CHAPTER IV: NAVY

Procurement/Contract Management

4.1 Inadequacies in the refit of a submarine

Failure on the part of IHQ MoD (Navy) to synchronise the procurement of spares with the refit of a submarine coupled with delay on the decision to procure 204 types of spares in 2006 affected the quality and completeness of the refit of the submarine. Besides, procurement of 89 spares at a later date led to an extra expenditure of ₹18 crore.

Availability of spares and yard material[1] in time is a critical factor for timely refit of naval platforms. As per provisions of a Relevant Order, all spares necessary for the refit are required to be made available, on the day the refit of the platform commences at the dockyard. However, scrutiny (May 2011 and September 2012) of procurement of Weapon and Equipment spares, necessary for refit of a submarine of the Indian Navy, revealed that spares were not procured in time which in turn had a fall out on the refit of the submarine. The details are discussed below:

The Medium Refit (MR) of a submarine commenced at Naval Dockyard, Visakhapatnam on 01 September 2004 to be completed in 36 months. Notwithstanding the fact that, as per provisions of a Relevant Order, the spares should be made available on the day the refit commences at the dockyard, the quantum of requirement of Weapon and Equipment spares for refit of the submarine was finalised and firmed up by the Directorate of Weapon Equipment (DWE) as late as February 2006 i.e. 17 months after the commencement of the refit in September 2004. This delay was also commented (February 2006) upon adversely by the Chief of Material (COM), Indian Navy.

[1] Yard material is the basic material used in the refit of a ship viz. steel plates, timber etc.

As part of the firming up of the requirement of spares, DWE, IHQ MoD (Navy) confirmed in February 2006, the requirement of 223 types of spares (later revised to 221 items) for satisfactory refit of the submarine. These spares were meant for mission critical equipment fitted onboard the submarine. The DWE, IHQ MoD (Navy) issued (March 2006), the Request for Proposal (RFP) on Limited Tender basis (LTE) to which only two firms responded (June 2006). M/s Admiralty Shipyards, Russia was found L-1 for 178 items and M/s Rosoboron Services (India) Ltd. [ROS(I)], was L-1 for 26 items. The total L-1 quotes for 204 items worked out to ₹56.76 crore. The quote of M/s Admiralty Shipyard was valid for six months, whereas, the quote of M/s ROS (I) was valid for four months. The proposal was forwarded (September 2006) to the Ministry of Defence for approval.

As the Ministry of Defence (Finance) found the quoted prices unreasonably high, it recommended, in January 2007, that the spares should be retendered. DWE, however, in February 2007 held that all the prospective suppliers for Russian items had been issued the RFP in March 2006 and that the re-tendering would only entail inordinate delay and increase in prices, which would adversely affect the MR of the submarine. The proposed procurement did not progress further till March 2007.

Thereafter, DWE in March 2007 projected a requirement of spares for four types of highly critical items. These spares, which were a part of the earlier recommended complete procurement, were identified as a bare minimum inescapable quantity for satisfactory completion of MR of the submarine. The requirement of these critical spares was projected separately owing to their urgency, as these were Sonar items which could be fitted on the submarine only during MR and when the submarine is in a dry dock condition. Accordingly, to avoid further delay, the Ministry of Defence agreed (June 2007) to constitute a Contract Negotiation Committee (CNC).

The CNC held in June 2007, accepted the rates quoted by M/s ROS (I) in June 2006, for the spares for four highly critical items. The case was, thereafter, forwarded to the Ministry of Defence (Finance) in the same month for concurrence. Meanwhile, the firm on the request of IHQ MoD (Navy) extended the validity of their quote till 31 July 2008. The Ministry further sought clarifications on several issues pertaining to the procurement. Finally, in July 2008, more than a year after receiving the proposal for procurement of spares, the Ministry decided to go in for re-tendering for all the 221 types of spares. Clearly, neither did the DWE heed the Ministry's advice of January 2007 to go for re-tender, nor did the Ministry reiterate their earlier decision to re-tender for about two years.

DWE, in February 2009, after more than six months of advice of the Ministry to go in for re-tender, issued an RFP to five firms on LTE basis. Only M/s ROS (I) quoted. However, M/s ROS (I) quoted for only 89 types of spares at a cost of ₹62.83 crore. In January 2010, the Ministry of Defence concluded a contract for supply of 89 types of spares for delivery by June 2011.

Meanwhile, the MR of the submarine was completed in January 2009 by using Minimum Stock Level (MSL) stocks; by resorting to cannibalisation of spares from old units and by carrying out repairs on unserviceable critical spares. Owing to this, the submarine experienced repeated failure of mission critical systems. The Weapon Equipment Depot (WED), Visakhapatnam intimated, in October 2012, that the Naval Dockyard, Visakhapatnam / Weapon Equipment Calibration Overhaul Repair Shop (WECORS) were of the opinion that the availability of new spares is a mandatory requirement for ensuring reliability of the mission critical systems onboard the submarine.

We observed (May 2011) that failure on the part of the Ministry of Defence and IHQ MoD (Navy) to sort out procurement related issues and avail the opportunity to procure 178 items of spares from M/s Admiralty Shipyards, Russia and 26 items of spares from M/s ROS (I), in June 2006, at a total cost of ₹56.76 crore, and subsequent procurement of only 89 items of spares at a cost of ₹54.67 crore from M/s ROS(I) in January 2010 i.e. one year after completion of the refit, also entailed an extra expenditure of ₹18 crore *vis a vis* the quoted rates for these 89 items in June 2006. These spares were being used to replenish MSL stocks at WED, Visakhapatnam.

The matter was referred (March 2013) to the Ministry. While accepting the facts, the Ministry of Defence attributed (October 2013) the delay in determination of requirement of spares for refit to the fact that the MR of the submarines was being undertaken in India for the first time. The Ministry further stated that although they had advised the DWE, IHQ MoD (Navy) in January 2007 to go in for retendering, however, keeping in view the criticality of spares especially those for dry dock phase, they accepted the proposal of the DWE, IHQ MoD (Navy) for conclusion of contract for these critical spares. However, the contract could not be concluded due to impasse on the status of M/s ROS (I). Subsequently, they had finally directed the DWE to retender the entire requirement of spares in February 2009. The Ministry added that the belated procurement of spares led to an extra expenditure of ₹18 crore, however, it was attributed to inflation / cost escalation in the intervening period of three years. The Ministry further stated that the mission critical systems onboard the submarine had performed satisfactorily after completion of MR.

The contention of the Ministry is, however, not acceptable as availability of spares is required to be ensured at the start of the refit and in the instant case the requirement of spares was firmed up by the Indian Navy two years after commencement of the refit. The Ministry's statement that there was no impasse between them and the Indian Navy on the former's advice to retender is not borne out by facts as the Indian Navy ultimately agreed to retender its requirement only in 2009 i.e. almost two years after the advice by the Ministry in 2007. The Ministry's further contention that the mission critical systems onboard did not experience repeated failure post refit is also at variance with the contention of the WECORS, Visakhapatnam, who attributed the repeated failures to usage of approximately 80 *per cent* repaired / refurbished spares in the MR of the submarine. Similarly, the argument of the Ministry that the extra expenditure of ₹18 crore is attributable to inflation / cost escalation is not acceptable as the procurement of the spares was necessarily required to be made in 2006 to meet the requirement of spares for the MR.

Thus, failure on the part of IHQ MoD (Navy) and the Ministry of Defence to synchronise the procurement of spares with the execution of refit of the submarine had an effect on the quality of refit undertaken as the Indian Navy was constrained to use refurbished and cannibalised items of spares. The forced usage of refurbished items in the refit also led to under performance of mission critical equipment fitted onboard the submarine. Besides, though spares were available at a cheaper price, in 2006, these were contracted for only in January 2010 resulting in an extra expenditure of ₹18 crore.

4.2 Non-functional Air-Conditioning Plant on a vital Naval asset

Acceptance of an Air Conditioning Plant for the only aircraft carrier of the Indian Navy without Factory Acceptance Trials led to its continued disuse since its installation in August 2009. The Plant continues to face a large number of defects and is yet to be commissioned, adversely affecting the habitability onboard. Besides, an expenditure of ₹1.94 crore incurred on procurement and installation of the AC Plant had proved unfruitful.

The Defence Procurement Manual (DPM) stipulates that the relevant technical parameters, as applicable, be specified in the Request for Proposal (RFP). These, *inter alia,* include the requirement of Factory Acceptance Trials (FATs), Harbour Acceptance Trials (HATs) and Sea Acceptance Trials (SATs). In contravention of the DPM provisions, an Air Conditioning (AC) Plant for the only aircraft carrier of the Indian Navy was accepted without FATs and has been non-functional since its installation in August 2009. The details are discussed below:

The AC Plants originally fitted onboard INS Viraat were facing problems of supportability due to their obsolescence. Based on a feasibility study undertaken in 2006, by Headquarters Western Naval Command (HQWNC) and INS Viraat, the replacement of installed AC Plants with M/s Kirolskar Pneumatic Company Limited (KPCL), Pune manufactured AC Plant (Model XRV-127) was recommended by HQWNC, in 2006, because of their indigenous availability and a possibility to achieve a standard fit as similar AC Plants were being fitted onboard the SNF class of ships.

Subsequently, based on the indent raised in July 2007 by Directorate of Logistics Support (DLS), IHQ MoD (Navy), the Directorate of Procurement (DPRO), IHQ MoD (Navy) in February 2008 placed a Supply Order on Proprietary Article Certificate (PAC) basis on M/s KPCL, Pune at a total cost of ₹ 5.71 crore for supply of two AC Plants including their installation and commissioning together with supply of Onboard Spares (OBS) and Base/Depot (B&D) spares.

The firm delivered (July-August 2008) both the AC Plants, OBS and installation spares. The installation of both these plants was undertaken by the firm during the Normal Refit (NR) of INS Viraat at Cochin Shipyard Limited (CSL), Kochi and the installation of both the AC Plants was completed in August 2009. The performance of one of the installed AC Plants i.e. 7F AC Plant (Forward Plant) was found to be satisfactory and it was successfully commissioned in September 2009. The performance of the first installed AC Plant i.e. 7N AC Plant (AFT Plant) was not found satisfactory in the initial trials undertaken in September-October 2009 and has not been commissioned so far i.e. about five years from its receipt in July 2008.

We observed (February 2013) that the tender enquiry floated by DPRO, in August 2007, did not provide for conduct of FATs, HATs and SATs on the AC Plants, even though as per provisions of DPM, they should be an integral part of any Request for Proposal (RFP) floated by any procuring authority for procurement of equipments. This issue was flagged only in Naval Logistics Committee (NLC)-I meetings held in December 2007 and January 2008 by the Professional Directorate i.e. Directorate of Marine Engineering, when the reasonability of the quotes was being discussed. The representative of the firm held that the FATs could not be carried out as special arrangements would have to be made. This would cost additional money and time, which had not been catered for or indicated in the tender enquiry. However, the representative of Principal Director Quality Assurance (Warship Production) expressed (January 2008) his reservations on acceptance of the plant without FATs as a new equipment was being inducted.

It was finally decided (February 2008) that

- No FATs would be undertaken by the firm for the first AC Plant and FATs will be conducted on the second AC Plant by the firm at their premises;

- Any discrepancy observed in the second AC Plant during FATs would be made good by the firm on the first AC plant as well. There will, however, be no change in delivery period for both the plants.

Subsequently, DPRO in February 2008 placed a supply order on M/s KPCL, Pune for procurement of two AC Plants together with their installation and commissioning etc. at a total cost of ₹5.71 crore (unit cost of AC Plant ₹1.67 crore). The supply order placed, *inter alia*, carried the clause regarding non-conduct of FATs on first AC Plant and conducting of FATs on second AC Plant etc. Though the firm did not initially agree to FATs, it ultimately agreed for FATs on the second plant.

We further noticed (February 2013) that the first AC Plant received, in July 2008 without FATs, was installed as 7N AC Plant (AFT Plant) onboard INS Viraat in August 2009 and was yet to be commissioned because of persistent defects. The representatives of the firm, after installation of the AC Plant, visited INS Viraat, at sea and while in subsequent refits [Normal Refit (NR) in 2008-09; Short Refit (SR) in 2010-11; and Normal Refit (NR) in 2012-13], to rectify the defects. However the defects could not be rectified till date. The problems with the AC Plant continue to persist, which adversely affected the habitability onboard INS Viraat. The second AC Plant installed, after conducting FATs, in August 2009 onboard INS Viraat is, however, working smoothly.

Meanwhile, the firm was paid the entire amount of ₹5.71 crore between July 2008 and January 2010 which included ₹1.67 crore towards cost of defective AC Plant and ₹0.27 crore towards its installation etc. We also noticed (March 2013) that the Work Completion Certificate in respect of AC Plant 7N AFT Plant), however, has not been issued so far to the firm as successful commissioning of the AC Plant has not taken place.

Thus, the performance of 7N AC Plant (AFT Plant), which was accepted and installed without FATs, continues to be unsatisfactory and has also not been exploited for about five years since its receipt. The AC Plant is yet to be proven; its non-availability has also affected the habitability onboard the only aircraft carrier of the Indian Navy. These problems have persisted despite the fact that INS Viraat has undergone three different refits during the intervening period and the firm has made a number of attempts to rectify these defects. Additionally, no tangible benefits have accrued from an investment of ₹1.94 crore made on the procurement and installation of the AC Plant and has proved unfruitful.

The draft paragraph was issued to the Ministry in June 2013; their reply was awaited (December 2013).

4.3 Extra expenditure in transportation of Arming Devices

Acceptance of change in delivery of 59 Arming Devices from CIP Mumbai airport basis to FOB ex-Italian port basis by CNC proved to be an injudicious decision and ultimately led to an extra expenditure of ₹73 lakh on the transportation of these devices.

The mode of delivery / transportation of armaments like other Defence Stores can either be Carriage and Insurance paid (CIP) or Cost, Insurance and Freight (CIF) or Free on Board (FOB) basis. The mode of delivery / transportation is decided in keeping with the essence of the contract i.e. the urgency of the requirement of stores. The mode of delivery is required to be decided before floating the Request for Proposal (RFP) and clearly indicated therein. The mode of transportation is also required to be indicated in the RFP.

Based on the requirement projected, in January 2008, by the Naval Armament Depot (NAD) Mumbai, Director General of Naval Armaments (DGONA) in November 2008, accorded "Acceptance in Principle" for procurement of 59 Arming Devices (Devices) for torpedoes "X" from M/s WASS, Italy at a total cost of Euro 677,145.36 FOB ex-Italian port. The unit cost of these devices at Euro 11,477.04 was based on the budgetary offer of the firm made in November 2007. DGONA, IHQ MoD (Navy), in January 2009, issued the Request for Proposal (RFP) on Proprietary Article Certificate (PAC) basis to M/s WASS, Italy. The firm, in February 2009, quoted Euro 797,459.72 for supply of 59 devices (unit price Euro 13,516.27) for delivery on Carriage and Insurance paid (CIP) ex-Mumbai airport basis.

The Contract Negotiation Committee (CNC), in April 2009, found the price to be very high. However, the representative of the firm clarified that the per unit quote of Euro 11,477.04 of the firm made in 2007 was for delivery on Free on Board (FOB) ex-Italian port basis. The representative of the firm requested the CNC to consider delivery of devices FOB ex-Italian port instead of CIP ex-Mumbai airport, for which the firm *suo moto* offered to revise their quote. The CNC agreed to the proposal of the firm for supply of devices FOB ex-Italian port, eventhough, the RFP floated catered for supply of devices on CIP ex-Mumbai airport basis. On acceptance of their proposal, the firm offered to supply the devices FOB ex-Italian port at a unit price of Euro 11,477.04 (November 2007 quoted price). Thereafter, the quote offered by the firm was negotiated by the CNC and ultimately the firm agreed to supply devices at a unit price of Euro 10,000 FOB ex-Italian port. Subsequently, DGONA IHQ MoD (Navy), in June 2009, concluded a contract with M/s WASS, Italy for supply of 59 Arming Devices at a total cost of Euro 590,000 (₹3.79 crore[2]) for delivery on FOB ex-Italian port basis.

The shipping of these devices from the Italian port was entrusted to the Shipping Corporation of India Ltd. The devices were shipped on 30 October 2010 and reached Embarkation Headquarters, Mumbai in mid-November 2010. A payment of USD 320,000 (₹1.51 crore[3]) was made to the Shipping Corporation of India Ltd. in December 2010 towards freight charges of the devices.

Our scrutiny (February 2012) revealed that acceptance of change in deliveries of the devices from CIP Mumbai airport basis to FOB Italian port basis by the CNC proved to be an injudicious decision which ultimately led to an additional expenditure of ₹73 lakh. The details are discussed below:

The quote of the firm of February 2009 at Euro 797,459.93[4] for supply of 59 devices was on CIP Mumbai airport basis and the firm during CNC

2 1 Euro = ₹ 64.25
3 1 USD = ₹/ 47.19
4 Unit Cost of Arming Devices = Euro 13516.27

meeting, in April 2009, *suo moto* offered the revised cost of Euro 677,145.36[5] for supply of the devices provided the deliveries are affected on FOB Italian port basis. The cost differential of Euro 120,314.57 (Euro 797,459.93 *minus* Euro 677,145.36) equivalent to ₹77.30 lakh[6] was, therefore, for freight and insurance. This is further borne out from the fact that the subsequent reduction in unit cost of devices to Euro 10,000 was achieved by the CNC after the port of delivery had been decided. Therefore, the reduction in per unit cost from Euro 11,477.04 to Euro 10,000 related to the cost of devices only and not to the freight.

Against an available option from the firm to transport the devices under insurance cover at ₹77.30 lakh, DGONA IHQ MoD (Navy) ultimately paid ₹1.51 crore to Shipping Corporation of India Ltd. towards the freight of 59 devices. This led to an additional expenditure of ₹73 lakh, Further, the arming devices were ferried without insurance cover.

Accepting the Audit observation (February 2012), Principal Director of Naval Armaments (PDONA) stated (March 2012) that due to change of delivery Port, Indian Navy incurred an additional amount. The PDONA further stated that the procurement of such explosives was being made for the first time and CNC accepted the change in delivery to FOB basis without having any idea of implications of arranging transportation through the Ministry of Shipping viz. Shipping Corporation of India Ltd.

Thus, lack of due diligence in determining the transportation cost of devices from Italy to India ultimately led to an extra expenditure of ₹73 lakh in procurement of 59 Arming Devices.

The draft paragraph was issued to the Ministry in February 2013; their reply was awaited (December 2013).

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[5] Unit Cost of Arming Devices = Euro 11477.04

[6] 1 Euro = ₹ 64.25

4.4 Avoidable extra expenditure due to procurement of coffee at a higher rate

Lack of communication regarding price of coffee/vendor details, between Commands prior to issuance of tender notice by Headquarters Eastern Naval Command, Visakhapatnam was in contravention of rules/ instructions laid down by Integrated Headquarters, Ministry of Defence (Navy). This coupled with delay in conclusion of contract resulted in extra expenditure of ₹53.40 lakh.

One of the conditions stipulated in the Guidelines issued by Integrated Headquarters, Ministry of Defence (Navy) [IHQ MoD (Navy)] of November 2006, for decentralization for purchase of victualling stores was that information on brands chosen and pricing be exchanged between the Command Headquarters / Base Victualling Officers of all Stations. These Guidelines were however not followed by Headquarters Eastern Naval Command, Vishakapatnam [HQ ENC (V)] thereby resulting in extra expenditure of ₹53.40 lakh as given below:

In January 2010 HQ ENC (V) floated an Open Tender Enquiry (OTE) for the supply of 10,000 Kgs of Coffee (100 %) at the Base Victualling Yard, Visakhapatnam [BVY (V)] for the period from 01 April 2010 to 31 March 2011. Eight firms collected the tenders, of which four firms did not quote. Of the remaining four firms, who participated in the tender procedure, the quote of M/s Kendriya Bhandar was rejected as the samples contained coffee-chicory mix which was not as per specifications laid down in the tender document. M/s Nestle, Chennai emerged L1 at ₹880 per Kg coffee (Brand-Nescafe Classic) and accordingly Rate Contract (RC) was concluded (March 2010) by HQ ENC (V) with M/s Nestle India Ltd., Chennai for ₹88 lakh for 10,000 Kgs of Coffee (100%).

We noticed in Audit (August 2012) that for the same period i.e. 01 April 2010 to 31 March 2011, Headquarters Western Naval Command, Mumbai [HQ WNC (MB)] had concluded (April 2010) a contract with M/s CCL Products (India) Pvt. Ltd., Hyderabad for the Continental brand of Coffee

(100%) at 435 per Kg i.e. at half the rate as compared to HQ ENC (V). Our scrutiny showed that HQ ENC (V) did not call for rates and the brand name from HQ WNC (MB) though this was required to have been done as per the IHQ Guidelines of November 2006.

Further scrutiny revealed that in November 2010, in view of the impending expiry of the said RC, a fresh OTE was floated by HQ ENC (V) for the next year i.e. from 01 April 2011 to 30 March 2012, inviting bids for supply of Coffee in two types of packs viz 500 gms and 50 gms, for an estimated quantity of 12,000 Kgs and 2,000 Kgs respectively.

The Technical Board approved 'Nestle Classic' brand quoted by both: M/s Nestle who was the L1 for 500 gm pack at ₹880 per Kg and M/s Indian Naval Canteen Services for 50 gm pack at ₹1150 per Kg. However these rates were considered to be very high and this time, HQ ENC (V) made enquiries with HQ WNC (MB) and Headquarters Southern Naval Command, Kochi [HQ SNC (K)] to compare the rates. It was only then did HQ ENC (V) become aware of M/s CCL Products Pvt. Ltd., Hyderabad who was registered with HQ WNC (MB).

Accordingly when in July 2011, ENC (V) re-tendered on OTE basis for supply of Coffee for 2011-2012, M/s CCL Products Pvt. Ltd., Hyderabad also participated in the TE and emerged as L1 at ₹516 per Kg for 500 gm pack and ₹525 per Kg for 50 gm pack. Had there been a similar exchange of information between Commands during the previous year (2010-2011), the conclusion of contract by HQ ENC (V) at double the rate as compared to HQ WNC (MB) could have been avoided.

Meanwhile, in anticipation of delay in conclusion of this RC, BVY (V) resorted to local purchase and procured 2,000 Kgs of Coffee at ₹880 per Kg from M/s Nestle India Ltd., Chennai at a total cost of ₹17.60 lakh between the period April 2011 and September 2011.

The matter was referred (April 2013) to the Ministry of Defence. In its reply Ministry stated (November 2013) that HQ ENC (V) had concluded the contract with M/s CCL Products Pvt. Ltd., Hyderabad, for the period 2010-11 on 08 March 2010, while HQ WNC concluded contract for the same period on 27 April 2010, and thus HQ ENC concluded the contract well before HQ WNC and therefore price information could not be exchanged. Ministry also stated that though HQ ENC resorted to open tender for procurement of coffee; M/s CCL Products Pvt. Ltd., Hyderabad did not respond. Ministry contended that procurement of coffee from M/s Nestle in 2010-11 was as per existing regulations and DPM provisions, at competitive prices.

The reply of the Ministry is however not acceptable. The Ministry's contention that HQ WNC had concluded a contract after HQ ENC is incorrect as M/s CCL Products Pvt. Ltd., Hyderabad was registered with HQ WNC since the year 2009 and a contract for 2009-10 was also concluded by HQ WNC with them in May 2009. However, exchange of information between the Command Headquarters on brands/prices did not take place, though it was a requirement. Further, Ministry's reply that M/s CCL Products Pvt. Ltd., Hyderabad did not participate in tender for procurement of coffee in 2010-11, has to be seen in the light of the fact that OTE for this procurement restricted the response only to specified brands of Nescafe, Sunrise, Nestle and Tata Cafe. In such scenario, M/s CCL Products Pvt. Ltd., Hyderabad could not have bid. Ministry's contention that procurement of coffee from M/s Nestle in 2010-11 was as per the existing regulations and DPM provisions, at competitive prices, is also incorrect, as DPM precludes references to brand names in the RFP. This resulted in an extra expenditure of ₹53.40 lakh.

Thus lack of timely communication between the Commands and ensuring the price reasonability before conclusion of the contract for local purchase led to an extra expenditure of ₹53.40 lakh which could have been avoided.

4.5 Irregular refund of liquidated damages of ₹37.98 crore

In contravention of contractual conditions, IHQ, MoD (Navy) did not revise the delivery dates in a contract and instead advised the PCDA (Navy) to release the liquidated damages of ₹37.98 crore which was not in order.

Government of India, Ministry of Defence accorded (December 2006) sanction for acquisition of Six Survey Vessels to be constructed at Alcock

Ashdown (Gujarat) Limited (M/s AAGL), at a total cost of ₹797.81 crore. Accordingly, a contract for construction and delivery of these survey vessels was concluded (December 2006). As per the contract conditions, the first vessel was to be delivered within 24 months from the date of receipt of first stage payment in March 2007 and subsequent vessels were to be delivered at an interval of three months each (i.e. March 2009 and at an interval of three months thereafter).

The contract, *inter alia,* provided imposition of liquidated damages (LD) in the event of delayed deliveries of the vessels. Our scrutiny (February 2012) revealed that even though LD was recovered by Principal Controller of Defence Accounts (Navy) [PCDA(N)] on the basis of the contractual provisions, this was subsequently refunded on the direction of the Navy. Details are given in the subsequent paragraphs.

Article 10.6.1 of the contract specified that M/s AAGL shall submit a consolidated case to the Navy through the Warship Overseeing Team, Bhavnagar (WOT, Bhavnagar) showing the effect of delays due to the causes specified such as delays in approval of drawings, delay in issue of ordering instructions by the Navy and delay in placement of orders by M/s AAGL etc. Article 10.6.8 stipulated that the Navy shall undertake the review and analysis of these delays promptly and record the decisions taken, including with regard to the revised cardinal dates[7] (revised dates of delivery). All such revised cardinal dates shall be compiled at IHQ, MoD (Navy) and a consolidated amendment to the contract to be issued at least three months before the delivery indicated in the contract.

The contract also specified under Article 13.2 that, in the event of the failure of M/s AAGL to deliver the vessels by the date/ dates specified in the contract, the Navy could impose LD subject to a maximum of five *per cent* of the value of the delayed vessels.

Our scrutiny (February 2012) revealed that delivery of vessels was delayed and the Shipyard proposed revision of delivery schedule as many as five times as given below:

[7] Cardinal dates : delivery dates of the vessels as per Contract

Sl. No.	Yard	Contractual Delivery	Revised delivery May 2010	Revised delivery September 2010	Revised delivery March 2011	Revised delivery December 2011	Revised delivery March 2012
(a)	257	Mar 09	Jun 10	Mar 11	Sep 11	Apr 11	Jun 12
(b)	258	Jun 09	Sep 10	May 11	Dec 11	Oct 12	Mar 13
(c)	259	Sep 09	Dec 10	Nov 11	Jun 12	Oct 13	Dec 13
(d)	260	Dec 09	Mar 11	Feb 12	Sep 12	Jan 14	Jun 14
(e)	261	Mar 10	Jun 11	May 12	Dec 12	Apr 14	Sep 14
(f)	262	Jun 10	Sep 11	Aug 12	Mar 12	Jul 14	Dec 14

Thus, as can be seen from the Table that even after a number of revisions and delays in delivery of vessels ranging from over three to four and a half years, there was no formal amendment to the contract. On the contrary, Navy's stand led to refund of already imposed LD amounting to ₹37.98 crore as narrated below:

i. Since the survey vessel was not delivered within the stipulated date (March 2009) and in the absence of any extension, the PCDA (N) deducted an amount of ₹27 crore in April 2010 by way of LD from the stage payments.

ii. However, in June 2010 IHQ MoD (Navy) requested PCDA (N) to refund the LD, stating that the shipyard had been facing financial difficulties and was dependent on the stage payments to fund the project. It was further stated (June 2010) that the case for delivery period extension was parallely being taken up with Ministry of Defence and requested that LD be imposed after successful completion of the project. PCDA (N), thereafter released the LD payment of ₹27 crore in June 2010.

iii. PCDA (N) again deducted an amount of ₹10.98 crore as LD in February 2011 as the vessels have not been delivered and delivery schedule was not extended. IHQ MoD (Navy) in March 2011 in a letter to PCDA (N) again requested that the imposition of LD prior to completion of project would hamper the completion of the construction and further delay the delivery. The basis for the request of release of LD was stated to be that formulation of quantum of LD to be imposed would be taken up on completion of the project.

iv. Based on IHQ, MoD (Navy) assurance that two vessels were likely to be delivered by January 2012 and April 2012, PCDA (N) refunded ₹10.98 crore to M/s AAGL in November 2011.

We observed (February 2012) that IHQ, MoD (Navy) did not amend the contract to bring about contractual changes to the delivery period after working out quantum of responsibility to either Navy or M/s AAGL. The refund of LD not only lacked justification but also resulted in undue favour to the Shipbuilder as M/s AAGL had continued to default even on the revised delivery dates proposed by them.

As of October 2013, out of six vessels only one had been delivered and the remaining five were in various stages of completion. We also observed that in view of the poor performance of the contractor and delays, a proposal for foreclosure of the contract had been moved by the shipyard (September 2013) and was under consideration of the Ministry of Defence (November 2013).

In reply to our observations (March 2012) WOT, Bhavnagar, stated (May 2012) that it was considered prudent to determine the exact quantum of delay, post delivery of vessel as only then the exact attributability of delays could be determined. Navy also justified their stand (May 2012) by stating that the last two stage payments i.e. stage XI and stage XII are linked to delivery and warranty (10% and 15 % of price) on which five *per cent* LD could be imposed.

The reply given is not acceptable as imposition of LD after delivery is not as per the Contract provisions. Further as per Clause 5.2.1.2 of the contract the Last Stage payment may be claimed with Stage XI only against Bank Guarantee. However the Bank Guarantees had also expired as of July 2011. Since termination of the contract was under consideration with most vessels not reaching Stage XI and XII, the possibility of recovery of LD was remote.

Thus, inability to enforce contractual terms and conditions by the Navy led to irregular refund of ₹37.98 crore with corresponding financial benefit to the defaulting shipyard.

The draft paragraph was issued to the Ministry (June 2013), their reply was awaited (December 2013).

4.6 Unfruitful expenditure of ₹33.91 crore on Maintenance Dredging

Headquarters, Western Naval Command concluded a contract for dredging of naval channels at an exorbitantly high cost. Tendering and the conclusion of the contract was delayed leading to dredging during monsoon, which led to incurring of an unfruitful expenditure of ₹33.91 crore.

Maintenance Dredging is an annual activity undertaken to maintain a minimum depth in Naval channels and areas for the safe navigation of ships, submarines and other crafts and was being offloaded[8] to the trade every year, by Navy. As the dredged area fills back, dredging during monsoon was not a viable activity. Every year after the monsoon, the harbour at Mumbai required dredging to maintain its depth.

Our scrutiny (July 2012) of the dredging contract concluded between Headquarters, Western Naval Command, Mumbai (HQWNC) and M/s Dharti Dredging and Infrastructure Limited for the year 2010 showed that not only were the rates accepted for dredging very high, there were also delays in tendering and conclusion of contract which led to non-dredging for a year in 2009-10. In the following year (2010-11) dredging was resorted to during peak monsoon, rendering the exercise unfruitful. Details are given below:

After the dredging in Mumbai Naval Areas were conducted in March 2009; HQWNC initiated action for Maintenance Dredging for the years 2009-10 and 2010-11 through open tender. Tenders were called for on 24 August 2009. The tender notice of August 2009 categorically stated that Companies capable of undertaking Annual Maintenance Dredging, should commence dredging in

[8] Offloading : work handed over to trade when in-house facilities are not available .

the first week of October but not later than 01 November each year for the years 2009-10 and 2010-11. Thus, for both the years, dredging was to commence post monsoon only. Since the dredging was to commence latest by November 2009, calling for tenders in August 2009 was belated as it provided a timeline of less than three months for the process of receipt, technical and commercial evaluation of bids; award of contract, positioning of the dredger and start of dredging by the selected contractor.

Since no bids were received within the due date, three extensions for the tender closing date were approved which were 14 October, 4 November and 16 December 2009. One bid was received during second extension and in the third extension (December 2009) one more bid was received. However, it was observed (July 2012) that the extension of time for submission of bids itself was beyond the RFP stipulated period of start of the dredging. Thus, from the second extension onwards, any offer received would have been in deviation of the RFP conditions for the start and completion of dredging.

During technical evaluation (December 2009) the bid of M/s Meka Dredging was found to be non-compliant and was rejected. This made the offer of M/s Dharti Dredging a resultant single tender and Technical Evaluation Committee (TEC) report was forwarded to IHQ, MoD (Navy) in December 2009. While approving the TEC Report the Ministry returned the case to HQWNC for further necessary action (March 2010) as it had delegated (February 2010) full powers to C-in-C of the Command Headquarters for sanctioning Maintenance Dredging.

Subsequently, the commercial quote of the resultant single bidder was opened at HQWNC (March 2010). However, the rates were exorbitantly high as the rates of the firm worked out to ₹345 per cubic meter (cu.m.) as against the rates for years 2008-09 which were ₹66 per cu.m. Therefore, extensive price negotiations were conducted in April 2010 and May 2010. During negotiations, the firm reduced the quoted rate from ₹345 per cu.m. to ₹250 per cu.m. Even this rate was considerably higher than the rates accepted by Navy at Visakhapatnam and Kochi at ₹161 per cu.m. and ₹135 per cu.m. respectively.

After negotiations, the PNC recommended to HQWNC (May 2010) the finally accepted rate of ₹250 per cu.m at a total contract value of ₹80.24 crore solely on the condition that despite two extensions, only one technically acceptable bidder had emerged and that option of re-tendering was not considered due to the critical requirement of completing dredging before monsoon.

We observed that the PNC was held in May 2010, when monsoon was barely weeks away from its onset, and after the period mentioned in the RFP for completing the dredging was already over. Thus, Mumbai Naval area went without dredging during year 2009.

Letter of intent for maintenance dredging at Naval tidal basin Mumbai for the years 2010-2011 and 2011-2012 was placed (May 2010) on M/s Dharti Dredging for a contract value of ₹80.24 crore. As per letter of intent the work was to commence in May 2010 and completed by July 2010. The firm, however, actually carried out the dredging from May till 20 August 2010 i.e. during the monsoon. Payment of ₹33.91 crore was made for the dredged area of 10 lakh cu.m. However, since the dredging took place during monsoon, it did not serve the intended purpose.

Thus, belated issue of limited response to RFP, delays in contract negotiations and operational necessity for dredging to maintain operational depths, led to a situation wherein the resultant single bid with very high rates had to be accepted. More importantly, the dredging had to be carried out during peak monsoon, rendering the expenditure unfruitful.

HQWNC, Mumbai accepted (April 2013) that dredging took place during monsoon and that it could not be undertaken in 2009-10. HQWNC attributed it to inordinate delays in protracted financial procedures. It was also stated that HQWNC was left with no choice but to undertake dredging after the onset of monsoon due to reduced depths. Further, HQWNC stated (August 2013) that RFP for the year 2009-10 was delayed due to the time lost in taking up the matter for undertaking dredging under the option clause and the case for Maintenance Dredging for three years was already resting with MoD /IHQ which caused further delay.

The reply of the HQWNC with regard to option clause and pendency of the case with the Ministry are factually incorrect as there is no option clause in the previous dredging contract and no case for Maintenance Dredging was pending with the Ministry at the time of issue of RFP for dredging during 2009-10.

Our further scrutiny (March 2013) revealed that dredging for the next year had to commence immediately in February 2011 i.e. within six months of the previous dredging, which clearly indicated that dredging in monsoon had not served its purpose and the expenditure incurred was sub-optimal.

In sum, due to delays, the dredging in Naval areas of Mumbai could not be conducted during the year 2009. Thereafter, the dredging was conducted during the peak monsoon of year 2010 which led to an unfruitful expenditure of ₹33.91 crore.

The draft paragraph was issued to the Ministry (May 2013), their reply was awaited (December 2013).

Works Services

4.7 Unauthorised sanction of a Shopping Complex at Naval Station Karanja

A Shopping Complex at Naval Station, Karanja was created at an estimated cost of ₹2.87 crore in contravention to the provisions of Scales of Accommodation for Defence Services (SADS) 1983.

Works services in Defence Services are to be sanctioned and executed as per provisions contained in the Scales of Accommodation for Defences Services 1983 (SOA). Audit however observed (March 2012) that construction of a shopping complex at Naval Station, Karanja, sanctioned at a cost of ₹2.87 crore by Headquarters Western Naval Command (HQWNC) was not in consonance with the prescribed rules.

In October 2007 HQWNC, Mumbai gave directives for convening a meeting of the Board of Officers (Board) to examine the requirement of a Station Shopping Complex at Naval Station, Karanja. Accordingly in February 2008 the Board assembled and recommended construction of a two storey building with an area of 1438.96 sq.mt. The aim of the construction was to meet the deficient requirement of Shopping Area at Karanja. The Board noted that existing population of Naval Station at Karanja was 19,000 consisting of service and defence civilian population, which was likely to be increased to 28,000 in future due to anticipated shifting of Naval Units/Establishments to Karanja. The Board opined that existing shopping complex was deficient in meeting the needs of increased population. The Board assessed the troop strength of Karanja at 4,586 troops.

In March 2009 HQWNC accepted the necessity for the work and accorded Administrative Approval for the 'Provision of Shopping Complex at Naval Station, Karanja' at an estimated cost of ₹2.82 crore. In February 2010, Chief Engineer (Navy) Mumbai concluded a contract with M/s Hem Construction Co. Mumbai for ₹2.76 crore. Construction was completed in May 2011 at a total cost of ₹2.87 crore. Navy took over the building in July 2011.

Under the provisions of SOA 1983, a shopping centre may be provided at military stations wherein the opinion of General Officer Commanding or equivalent, no civil shopping facility existed within a reasonable distance. The scales of accommodation were to be based on troops strength of the station.

SOA 1983 authorised that a shopping centre may be provided with an area of 552 sq.mt only for 4,586 troops. As against this HQWNC sanctioned a shopping complex with an area of 1438.96 sq.mt. which was beyond their delegated powers. HQWNC sanctioned a new shopping complex by projecting total population arrived at by multiplying the troops strength by five. The number of troops of 4,586 itself was also doubtful as this included ex-servicemen (253) and other defence civilians also.

With a 'troop strength' of 4,586 as projected in the Board, the authorised area worked out to 552 sqr.mt against which, Audit scrutiny revealed that 654 sq.mt. shopping complex were already existing at NAD Bazar and Chunabhatti Bazar. Thus the construction of a new shopping complex was not warranted.

Further Audit scrutiny (January 2013) also revealed that allotment of shops in the shopping complex was in contravention of SOA 1983. It was noticed that two store rooms (68 sq.mt.) were used as liquor section of Station Canteen, the first floor (284 sq.mt.) was used as Grocery Section of Station Canteen and the vacant Second floor was used as stores of Station Canteen since August 2011. This was notwithstanding the fact that the liquor and the Grocery Canteens already existed in the building next to the new shopping complex. Use of shopping complex for station canteen was unauthorized.

HQWNC in its reply (November 2012) did not accept the Audit observation and stated that the requirement for the new shopping complex was based on the station strength including families which would have required a new shopping complex of 2082.90 sq.mt. against which a new shopping centre of 1428.96 sq.mt. only was constructed since Karanja already had a shopping complex of 654 sq.mt. They further added that total strength was obtained by multiplying the troop strength by five in the spirit of Ministry of Defence guidelines dated 4 January 2001. HQWNC also stated that re-appropriation of shops for station canteen was a temporary measure.

The contention is, however, not acceptable as construction of new shopping complex by HQWNC was unwarranted in terms of the scales provided in SOA 1983. Further, the contention that use of shopping complex for stations canteen was temporary is unacceptable, as the same is not permissible. Further, the contention that total strength of the station derived was based on Ministry's guidelines is incorrect as the said guidelines refer to continuation of the existing shopping complexes/ new complex created on Defence land out of Non-public funds and not to either the troop strength or strength of the station as stated by HQWNC.

The draft paragraph was issued to the Ministry (January 2013); their reply was awaited (December 2013).

4.8 Unfruitful expenditure on construction of a Hangar

Even after a lapse of more than a decade, the operational requirement at INS Rajali for an additional hangar since the year 2000, could not be met due to improper selection of the contractor and faulty design of the structure which resulted in an unfruitful expenditure of ₹6.72 crore. Besides, the aircraft and aircraft maintenance continued to suffer due to non-availability of the hangar.

Base Support Facilities (BSF), Arakkonam at Naval Air Station, INS Rajali is a maintenance establishment (IInd/IIIrd line support) of the aviation arm of the Indian Navy. TU-142M, a Russian make aircraft is the largest propeller aircraft in South Asia and operates from this Air Station. The entire fleet of the TU-142M consists of 'X' number of aircraft for which only one hangar was available for carrying out maintenance activities. This was considered to be grossly inadequate by the BSF, INS Rajali.

Accordingly, HQ Eastern Naval Command, Vishakapatnam convened (April 2000) a Board of Officers (Board) to examine and recommend an additional hangar and the Board recommended (March 2001) construction of an additional hangar to meet additional servicing requirements of TU-142 M. Accordingly, the Government of India sanctioned the work of construction of an additional hangar in March 2003 at an estimated cost of ₹7.60 crore. However it was observed that despite more than a decade from the projection of the requirement, the work was still not complete (October 2013). We noticed (January 2012) substantial delays, improper selection of firm, poor contract management including design deficiencies relating to the work, leading to collapse of incomplete hangar, as a consequence of which the operational requirement was still unmet. The details are given below:

I. Delay in completion of the work

Though the item of work i.e. provision of an additional hangar at NAS, INS Rajali was considered an operational requirement, the work could not be tendered successfully. As brought out in the table below, the work was put to tender as many as seven times before it could be awarded successfully.

Sanction date	**Sanction amount ₹ in crore**	**No. of tenders issued**	**Tender receipt date**	**No. of quotes received**	**L1 firm**	**L1 quote ₹ in crore**	**Reasons for re-tendering**
1	2	3	4	5	6	7	8
March 2003	7.60	10	December 2004	2	M/s VTC Engg	11.98	Not accepted due to high rate in 1st call
March 2003	7.60	6	March 2005	5	M/s VTC Engg	10.28	Refusal to extend validity
The Administrative Approval had to be revised in March 2006 to ₹ 10.78 crore							
March 2006	10.78	7	July 2006	3	M/s VTC Engg	13.80	Unjustifiable rate
March 2006	10.78	10	December 2006	2	M/s VTC Engg	13.37	Lack of competition
March 2006	10.78	10	April 2007	1	M/s VTC Engg	14.63	Rates not reasonable
The Administrative Approval had to be revised in November 2007 to ₹ 11.87 crore and also to reflect the change in design to Pre Engineered Building (PEB) to ensure speedy work.							
November 2007	11.87	8	April 2008	4	M/s VTC Engg	13.10	Quote was more than A/A amount
November 2007	11.87	12	August 2008	5	M/s Vardhman Precision	11.80	Contract awarded

As seen from the Table above, the tender process for this work commenced in December 2004 and continued for almost four years till August 2008. The work was inordinately delayed due to various reasons indicating, *inter alia*, high rates, non-extension of validity by L1 firm, lack of competition, unjustified rate or the quote being more than the Administrative Approval. In the process, it took four years to finalise the firm and award work besides the increase in sanctioned cost from ₹7.60 crore to ₹11.87 crore.

II. Incorrect selection of contractor and poor contract management

The revised Administrative Approval (November 2007) for ₹11.87 crore was necessitated as the Chief Engineer (Navy), Vishakhapatnam [(CE) (N) (V)] in April 2007 had projected that Pre Engineered Building (PEB) structure instead of conventional RCC framed structure would be desirable and would lead to better competition, early execution leading to avoiding of cost and time overruns, better finishing and modern specification in line with the latest technology. It was also stated that as PEB structure was time tested, simple and of the latest technology, and would lead to execution of work in a faster time frame and avoid further delays because the hangar was an urgent operational requirement.

Finally, in May - June 2008, 12 tenders were issued for the provision of an additional hangar and the PEB system, against which five offers were received, with M/s Vardhman Precision Profiles and Tubes Pvt. Ltd., New Delhi (M/s VPPT) emerging as L1 at ₹11.80 crore. The contract was concluded in August 2008 with M/s VPPT for a sum of ₹11.61 crore, with dates of commencement and completion of work as 01 September 2008 and 30 November 2009 respectively.

Our examination (January/February 2012) showed that selection of M/s. VPPT was done without proper scrutiny as is given in the subsequent paragraphs.

(a) Improper and irregular selection of a firm

M/s VPPT was not an enlisted Contractor with the MES. To generate more competition the CE (N) (V) in February 2008 recommended to HQ Chief Engineer, Southern Command, Pune (HQ, CE SC) to issue tender documents to an un-enlisted firm M/s VPPT to get better competition. The CE (N) (V) was confident that should this firm be the lowest bidder for the work, it could be ensured that the firm completed the work with quality and speed.

Accordingly, in February 2008, HQ CE SC, Pune permitted issue of tender documents to two un-enlisted firms namely M/s VPPT, New Delhi and M/s Surface Tech (India) Pvt. Ltd. as well. Audit scrutiny (January - February 2012) showed that:

- ✓ As per the MES Manual on Contracts, the criteria for enlisting a fresh contractor for a project with an upper tendering limit of ₹12 crore i.e. Class 'S', was that the contractor should have completed two works each costing not less than ₹4.5 crore or one work costing not less than ₹6 crore for Government Department. Our scrutiny of documents (January/February 2012) furnished by M/s VPPT to MES authorities showed that the firm had not completed works of requisite value for the Government as stipulated in the MES manual. Thus issue of tenders to such a firm in contravention of the MES Manual was irregular. We further observed, that while M/s. VPPT was a PEB structure manufacturing firm from whom the PEB steel structure could be procured for construction of PEB, this in itself was not enough to ensure that the firm was experienced to design and construct PEBs.
- ✓ As per the MES regulations, tenders that are based on the contractors' design should be first scrutinised to assess the acceptability of the design as a tender which is numerically the lowest may not be most economical. Our scrutiny (January/February 2012) revealed that the design submitted by the firm was not scrutinised, and instead the selection was made only on the basis of the lowest tender. Selection of the firm without safeguards on acceptability of design was thus incorrect.

(b) Poor contract management

Our scrutiny also showed instances of poor contract management:

The RFP provided that the contractor should submit one complete set of design/drawings alongwith tender in a separate sealed cover. The design calculation/drawing should fulfil the departmental requirement and the same should be got vetted by any one of the IITs.

Our scrutiny showed that even though the contract was concluded in August 2008, it was only after persuasion from the CE (N) (V) in September 2008 that the firm submitted the designs / drawings / calculations. Further, as per the firm's proposal the CE (N) (V) in October 2008 forwarded these designs/ drawings for vetting, to IIT Delhi. IIT, Delhi submitted the 'Consultancy Report on vetting of structural design/drawings' – a one page undated Fax to the CE (N) (V) on 19 December 2008, which stated that the structure/foundation was as per IS-Code of practice and found to be safe and adequate.

CE(N) (V) in January 2009 forwarded the drawings as vetted by the IIT, Delhi, to the Commander Works Engineers (Navy), Chennai [CWE (N)] instructing that the Garrison Engineer (Maint), NAS, Arakkonam [GE (M)] be directed to execute the work as per the drawings.

In November 2008 the CE (N) (V), raised several observations about lack of details in the drawings, which also included an observation that the weld type/length and connection details for portals both gable and main portals (which eventually got damaged/collapsed) had not been indicated. In response the firm in December 2008 stated that detailed drawings for these were in progress. This shows that complete details of the drawings were not submitted to IIT, Delhi for initial approval, though required as per RFP. Thus, in the absence of detailed drawings, Audit could not obtain reasonable assurance regarding the safety and adequacy of the structure confirmed by IIT Delhi.

Meanwhile the GE (M) also in December 2008 brought out that the preliminary activities were not commenced by the firm at the work site. In addition, the CWE (N) in January 2010 i.e. more than one and half years after commencement of work, brought to notice of the CE (N) (V) certain shortcomings especially regarding the drawings, safety issues, poor contract and resource management by the Contractor and GE (M).

Even though the shortcomings /adverse observations by the CE (N), CWE (N) and GE (M), were pointed out, the contractor was allowed to continue work. Further, CWE (N) Chennai also recommended extension up to 25 June 2010, accepting the reasons for delay as brought out by the contractor.

During the course of work (27th August 2010) when the hangar column of beams at gable end were being erected, the entire beam portion sagged resulting in PEB structure getting deformed/de-shaped. The GE (M) in August 2010 attributed the damage to failure of the 40 Ton hydraulic crane of the contractor.

However, in September 2010 the CWE (N) attributed the failure to the in-competence, attitude of the contractor and also to design failure/ inadequate method of erection / quality assurance. The failure due to design deficiency was accepted by the contractor. However the contract was still not cancelled and the firm allowed to continue.

The firm submitted (March 2011) a 'revised design', CE (N) (V) (April 2011) observed certain discrepancies in this 'revised design', which was not technically acceptable and the firm was asked to remove the entire structure and re-submit a 'fresh design'. As mutually agreed, the fresh design was forwarded to IIT Madras in February 2012 for vetting. However even after a lapse of 5 months (as on July 2012), the design had not been vetted, which IIT, Madras attributed to non-co-operation by the contractor. The contract was cancelled by CE (N) (V) (26 September 2012) after incurring an expenditure of ₹6.72 crore on the project.

(c) Impact of delay in construction of hangars

Additional hangar at INS Rajali was an operational necessity which had been projected in year 2001. In the absence of the same, the Navy had continued to face problems in aircraft maintenance. We also observed that out of the available aircrafts, 'Y' number of TU-142M aircraft had completed service life and were awaiting disposal / write off. Remaining 'Z' number of aircraft was expected to be available only till 2017-18. Thus, the benefit of the additional hangar, as and when ready, would be available only for a limited time.

In reply to the audit observation on non-availability of hangar due to deficiency in drawing/ design (January 2012), the CE(N) stated (March 2012) that the design section of MES has a limited role to play as the contract is based on the contractor's design duly vetted by an IIT. The reply was not acceptable as the MES standing order of March 2006 clearly stated that the design of a building carried out by an outside consultant should be checked by the design officer of the Zone.

Thus, due to improper selection of a firm for the work of construction of a hangar, and subsequent poor contract management, a project recommended as an inescapable requirement at INS Rajali, in 2000, was still incomplete, leading to operational deficiency, besides incurring an avoidable expenditure of ₹6.72 crore.

The draft paragraph was issued to the Ministry (April 2013); their reply was awaited (December 2013).

Miscellaneous

4.9 False claim of Dip Money

Weak controls and falsification of official records at INDT (Delhi) led to an incorrect payment of ₹10.24 lakh as Dip Money to 196 naval divers.

All qualified divers of the Indian Navy, belong to a specialised cadre, and are entitled to "Diving Allowance" and "Dip Money". While the Diving Allowance is a fixed monthly remuneration, divers are eligible for Dip Money based on actual duration of diving (including practice diving) at actual depth achieved in the water. All divers are required to remain current in diving as long as they are in the diving cadre.

The Indian Navy divers posted in Delhi Area are attached with Indian Naval Diving Team (Delhi) {INDT (D)} for diving practice. INDT (D) has one Re-Compressed Chamber (RCC) to facilitate practice diving under control conditions for work up of divers, as also for conduct of deeper dives. The capacity of this RCC is 8 divers only at a time.

Our scrutiny, in April-July 2012, of the documents relating to claim of Dip Money maintained at INDT (D) revealed weak internal controls, improper document maintenance and falsification of official records, to facilitate the disbursement of Dip Money to 196 divers against fictitious dives performed by them between 01 September 2008 and 25 July 2011. The details are discussed below:

INDT (D) has one RCC, with a capacity of 8 divers, to cater to the present strength of about 90-100 divers posted in Delhi Area. Master Log Books indicate that between September 2008 and July 2011, on more than one occasion, more than 8 divers (ranging from 9 to 65), simultaneously dived in this RCC. Based on these dives performed as recorded in the Log Books (time spent in RCC), the divers claimed and were reimbursed Dip Money.

Extant instructions, *inter alia*, stipulate that only one Master Log Book be maintained at a time, which should indicate the details of all types of dives performed in the unit. However, we observed (July 2012) that INDT (D), in contravention of extant orders, maintained/operated three Master Log Books simultaneously between September 2008 and July 2011. Besides, the Master Log Books were neither signed by diving officers every week nor were the entries countersigned by the Officer-in-Charge INDT (D) every month, even though, the extant orders make it mandatory to do so. Based on these unauthenticated entries, the Dip Money was being claimed and reimbursed.

On this being pointed out by Audit, Principal Director Special Operations and Diving (PDSOP), in October 2012, constituted a Board of Officers to, *inter alia,* identify names of divers for recovery of Dip Money who had dived in excess to the capacity of the RCC at INDT (D) and calculate the correct amount recoverable, in accordance to the Dip Money rates promulgated, from each diver. The Board of Officers, in November 2012, examined the details of fictitious dives indicated by Audit and indentified 196 divers for recovery of ₹10.24 lakh on account of Dip Money paid to them. We also observed that these divers had performed 2513 fictitious dives between 01 September 2008 and 25 July 2011.

In response to Audit observation, (August 2013) Directorate of Special Operations & Diving IHQ MoD (Navy) replied (August 2013) that the competent authority had accorded approval for recovery of money from the concerned divers and, accordingly, letters directing personnel to deposit amounts with the units imprest or by Military Receivable Order(MRO) were under despatch. Replying further to a specific Audit query (August 2013) relating to administrative/disciplinary action taken/contemplated, it was stated (August 2013) that the aforesaid administrative action of recovery was considered adequate by the competent authority and no disciplinary action was contemplated.

The above case was based on our test check of records at one location. IHQ MoD (Navy) needs to review the functioning of the entire system at the remaining locations to ensure that administrative controls are properly maintained.

In sum, weak controls and falsification of official records at INDT (D) led to facilitating disbursement of Dip Money totalling ₹10.24 lakh to 196 divers.

The draft paragraph was issued to the Ministry in June 2013; their reply was awaited (December 2013).

4.10 Recovery at the instance of Audit

Principal Controller of Defence Accounts (Navy) recovered ₹1.39 crore from a private firm as liquidated damage for late delivery of fuel barges, after being pointed out by Audit.

The Ministry of Defence (MoD) in October 2007 accorded sanction for acquisition of two 500 ton fuel barges at a total cost of ₹27.90 crore. Accordingly the contract for construction and delivery of these barges was concluded between the MoD and M/s Shalimar Works Limited (M/s SWL), Kolkata in November 2007. The contractual date of delivery of the first and second vessel was February 2009 and May 2009 respectively.

As per Article 5.1.2 of the contract no Liquidated Damages (LD) was to be levied for the first one month of delay and the delivery of the vessel was delayed by more than one month 0.5 *per cent* LD at the rate of, subject to a ceiling of 5 *per cent* of the basic cost was to be levied. If the delay in delivery was in excess of ten months, the parties to the contract were to mutually decide upon the action to be taken. Further Article 4.6.3 of the contract provided that 'All such delivery extensions were to be compiled and issued with the approval of MoD, as a consolidated amendment to the contract'. Integrated Headquarters (IHQ), MoD (Navy) however failed to take up the matter with MoD to evolve a comprehensive case for delay and thus could not affect any amendment to the contract.

The fuel barges (yard 766 and 767) were not delivered by the stipulated date i.e February 2009 and May 2009 respectively, and in the absence of any extension, the Principal Controller of Defence Accounts (Navy) [PCDA (N)] recovered 5 *per cent* LD totaling ₹1.39 crore (@ ₹69,74,999 each) from the 5th stage payment for both the yards 766 and 767 in February 2010 as per terms of the contract.

The IHQ, MoD (Navy) in February 2010 requested the PCDA (N) to refund the LD on the grounds that the entire delay could not be attributed to the contractor as the delay was also due to delinquent vendors who failed to supply the equipments to be fitted on board. IHQ also stated (February 2010) that the LD issue would be taken up on delivery of the vessels and that the attributability of delay would be taken up with the CFA thereafter. The shipyard preferred the bill for refund of LD (March 2010) which was returned by the PCDA (N) stating that refund of LD could be considered only after extension of delivery period was approved by the CFA.

Thereafter, the bill was again preferred in June 2010 and the Warship Overseeing Team, Kolkata (WOT) of the Navy requested the PCDA (N) that the LD deducted be refunded back to M/s SWL, Kolkata. In July 2010 the PCDA (N) refused the refund on the ground that the delivery period was not extended by the CFA. However the LD amount of ₹1.39 crore was refunded to the firm in July 2010 itself.

Audit observed (08 July 2011) that the refund was without extension of the delivery period by the CFA and was despite clear orders to the contrary of the PCDA (N). Thereafter at the instance of Audit, the PCDA (N) effected the recovery on 26 July 2011.

Office of the PCDA (N) accepted (September 2011 and August 2013) that the refund was made due to misinterpretation and miscommunication of orders of the PCDA (N).

The matter was referred to the Ministry (January 2013). While accepting the facts, the Ministry of Defence (Finance) stated in their reply (October 2013), that the lapse was noticed by Office of the PCDA (N) before Audit could point out the same and that it was a coincidence that initial audit objection was received on the same day of 21 July 2011, on which the PCDA (N) had approved the recovery of LD. The Ministry also stated that there were no lacunae in internal monitoring system and that LD could not be recovered earlier due to insufficiency of payables to the shipyard against which the full quantum of LD could be recovered. The Ministry however, added that the PCDA (N) has now proposed to accord a warning to the concerned officials for the lapse.

This contention of the Ministry is however not acceptable as the initial audit observation was issued on 11 July 2011, while LD was recovered only on 26 July 2011. Moreover, the Office of the PCDA (N) should have recovered the LD immediately from all available payables.

Thus failure of IHQ, MoD (Navy), in amending the contract on time for extension of delivery schedule coupled with weak internal control in the Office of PCDA (N) thereby resulted in incorrect refund of LD, which was recovered at the instance of Audit.

4.11 Excess payment of Island Special Duty Allowance in Navy

Incorrect interpretation of the Government Orders relating to regulation of payment of Island Special Duty Allowance by the IHQ MoD (Navy) led to an overpayment of ₹3.29 crore.

The Government of India, Ministry of Finance introduced (May 1989) an Island Special Duty Allowance (ISDA) *in lieu* of the Special (Duty) Allowance to civilian employees, who had an all India transfer liability posted in the Andaman, Nicobar and Lakshadweep Islands. ISDA was to be restricted in the same manner as Special Duty Allowance and therefore not admissible during leave / training beyond 15 days at a time and beyond 30 days in a year and during suspension and joining time.

Based on the recommendations of Vth Pay Commission, ISDA was extended (February 2000) to Defence Service Personnel (DSP) as well. The terms and conditions and the rates of ISDA applicable to civilian employees was applicable mutatis mutandis, to the DSP also. The rate of ISDA ranged between 12.5% and 25% of the basic pay depending on the area of posting within the Islands.

Audit scrutiny conducted (March 2012) at Headquarters, Andaman and Nicobar Command (HQ, ANC), Port Blair and Naval Pay Office (NPO)[9], Mumbai revealed that the ISDA paid to Naval Personnel posted at Andaman & Nicobar Islands was not being regulated as per the Government orders regarding reduction in ISDA during leave / training etc.

The matter was referred (March 2012) to the HQ ANC, who stated (March 2012) that all genforms[10] pertaining to leave/ temporary duty/ training in

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9 Naval Pay Office (NPO) functions under Indian Navy and is manned by Naval Officers, Sailors and Civilian staff. The charter of NPO is to ensure correct authorisation and disbursement of various Pay and Allowances to Naval service personnel as per rules.

10 Genform in Indian Navy is intended to communicate occurrences such as transfer, leave, punishment, changes in rank, engagement etc., affecting pay and allowances and other entitlements of an officer or a sailor. Original copy of the genform is sent to the Naval Pay Office and one copy is maintained by the concerned unit.

respect of Naval personnel were regularly being sent to NPO. However, HQ ANC subsequently stated (July 2012) that the payment was based on the IHQ MoD (Navy) Order of October 2007, which had stipulated that only reporting / transfer to and from Andaman, Nicobar and Lakshadweep Islands should form the basis for regulating the ISDA. In other words, the Order of October 2007 of the IHQ MoD (Navy) did not specify regulation of ISDA during periods of leave/ temporary duty / training etc. as required by the Government Orders on regulation of ISDA. Our scrutiny (August 2012) also revealed that the practice of non-regulation of ISDA as envisaged in the Government Orders had been continuing in Navy since the year 2000 after the issue of an incorrect interpretation of the Government Orders by the IHQ MoD (Navy) in August 2000.

We called for (May 2012) from the HQ ANC/NPO the details of leave, training etc. availed of by the Naval Personnel to assess the quantum of overpayment of ISDA paid. The requisite details were not furnished by the NPO. However, based on the details made available by the HQ ANC, of leave/ training availed of by the Naval Personnel since the implementation of VIth Pay Commission i.e. w.e.f. 01 September 2008, we computed the overpayment restricting to just one aspect i.e. the period of absence on leave and training period exceeding 15 days at a time, in respect of officers and sailors posted at 14 Naval Units at A & N Islands. The pay scale for computing the excess was adopted by us at the midrange and the percentage of ISDA was adopted at 12.5 per cent i.e. the lowest of the three ranges of ISDA. The excess payment based on this conservative computation worked out to ₹3.29 crore as brought out in the Annexure-II and III.

Our further scrutiny (June/July 2012) showed that while Air Force has explicitly indicated in their orders that ISDA was not payable during leave/ training exceeding 15 days at a time and 30 days in a year and the Army had also strictly been regulating the ISDA, the Order issued by IHQ MoD (Navy) remained silent on the regulation of ISDA. We also noticed that in its correspondence with HQ ANC, the IHQ MoD (Navy) admitted (June 2013) that ISDA was not admissible during leave / training beyond 15 days at a time and beyond 30 days in a year and during suspension and joining time. However, in response to our reference (February 2013) on the issue, the IHQ

MoD (Navy), stated (July 2013) that there were no Government Orders/rules in the case of Navy, for restriction of payments during leave etc.

The reply is factually incorrect, as the later Government Orders of 2002 clearly stipulate that the orders of ISDA allowance for civilian personnel would mutatis mutandis be applicable to DSP posted in Andaman & Nicobar Islands. This was further amplified in the subsequent Government Orders of 2008 on the VIth Pay Commission and is also proven by the fact that restrictions on regulation of payment of ISDA have been properly implemented by the Air Force and the Army.

Thus despite IHQ MoD (Navy)'s own awareness of its irregularity, IHQ MoD (Navy) did not take any further steps to rectify the erroneous interpretation. The Ministry of Defence (Ministry) needs to take a view on the matter and also ascertain the exact quantum of overpayments for further appropriate action.

The draft paragraph was issued to the Ministry (May 2013), their reply was awaited (December 2013).