# CHAPTER I: INTRODUCTION

## 1.1 About the Report

The Report relates to matters arising from the Compliance Audit of the financial transactions of Ministry of Defence and its following organisations:

- Indian Air Force (IAF)
- Indian Navy (IN)
- Indian Coast Guard
- Defence Research and Development (R&D) Organisation of the Ministry of Defence and its laboratories dedicated primarily to IAF/IN
- Defence Accounts Department dealing with IAF/IN
- Military Engineer Services (MES) dealing with IAF/IN

Transactions relating to Air Force are audited by the office of the Principal Director of Audit, Air Force [PDA (AF)], New Delhi and the audit of transactions in respect of Navy/Coast Guard are carried out by the office of the Principal Director of Audit, Navy, [PDA (N)], Mumbai.

The audit conducted by these two offices is of three distinct types: Financial Audit, Compliance Audit and Performance Audit.

**Financial Audit** is the review of financial statements of an entity that seeks to obtain an assurance that the financial statements are free from material misstatements and present a true and fair picture.

**Compliance Audit** scrutinises 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.

**Performance Audit** is an in-depth examination of a programme, function, operation or the management system of entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

This Report relates to matters arising from the Compliance Audit and contains findings pertaining to capital and revenue acquisitions, installation/ upgradation of systems and work services. Total financial value of cases commented upon in this Report is ₹2650.34 crore. A brief financial analysis of the expenditure incurred on the Air Force, Navy, R&D (related to Air Force and Navy) and Coast Guard as a part of the over-all defence budget of the country has also been included.

## 1.2 Authority for audit

Article 149 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 govern the scope and extent of audit. Detailed methodology of audit and reporting is prescribed in the 'Regulations of Audit and Accounts, 2007'.

## 1.3 Planning and conduct of audit

Audit areas are prioritised through an analysis of risks so as to assess their criticality in key operating units. Expenditure incurred, operational significance, past audit results and internal control issues are amongst the prime factors which determine the severity of the risks. This exercise in turn guides the formulation of the annual audit programme. The number of units selected for audit is determined by matching the high-risk areas with available resources. Besides, high-value capital acquisitions and procurements are audited by specially constituted dedicated teams.

In general, interaction with the audited entity is encouraged from the initial stage in the auditing process. Audit findings are communicated during discussions at the end of an audit exercise and followed up in writing through Local Test Audit Reports/Statements of Case. The response from the audited entity is considered and results in either settlement of the audit observation or referral to the next audit cycle for compliance. Some of the more serious irregularities are processed for inclusion in the Audit Reports which are submitted to the President of India under Article 151 of the Constitution of India, for laying them before each House of Parliament.

At present, the audit of these two offices comprises of 850 units. During 2011-12, audit of 195 units/formations was carried out by utilising 8489 man days.

## 1.4 Internal control and co-ordination between Internal and External audit

The Finance Division of the Ministry of Defence is headed by the Secretary (Defence/Finance)/Financial Adviser (Defence Services) (FADS) who is responsible for financial scrutiny, vetting, advice and concurrence of all proposals of the Ministry of Defence. FADS is also responsible for internal audit and for accounting of the defence expenditure. Internal financial advice is provided both at the Service Headquarters level as also at levels of Command Headquarters and other units. Internal financial control is further aided by periodic internal audit by the Controller General of Defence Accounts (CGDA), the Head of the Defence Accounts Department, who functions under the FADS. The Principal Controllers of Defence Accounts, Air Force and Navy functioning under CGDA are located at Dehradun and Mumbai respectively. They are responsible for internal audit, financial advice at unit level and for scrutiny, payments and accounting of all personnel claims and bills for supplies and services rendered, construction, repair works, miscellaneous charges etc. received from Air Force and Navy/Coast Guard units.

The internal audit is expected to ensure effective implementation of the rules, procedures and regulations enunciated in the Defence Procurement Procedure, Manuals, Codes, etc. The offices of PDA (AF) and PDA (N) actively seek assistance and co-operation from internal audit in examination and scrutiny. Internal auditors have to carry out 100 *per cent* checks. The external/statutory audit bases its audit on sample/test check. The Inspection Reports (IRs) generated by external audit on the basis of local audit are issued to the audited entities as well as to their internal auditors i.e. Defence Accounts Department. These IRs are pursued to their logical conclusion after ascertaining the views of the internal auditors. Draft paragraphs proposed to be included in the Audit Report are sent to the Defence Secretary. Simultaneously, a copy is also forwarded to CGDA. The Ministry furnishes its response only after vetting by the FADS.

## 1.5 Profile of audited entities

### 1.5.1 Organisation – Key responsibilities

**The Ministry of Defence** at the apex level, frames policies on all defence related matters in consultation with the Finance Division. The Ministry 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 functions as the Head of the Department of Defence and is also responsible for coordinating the activities of other departments.

**The Indian Air Force** is headed by the Chief of the Air Staff. Air Headquarters (Air HQ) is the apex body and chief management organisation of the Indian Air Force. The ultimate and overall administrative, operational, financial, technical maintenance and control of IAF rests with Air HQ. Operational and maintenance units of IAF normally consist of wings and squadrons, signal units, base repair depots and equipment depots.

**The Indian Navy** is headed by the Chief of the Naval Staff. Naval Headquarters (NHQ) is the apex body and chief management organisation and is responsible for command, control and administration of the Indian Navy. Operational and maintenance units of Indian Navy consist of warships and submarines, dockyards, naval ship repair yards, equipment depots and material organisations.

**The Coast Guard** was created to protect the country's vast coastline and offshore wealth. The Director General, Coast Guard exercises general superintendence, direction and control of the Coast Guard.

**Military Engineer Services (MES)** is one of the largest Government construction agencies. Engineer-in-Chief is the head of the MES. The MES is responsible for conclusion of contracts, execution of work services and maintenance of existing buildings of the Armed Forces. It works under the Engineer-in-Chief Branch of Army Headquarters.

**The Defence Research and Development Organisation** undertakes design and development of weapon systems and equipment in accordance with the expressed needs and the qualitative requirements laid down by the Services. Certain laboratories are dedicated exclusively to Air Force and Navy like the Gas Turbine and Research Establishment (GTRE), Electronics and Radar Development Establishment (LRDE), Centre for Airborne System (CABS), Naval Science and Technological Laboratory (NSTL), Naval Physical and Oceanographic Laboratory (NPOL) and Naval Materials Research Laboratory (NMRL), etc. These organisations also render scientific advice to the Service Headquarters. They work under the Department of Defence Research and Development of the Ministry of Defence.

**The Defence Accounts Department** is headed by the Controller General of Defence Accounts who provides services to the armed forces in terms of financial advice and accounting of defence services receipts and expenditure as well as defence pensions.

## 1.6 Significant audit observations

Audit has over the years, commented on many critical areas of defence pertaining to Indian Air Force, Indian Navy, Indian Coast Guard and dedicated R&D projects. The Ministry of Defence, on its part, has taken several measures in response to these observations. An important step taken to improve procurement procedures has been the introduction of Defence Procurement Procedure and Defence Procurement Manual and their regular updation.

The present Audit Report points out significant deficiencies/shortcomings in the procurement processes followed- both under Capital and Revenue Heads - by the Ministry of Defence as well as by the Services. The Report highlights cases where there have been deviations from the prescribed procedure. The acquisition process lacked proper planning, effective price negotiation and proper monitoring. Due to delay in initiation and conclusion of the contract, facilities for upgradation of an aircraft could not be set up in time despite an investment of ₹272 crore on Transfer of Technology (Paragraph 2.2). Improper decision for development of EW suite to enhance the operational capability of an aircraft led to an investment of ₹156 crore being rendered largely unfruitful (Paragraph 2.1). IAF failed to project the long term requirement of aero-engines resulting in extra avoidable expenditure of ₹227 crore (Paragraph 2.3). Testers procured at a cost of ₹5.47 crore could not be commissioned due to non inclusion of commissioning clause in the contract (Paragraph 3.2). Another case in point was non-inclusion of the variable percentage of profit in the contract for acquisition of LCUs which led to loss of leverage of ₹40.96 crore over M/s GRSE. Besides, provision of ₹9 crore towards Project Management Cost in the contract was unjustified (Paragraph 2.4).

The Report also highlights cases involving substantial expenditure in which either the procurement failed to achieve its intended objectives due to lack of synergy in planning or the procurement had been delayed. Audit found that infrastructure worth ₹2.23 crore for housing the radars could not be utilized due to change in the induction plan (Paragraph 3.4). It was detected that, failure on the part of Navy to synchronize the procurement of spares with the refit of a submarine coupled with delay on the decision to procure spares affected the quality and completeness of the refit of a submarine. Besides, procurement of 89 spares at a later date led to an avoidable expenditure of ₹18 crore (Paragraph 4.1). Failure on the part of Indian Coast Guard to dovetail the procurement of Inverters and INS GPS with surveillance radars resulted in an extra expenditure of ₹2.87 crore (Paragraph 5.2)

Instances of violation of contractual terms and disregard for instructions have also been reported. Failure of the Ministry to adhere to the contractual provision for availing of concessional duties resulted in avoidable payment of ₹69.40 crore on account of Income Tax (Paragraph 3.7). The procurement of coffee was made in deviation of the prescribed procedure which denied a level playing field to the prospective vendors, resulting in an avoidable expenditure of ₹53 lakh (Paragraph 4.4). Similarly, an extra expenditure of ₹73 lakh was incurred on transportation of Arming devices due to Navy's injudicious decision of accepting the change in delivery point from CIP Mumbai airport basis to FOB ex-Italian port basis (Paragraph 4.3). In contravention of contractual conditions, Navy failed to revise the delivery dates in a contract and instead advised the PCDA (Navy) to refund the Liquidated Damages of ₹37.98 crore (Paragraph 4.5).

Several cases have been highlighted where greater vigil and promptness in decision making on the part of the department was required. Procurement of additional test equipment worth ₹11 crore was avoidable as the test equipment for setting up the base repair level facility had already been procured (Paragraph 3.1). During detailed audit of Directorate of Mechanical Transport (DMT) Air HQ and units thereunder from April 2012 to September 2012, Audit observed that 408 Aircraft Support Vehicles (ASVs) costing ₹132.09 crore planned (2007) in the backdrop of Ops Parakaram could not be procured. Besides, 37 weapon loader trolleys valuing ₹6.63 crore procured for SU-30 units were found unsuitable, thereby depriving these units of a vital ASV (Paragraph 3.3). Acceptance of a non-functional Air Conditioning Plant, procured by Navy at a cost of ₹1.94 crore, without Factory Acceptance Trials led to its continued disuse since its installation in August 2009. The Plant continued to face a large number of defects and was yet to be commissioned, adversely affecting the habitability onboard (Paragraph 4.2). Delayed conclusion of contract for dredging of naval channels coupled with the fact that the Maintenance Dredging was conducted during the peak monsoon of 2010 led to an unfruitful expenditure of ₹33.91 crore (Paragraph 4.6). Weak controls and falsification of official records at Indian Naval Diving Team (Delhi), equipped for undertaking practice diving by naval divers, led to an incorrect payment of ₹10.24 lakh on account of Dip Money to 196 naval divers which is now being recovered (Paragraph 4.9). Incorrect interpretation of the Government orders by the Navy, relating to regulation of payment of Island Special Duty Allowance by the Navy led to an excess payment of ₹3.29 crore (Paragraph 4.11). Lack of co-ordination between two Directorates at the Indian Coast Guard Headquarters led to undertaking of a Short Refit of an ageing ship ICGS Vikram eventhough it was marked for decommissioning. This in turn led to an avoidable expenditure of ₹5.66 crore on the Short Refit (Paragraph 5.1). Indian Coast Guard authorities also did not carefully exercise the option clause for an Advance Offshore Patrol Vessel which led to an avoidable extra expenditure of ₹1.75 crore (Paragraph 5.3).

The Report also highlights the need to strengthen work services. Instances of works being sanctioned, ignoring the laid down norms have been brought out. Audit scrutinized records pertaining to ten runway resurfacing projects valuing ₹693.39 crore and observed delays in sanctioning and execution of works for runway resurfacing and blast pens involving time and cost overrun. Runway at three Air Force Stations were not fit for operation of fighter aircraft (Paragraph 3.5). Air HQ accorded a sanction for re-routing of electrical lines without obtaining consent from the Revenue Authorities which led to the blocking of funds amounting to ₹6.14 crore (Paragraph 3.6). A Shopping Complex at Naval Station, Karanja was created at an estimated cost of ₹2.87 crore in contravention of the provisions of the Scales of Accommodation for Defence Services (SADS) 1983 (Paragraph 4.7). Improper selection of a contractor and faulty design of a hangar resulted in unfruitful expenditure of ₹6.72 crore besides impacting the operational preparedness of the aircrafts due to non-availability of the hangar (Paragraph 4.8). A recovery of ₹2.09 crore due to irregular payment of allowances made to IAF personnel and liquidated damages from firms was effected at our instance (Paragraphs 3.10 and 4.10).

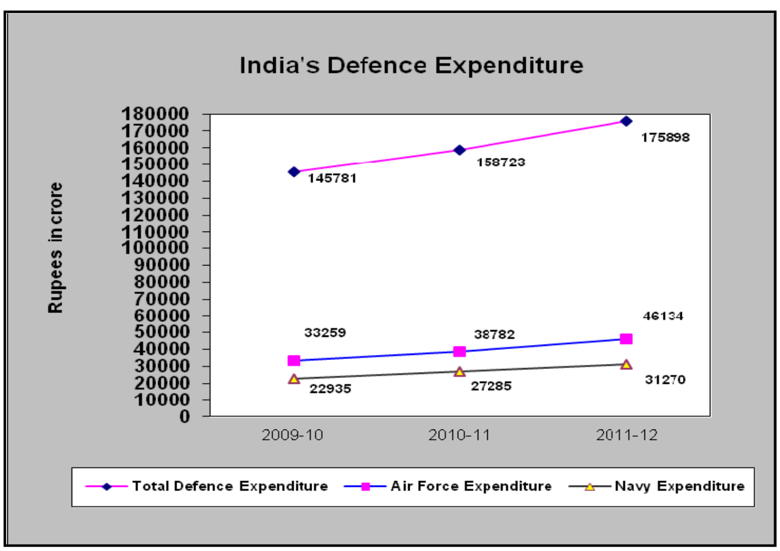
## 1.7 Financial aspects relating to Air Force and Navy

India's Defence Budget is broadly categorised under Revenue and Capital expenditure. While Revenue expenditure includes Pay and Allowances, Stores, Transportation and Work Services, etc. Capital expenditure covers expenditure on acquisition of new weapons and ammunition and replacement of obsolete stores.

The Defence expenditure increased by 10.82 *per cent* from ₹1,58,723 crore in 2010-11 to ₹1,75,898 crore in 2011-12. The share of the Indian Air Force and the Indian Navy in the total expenditure on Defence Services in 2011-12 was ₹46,134 crore and ₹31,270 crore respectively, which together constituted approximately 44 *per cent*.

### 1.7.1 Defence Expenditure

The Defence expenditure, as depicted above, does not include the expenditure on the pension paid to retired defence personnel and expenditure incurred on Defence Accounts Organisation, Defence Estates Organisation, Secretariat of the Ministry of Defence, Defence Canteens and the Coast Guard Organisation. As a percentage of GDP, the defence expenditure has shown a downward trend during this period from 2.12 *per cent* to 1.83 *per cent* as shown in the graph below.



Historically, Revenue expenditure accounts for the bulk of the defence budget. Out of the total Defence expenditure, the share of Revenue expenditure has gone down from 64.94 *per cent* in 2009-10 to 61.40 *per cent* in 2011-12, while the share of capital expenditure has gone up from 35.06 *per cent* to 38.60 *per cent* during the same period as shown in the following Table.

**Defence Expenditure**

**(₹ in crore)**

| Year | Annual Expenditure | | | Percentage increase over previous year | Expenditure as percentage of CGE | Expend-iture as percentage of GDP |
|---|---|---|---|---|---|---|
| | REVENUE | CAPITAL | TOTAL | | | |
| 2009-10 | 94,669 | 51,112 | 1,45,781 | 23.53 | 13.84 | 2.19 |
| 2010-11 | 96,667 | 62,056 | 1,58,723 | 08.87 | 12.87 | 1.98 |
| 2011-12 | 1,07,996 | 67,902 | 1,75,898 | 10.82* | 13.10 | 1.90 |

**CGE - Central Government Expenditure**

### 1.7.2 Air Force and Navy Expenditure

The total expenditure incurred by the Indian Air Force and Navy during 2009-2012 ranged between 38.55 and 44 *per cent* of the total defence expenditure. In the year 2011-12, while the expenditure of the Indian Air Force increased by 18.96 *per cent* from ₹38,782 crore to ₹46,134 crore, the expenditure of the Indian Navy increased by 14.60 *per cent* from ₹27,285 crore to ₹31,270 crore, as compared to the previous year. The distribution of Defence expenditure is depicted in the following Table.

**(₹ in crore)**

| Year | DISTRIBUTION OF DEFENCE EXPENDITURE | | | | | | |
|---|---|---|---|---|---|---|---|
| | Army | Air Force | Navy | Ordnance Factories | R&D | Others | Total |
| 2009-10 | 77,556 | 33,259 | 22,935 | 3,521 | 8,510 | Nil | 1,45,781 |
| 2010-11 | 80,830 | 38,782 | 27,285 | 1,532 | 10,197 | 97 | 1,58,723 |
| 2011-12 | 86,803 | 46,134 | 31,270 | 1,717 | 9,938 | 36 | 1,75,898 |

### 1.7.3 Air Force Expenditure

A broad summary of the expenditure of the Indian Air Force is given in the Table below.

**Air Force Expenditure**

**(₹ in crore)**

| Year | Total | Percentage change over previous year | As a percentage of total Defence Expenditure | Revenue | Capital |
|---|---|---|---|---|---|
| 2009-10 | 33,259 | (+)11.45 | 22.81 | 14,708 | 18,551 |
| 2010-11 | 38,782 | (+)16.60 | 24.43 | 15,179 | 23,603 |
| 2011-12 | 46,134 | (+)18.96 | 26.23 | 17,322 | 28,812 |

#### 1.7.3.1 Capital Expenditure

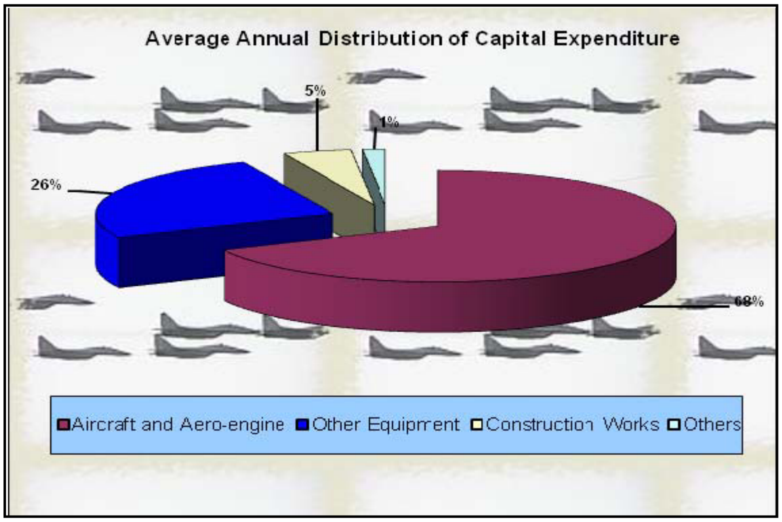
The Capital expenditure on the Indian Air Force rose by nearly 55.31 *per cent* during 2009-10 to 2011-12. In absolute terms, Capital expenditure increased from ₹18,551 crore in 2009–10 to ₹28,812 crore in 2011-12.

The Capital expenditure of the Indian Air Force was mainly incurred on acquisition of new aircraft and modernisation/upgradation of the existing aircraft. The average annual distribution of expenditure over the different categories for the last three years (2009-10 - 2011-12) for the Indian Air Force is depicted below in the table as well as in the graph given below.

**Capital Expenditure**

**(₹ in crore)**

| Year | Aircraft and Aero-engine | Construction work | Other equipment | Others | Total |
|---|---|---|---|---|---|
| 2009-10 | 12,097 | 905 | 5,317 | 232 | 18,551 |
| 2010-11 | 16,094 | 1,158 | 6,039 | 312 | 23,603 |
| 2011-12 | 20,274 | 1,153 | 6,788 | 597 | 28,812 |




### 1.7.3.2 Revenue Expenditure

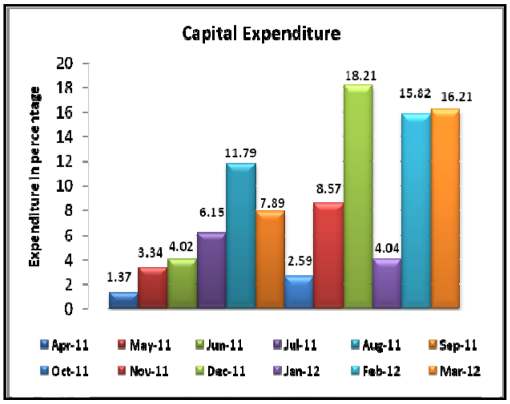
During 2009-10 to 2011-12, Revenue expenditure of the Indian Air Force increased by 17.77 *per cent* from ₹14,708 crore in 2009-10 to ₹17,322 crore in 2011-12. The Revenue expenditure of the Indian Air Force was mainly incurred on stores and special project, transport, works and pay and allowances. The average annual distribution of expenditure over different categories for the last three years is depicted below.

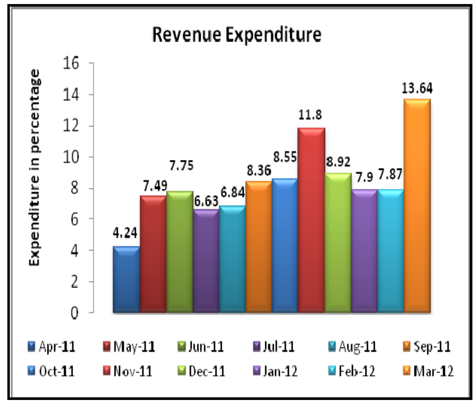
**Revenue Expenditure**

**(₹ in crore)**

| Year | Pay and allowances | Stores and special project | Works | Transport | Others | Total |
|---|---|---|---|---|---|---|
| 2009-10 | 6,971 (47%) | 5,640 (38%) | 1,560 (11%) | 358 (3%) | 179 (1%) | **14,708** |
| 2010-11 | 6,856 (45%) | 5,775 (38%) | 1,692 (11%) | 620 (4%) | 236 (2%) | **15,179** |
| 2011-12 | 7,532 (44%) | 6,931 (40%) | 1,800 (10%) | 763 (4%) | 296 (2%) | **17,322** |

The flow of Capital and Revenue expenditure during the year 2011-12 is indicated below.




Scrutiny of expenditure revealed that there was a substantial increase in the Capital expenditure of the Indian Air Force in the month of December 2011. The Indian Air Force incurred about 18.21 *per cent* of the Capital expenditure in the month of December 2011 and 16.21 *per cent* in the March 2012 alone and 36.06 of the Capital expenditure in the last quarter of the financial year. This shows poor expenditure management by the Air Force which is in deviation from the guidance of the Ministry of Finance which states that expenditure during the month of March should be limited to 15 *per cent* of budget estimates, and the last quarter spending should not be more than one third of the budget. The flow of Revenue expenditure also fluctuated considerably over the months.

### 1.7.4 Indian Navy Expenditure

A broad summary of the expenditure of the Indian Navy is given in the Table below.

**Navy Expenditure**

**(₹ in crore)**

| Year | Total | Percentage change over previous year | As a percentage of total Defence Expenditure | Revenue | Capital |
|---|---|---|---|---|---|
| 2009-10 | 22,935 | (+)31.76 | 15.73 | 9,587 | 13,348 |
| 2010-11 | 27,285 | (+)18.96 | 17.19 | 10,145 | 17,140 |
| 2011-12 | 31,270 | (+)14.60 | 17.78 | 12,059 | 19,211 |

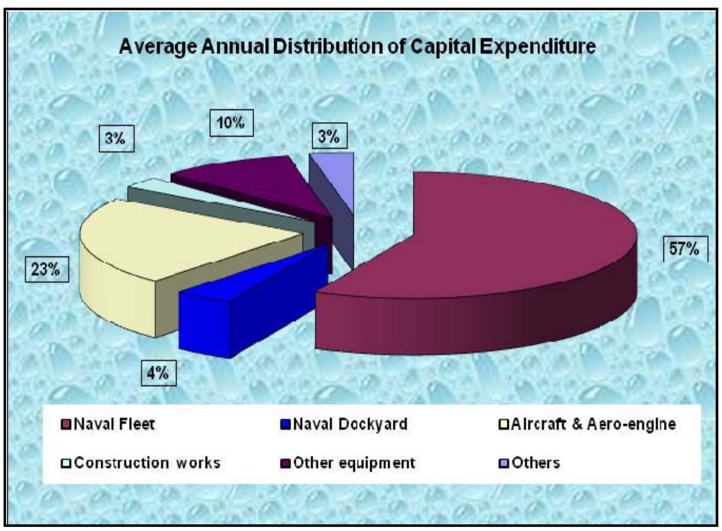
### 1.7.4.1 Capital Expenditure

The Capital expenditure of the Indian Navy increased by 12.08 *per cent* primarily on account of acquisition/construction/upgradation. The average annual distribution of expenditure over different categories for the last three years is depicted below in the Table as well as in the graph.

**Capital Expenditure**

**(₹ in crore)**

| Year | Naval Fleet | Naval Dockyard | Aircraft and Aero-engine | Const-ruction Works | Other Equip-ments | Others | Total |
|---|---|---|---|---|---|---|---|
| 2009-10 | 7,460 | 720 | 3,603 | 308 | 868 | 389 | 13,348 |
| 2010-11 | 10,620 | 720 | 3,187 | 637 | 1,578 | 398 | 17,140 |
| 2011-12 | 10,320 | 648 | 4,336 | 515 | 2,583 | 809 | 19,211 |




### 1.7.4.2 Revenue Expenditure

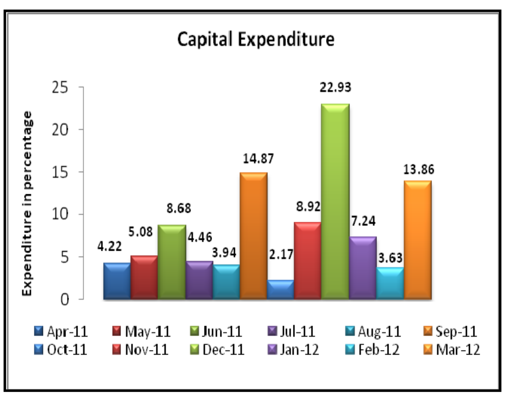
During 2009-10 to 2011-12, the Revenue expenditure of the Indian Navy increased by 25.78 *per cent* from ₹9,587 crore in 2009-10 to ₹12,059 crore in 2011-12. The Revenue expenditure of the Indian Navy was mainly incurred on stores and special project, transport, works, repairs and refit of aircraft carriers/frigates/other warships and pay and allowances. The average annual distribution of expenditure over different categories for the last three years is depicted below.

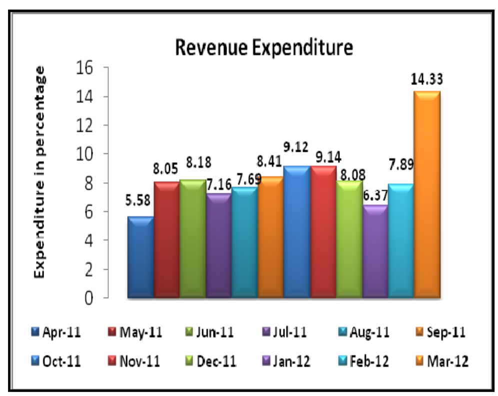
**Revenue Expenditure**

**(₹ in crore)**

| Year | Pay and allow-ances | Stores | Works | Trans-port | Repair/ Refit | Others | Total |
|---|---|---|---|---|---|---|---|
| **2009-10** | 3,971 (41%) | 2,957 (31%) | 645 (7%) | 233 (2%) | 572 (6%) | 1,209 (13%) | **9,587** |
| **2010-11** | 3,731 (37%) | 3,437 (34%) | 701 (7%) | 288 (2%) | 606 (6%) | 1,382 (14%) | **10,145** |
| **2011-12** | 4,508 (37%) | 4,173 (35%) | 763 (6%) | 353 (3%) | 768 (6%) | 1,494 (12%) | **12,059** |

The flow of capital and revenue expenditure during the year 2011-12 is indicated below.




Scrutiny of expenditure revealed that a substantial portion of capital expenditure was incurred by the Indian Navy in the month of December 2011. Navy incurred about 22.93 *per cent* of the capital expenditure in the month of December 2011 alone and 24.73 *per cent* of the capital expenditure in the last quarter of the financial year.

## 1.8 Coast Guard organisation

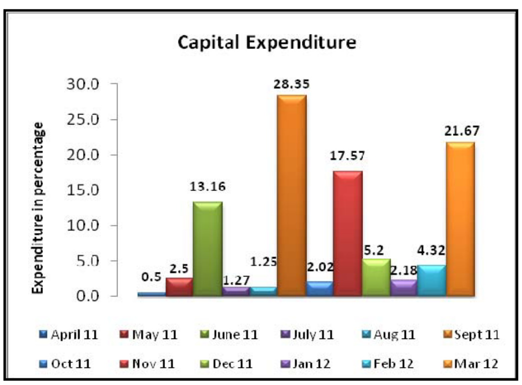
The budgetary allotments and expenditure incurred during 2009-10 to 2011-12 are tabulated below.

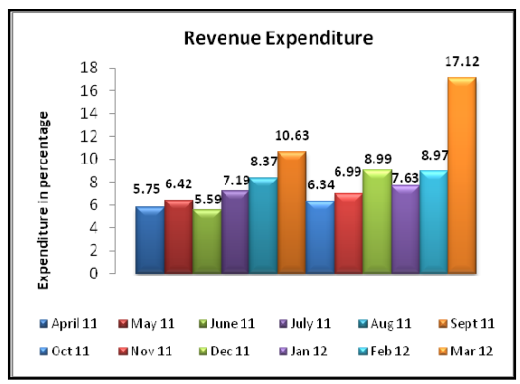
**Coast Guard Expenditure**

**(₹ in crore)**

| Year | Budget Estimates | | | Final Grant/ Appro-priation | Expenditure | | | Percent-age of BE which could not be utilised |
|---|---|---|---|---|---|---|---|---|
| | Capital | Revenue | Total | | Capital | Revenue | Total | |
| 2009-10 | 1,300.42 | 604.37 | 1,904.79 | 1,525.72 | 908.05 | 621.10 | 1,529.15 | 19.72 |
| 2010-11 | 1,100.00 | 882.45 | 1,982.45 | 2,016.06 | 1200.78 | 813.57 | 2,014.36 | (-) 01.61 |
| 2011-12 | 1,600.00 | 890.94 | 2,490.94 | 2,532.88 | 1,575.38 | 925.84 | 2,501.22 | (+) 0.41 |

The flow of Capital and Revenue expenditure during the year 2011-12 is indicated below.




Scrutiny of expenditure revealed that a substantial portion of Capital expenditure was incurred by the Coast Guard in the month of March 2012. The Coast Guard incurred about 21.67 *per cent* of the Capital expenditure in the month of March 2012 alone and 28.17 *per cent* of the capital in the last quarter of the financial year. This reflected poor expenditure management by the Coast Guard. Revenue expenditure also fluctuated considerably over the months.

## 1.9 Receipts of the Air Force, Navy and Coast Guard

The details of receipts and recoveries pertaining to the Indian Air Force and the Indian Navy and the Coast Guard during the three years ending 2011-12 for the services that they provided to other organisations/departments are given in the Table below.

**Revenue Receipt**

**(₹ in crore)**

| Year | Receipt and Recoveries in respect of Air Force | Receipt and Recoveries in respect of Navy | Receipt and Recoveries in respect of Coast Guard |
|---|---|---|---|
| 2009-10 | 468.13 | 241.30 | 31.09 |
| 2010-11 | 592.92 | 175.00 | 13.33 |
| 2011-12 | 619.38 | 200.00 | 06.73 |

## 1.10 Appropriation and expenditure

The summarised position of appropriation and expenditure during 2009-10 to 2011-12 in respect of the Air Force and the Navy is reflected in the Table below.

**Appropriation and Expenditure**

**(₹ in crore)**

| AIR FORCE | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Final Grant** | **Actual Expend-iture** | **Total Excess/ Savings (+) / (-)** | **Final Grant/** | **Actual Expend-iture** | **Total Excess/ Savings (+) / (-)** | **Final Grant/** | **Actual Expend-iture** | **Total Excess/ Savings (+) / (-)** |
| **REVENUE** | **2009-2010** | | | **2010-11** | | | **2011-12** | | |
| Voted | 15,271.84 | 14,707.05 | (-)564.79 | 15,802.41 | 15,177.70 | (-) 624.71 | 16,753.53 | 17,321.43 | (+)567.90 |
| Charged | 2.91 | 1.170 | (-)1.74 | 2.13 | 1.00 | (-) 1.13 | 3.23 | 0.58 | (-)2.65 |
| **CAPITAL** | | | | | | | | | |
| Voted | 18,624.97 | 18,542.76 | (-)82.21 | 23537.99 | 23575.91 | (+) 37.92 | 28,253.82 | 28,766.24 | (+)512.42 |
| Charged | 11.10 | 8.01 | (-)3.09 | 26.77 | 27.66 | (+) 0.89 | 51.36 | 45.84 | (-)5.52 |
| **Total** | **33,910.82** | **33,258.99** | (-) **651.83** | **39,369.30** | **38,782.27** | **(-) 587.03** | **45,061.94** | **46,134.09** | (+)1,072.15 |

| NAVY | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **REVENUE** | **2009-2010** | | | **2010-11** | | | **2011-12** | | |
| Voted | 9,435.70 | 9,586.21 | (+)150.51 | 10002.52 | 10141.36 | (+)138.84 | 12,335.02 | 12,057.82 | (-)277.2 |
| Charged | 4.23 | 0.88 | (-)3.35 | 7.45 | 3.33 | (-)4.12 | 11.91 | 0.91 | (-)11.00 |
| **CAPITAL** | | | | | | | | | |
| Voted | 13,284.33 | 13,272.36 | (-)11.97 | 16898.32 | 17136.09 | (+) 237.77 | 17,920.69 | 19,210.86 | (+)1,290.17 |
| Charged | 74.87 | 75.45 | (+) 0.58 | 6.95 | 4.08 | (-)2.87 | 1.45 | 0.66 | (-)0.79 |
| **Total** | **22,799.13** | **22,934.90** | **(+) 135.77** | **26915.24** | **27284.86** | **(+)369.62** | **30,269.07** | **31,270.25** | **(+)1,001.18** |

An analysis of the Appropriation Accounts, Defence Services for each of the three years has been included in the Report of the Comptroller and Auditor General of India for the relevant years, Union Government – Accounts of the Union Government.

## 1.11 Audit impact

### 1.11.1 Response of the Ministry to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee (PAC), the Ministry of Finance (Department of Expenditure) issued directions to all the 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 proposed for inclusion in this Report were forwarded to the Secretary, Ministry of Defence between January 2013 and August 2013 through demi-official letters drawing attention to the audit findings and requesting a response within six weeks.

Despite the instructions of the Ministry of Finance issued at the instance of the PAC, the Ministry did not furnish replies to 18 Paragraphs out of 29[1] Paragraphs included in this Report. Thus, the response of the Ministry could not be included in respect of these Paragraphs.

[1] The introductory remarks included in Chapter I of this Report were not forwarded to the Ministry for their comments.

### 1.11.2 Action Taken Notes on Audit Paragraphs of earlier Reports

With a view to enforce 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 laying of the Report in Parliament.

Review of outstanding ATNs on Audit Paragraph relating to the Air Force, Navy and Coast Guard as on 31 December 2013 showed that the Ministry had submitted the initial ATNs in respect of all Paragraphs included in the Audit Reports up to and for the year ended March 2011.

### 1.11.3 Outcome

Findings of earlier Reports have resulted in various procedural changes in Defence Procurement Procedure as well as systemic changes in operations of the audited entities. In addition, each year's audit also results in savings and recoveries. During 2009-10 to 2011-12, recoveries to the extent of ₹62.43 crore (₹2.09 core in respect of current Audit Report) and savings to the extent of ₹2.64 crore were effected at the instance of Audit.