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.

[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.