of Direct/Indirect labour charges and supervision charges

(₹ in crore)

Division	Year	Direct Labour	Indirect Labour	Percentage of Indirect Labour to Direct Labour	Total Labour Charges	Super vision charges	Percentage of Supervision charges to Total Labour Charges	Percentage of Supervision charges to Direct Labour Charges
Material & Components	2007-08	116	125	108	241	143	59	123
	2008-09	137	190	139	327	205	63	150
	2009-10	198	193	97	391	267	68	135
	2010-11	221	159	72	380	249	66	113
	2011-12[8]	250	212	85	462	321	70	128
Weapons, Vehicles and Equipment	2007-08	188	185	98	373	236	63	126
	2008-09	224	292	130	516	342	66	153
	2009-10	298	312	105	610	433	71	145
	2010-11	355	250	70	605	419	69	118
	2011-12	417	348	83	765	495	65	119
Ammunition and Explosive	2007-08	168	156	93	324	246	76	146
	2008-09	205	250	122	455	380	84	185
	2009-10	299	243	81	542	477	88	160
	2010-11	349	194	56	543	489	90	140
	2011-12	396	318	80	714	560	79	141
Armoured Vehicles	2007-08	73	63	86	136	98	72	134
	2008-09	97	101	104	198	172	87	177
	2009-10	137	100	73	237	229	97	167
	2010-11	162	100	62	262	210	80	130
	2011-12	191	146	76	337	267	79	140
Ordnance Equipment	2007-08	111	54	49	165	53	32	48
	2008-09	136	93	68	229	99	43	73
	2009-10	186	117	63	303	102	34	55
	2010-11	233	66	28	299	114	38	49
	2011-12	266	125	47	391	156	40	59
Total	2007-08	655	583	89	1238	776	63	118
	2008-09	800	926	116	1726	1199	69	150
	2009-10	1118	965	86	2083	1508	72	135
	2010-11	1320	769	58	2086	1480	71	112
	2011-12	1520	1149	76	2669	1799	67	118

[8] Annual Production Accounts of the Ordnance & Ordnance Equipment Factories for the year 2011-12

ANNEXURE-IV

(Referred to in paragraph 6.1.12)

Statement showing factory-wise abnormal stock holding

(₹ in crore)

Sl No	Name of Factory	Consumption of direct and indirect Stores in 2011-12	Consumption per day	Stores in hand as of 31 March 2012	Holding in number of days consumption	Authorised holding in terms of days	Excess holding in terms of days
1	Ordnance Factory Kanpur	215.80	0.599	199.68	333.10	120	213
2	Ordnance Factory Ambajhari	349.09	0.969	242.49	250.06	120	130
3	Ordnance Factory Trichy	68.87	0.191	43.18	225.71	120	106
4	Ordnance Factory Khamaria	899	2.497	550.73	220.53	120	101
5	Opto Electronic Factory Dehradun	365.12	1.014	266.11	262.37	180	82
6	Gun and Shell Factory Cossipore	230.58	0.640	128.37	200.42	120	80
7	Ordnance Factory Chanda	1156.93	3.213	642.47	199.91	120	80
8	Machine Tool Prototype Factory Ambarnath	47.13	0.130	25.20	192.48	120	72
9	Ordnance Factory Medak	410.59	1.140	286.80	251.46	180	71
10	Ordnance Factory Bolangir	509.89	1.416	270.78	191.18	120	71
11	Ordnance Factory Varangaon	250.66	0.696	130.73	187.75	120	68
12	Cordite Factory Aruvankadu	44.61	0.123	23.10	186.41	120	66

(Details of excess stock holding at Ordnance Factories prepared by Audit from Annual Production Accounts and Annual Store Accounts of Ordnance Factories for the year 2011-12)