CHAPTER V: COAST GUARD

Procurement

5.1 Avoidable expenditure on Short Refit of Indian Coast Guard Ship Vikram

ICGS Vikram, identified for decommissioning went in for short refit at a cost of ₹5.66 crore, just prior to decommissioning, due to lack of co-ordination between the two Directorates of ICGHQ.

Ships become due for repairs and refurbishing after completing a certain duration of service. However, after a certain stage, it is no longer viable to economically refurbish/repair the vessels, and the same are decommissioned. Indian Coast Guard instructions (CGO 12/2001) stipulate detailed procedures for decommissioning of ships. As per these guidelines for ships awaiting decommissioning/disposal, only essential repairs termed as Essential Repairs Dry Docking (ERDD) should be undertaken to ensure safe floatation till disposal of the vessel.

Audit scrutiny (August 2012) in the case of ICGS Vikram revealed that contrary to the above instructions an expensive and unwarranted Short Refit was undertaken at a cost of ₹5.66 crore, even though ICGS Vikram was identified for decommissioning, as brought out in succeeding paragraphs.

ICGS Vikram, an Offshore Patrol Vessel (OPV) was commissioned into service in December 1983, with a normal service life of 20 years i.e. up to year 2002. However, ICG decided (January 2002) that ship could not be decommissioned as per the normal life cycle, till a replacement was received, to avoid depletion in the existing force levels. The decision was despite the fact that material state of the ship was poor in year 2002 itself. Thus, the

decommissioning of ICGS Vikram was clearly linked to a replacement vessel being made available.

Thereafter, the Directorate of Fleet Maintenance (DFM) in the Indian Coast Guard Headquarters (ICGHQ) initiated the case for Short Refit of ICGS Vikram in July 2009. The last Short Refit of the ship was completed in July 2008 and the next Short Refit was due in October 2009. The proposal for offloading the Short Refit of ICGS Vikram to M/s Homa Engineering Works, Mumbai was approved (April 2010) at a cost of ₹6.68 crore. The refit was completed between July 2010 and December 2010.

Simultaneously, while the case for offloading of refit was in progress, the case for decommissioning of ICGS Vikram was revisited and a Board of Officers was constituted (September 2009) at Regional Head Quarters, Coast Guard (East), Chennai to assess the material state of ICGS Vikram. The Board recommended (November 2009) that overall material state of the ship was unsatisfactory, any major repairs would involve high cost and that the ship be decommissioned and disposed in the shortest possible time and sold as scrap.

Based on the recommendations of the Board, the Directorate of Planning and Policy (DPP), in the ICGHQ proposed (April 2010) the phase out the ship from service by decommissioning and placing the ship in Category 'Z' reserve with effect from middle of year 2010. Meanwhile replacement ship ICGS Vishwast was received and commissioned in March 2010. It was envisaged that manpower complement of the ICGS Vikram would be re-appropriated to ICGS Vishwast. The ICGHQ finally approved the proposal in September 2010 for seeking approval of the Ministry of Defence for decommissioning, which was approved by the Ministry in December 2010 indicating clearly that the ship be decommissioned in January 2011.

The absence of co-ordination between the two Directorates of the ICGHQ is evident. Thus while the DPP processed the case for decommissioning during the period April 2010 to September 2010, the DFM marshalled the case for

offloading of Short Refit from April 2009 to July 2010. The Table below brings out the sequence of events by the two Directorates of the ICGHQ:

Timelines	Proposal for decommissioning of ship handled by DPP, ICGHQ	Proposal for offloading the refit handled by DFM,ICGHQ
March 2010	Replacement ship ICGS Vishwast commissioned, paving way for decommissioning of ICGS Vikram.	Refit case being processed.
April 2010	The Directorate recommends decommissioning of ICGS Vikram.	The ICGHQ approve the proposal for offloading the refit.
September 2010	DG, ICG approves decommissioning of ship and recommends the same to Ministry of Defence.	Refit is in progress.
December 2010	Ministry approves decommissioning proposal and placing of ICGS Vikram as category 'Z' with effect from January 2011.	Refit is completed at a cost of ₹5.66 crore.

The above clearly brings out the lack of coordination in the action of two Directorates. Moreover, ICGHQ was well aware of the fact of ICGS Vikram's impending decommissioning while approving the Short Refit. Eventually, the refit was delayed and was completed in the same month in which Ministry approved the decommissioning.

The Regional Headquarters (RHQ) (East) justified (November 2012) the Short Refit stating that it was taken as it provided an additional platform for deployment in view of severe shortage of operational platforms for securing the entire coast. They added that ship acquisition was time consuming task, and till such time extending the operational life of the existing platforms was the best option. While stating that DPP and DFM in the ICGHQ had different roles; the RHQ (East) did not accept that there was lack of co-ordination between them.

The reply is however not acceptable. The refit action was delayed inordinately as the planned Short Refit scheduled in October 2009 could be taken up by ICG only in July 2010 by which time decommissioning of ICGS Vikram was being actively pursued, with its replacement being available.
In sum, ICG undertook an unwarranted Short Refit of an aging ship marked for decommissioning, and in the process incurred an avoidable expenditure of ₹5.66 crore.

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

5.2 Lack of synchronisation in radar replacement on Dorniers

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 and also delayed the integration of these radars on Dornier aircraft.

The Surveillance Radar is the main sensor fitted on a Maritime Reconnaissance aircraft. Non-availability of the same limits the mission role of the aircraft. The Indian Coast Guard has an inventory of 24 Dorniers DO 225-101 (Dornier) aircraft 17 of which are fitted with Super Marec Surveillance Radars (SMRs) which have been in operation for about 20 years. The SMRs fitted on these Dornier aircraft had outlived its life and the Original Equipment Manufacturer (OEM) of this radar had stopped its production. The remaining seven Dornier aircraft are fitted with Maritime Patrol Radars (Elta Radars), as an initial fit, manufactured by M/s Elta Systems Ltd., Israel. The performance of Elta Radars, over a period of time was found to be satisfactory. It was, therefore, proposed (December 2004) by the Indian Coast Guard (ICG) to replace all 17 SMRs with Elta Radars. Our scrutiny of the replacements revealed lapses on the part of ICGHQ as well as M/s HAL in progressing the integration of 17 Elta Radars on Dornier aircraft as discussed in subsequent paragraphs.

In order to meet the requirements of Dornier aircraft of the ICG, the Ministry of Defence (Ministry), in March 2008, concluded a contract with M/s Elta

Systems Ltd., Israel at a total cost of USD 19.49 million for procurement of 10 Elta radars and their major Line Replaceable Units (LRUs). The radars were scheduled for delivery between May 2009 and March 2010. ICGHQ, thereafter, concluded in March 2009 a contract at a cost of ₹16.70 crore, with M/s Hindustan Aeronautics Limited (HAL), Kanpur for integration of these Elta radars on 10 Dornier aircraft. The integration of the first Elta radar was to commence in December 2009 and by April 2011, all the 10 Elta radars were to be integrated onboard the Dornier aircraft. Subsequently, ICGHQ, in February 2010, also placed a supply order on M/s HAL for supply of 10 Inverters[1] and 10 INS GPS[2] at a total cost of ₹9.98 crore. The procurement was necessary to successfully complete the integration of 10 Elta radars on Dornier aircraft. These items were to be delivered in a staggered manner between February and November 2011.

The Ministry in March 2010, concluded one more contract, at a total cost of USD 16.85 million with M/s Elta Systems Ltd., Israel for supply of the remaining seven Elta radars, seven Invertors, seven INS GPS along with LRUs and other auxiliary items. The firm supplied the items as per the schedule i.e. by 25 January 2012. The contract for integration of these seven Elta radars was concluded between the ICGHQ and M/s HAL in March 2010 at a cost of ₹12.03 crore. The aircraft, after radar integration, were required to be delivered between July 2011 and March 2012.

We observed (August 2012) that though Inverters and INS GPS are essential for successful integration of Elta radars, these were neither considered nor contracted with the procurement of 10 Elta radars in March 2008 and later when the contract was concluded in March 2009 with M/s HAL for integration of these Elta radars. The supply order for 10 Invertors and 10 INS GPS was placed only in February 2010, whereas, the integration of first Elta radar was to commence in December 2009 itself. We also observed that M/s Elta Systems Ltd., Israel had quoted in December 2008 for Inverters and INS GPS at a cost which was less by 46 *per cent* and 3 *per* cent respectively than the tendered cost of M/s HAL of February 2010. However, no cognizance was taken of the quote of M/s Elta Systems Ltd., for supply of these items, made in

[1] Inverters supply the requisite power to the radar system.
[2] INS GPS is critical for inertial navigation and gives directional and spatial information to the radar system for correct orientation.

December 2008. Non-consideration of the offer made by M/s Elta Systems Ltd., Israel for Inverters and INS GPS led to an extra expenditure of ₹2.87 crore. Procurement of these items subsequently in March 2010, by the Ministry, directly from M/s Elta Systems Ltd., Israel was also at prices lower by 45 *per cent* and 13 *per cent* for Invertors and INS GPS respectively *vis a vis* the rates accepted by the ICGHQ in February 2010.

We further observed (August 2012) that despite a delay of almost two years by the ICGHQ in placement of supply order on M/s HAL for inverters and INS GPS, there was a lack of urgency resulting in delayed placement of in turn supply order in February 2011 by M/s. HAL for these stores and that too for only three instead of the required 10 INS GPS. The delayed supply of Inverters and INS GPS by HAL was a major factor, which necessitated three change orders for delivery of Elta radars contracted in March 2008, thereby, resulting in extension of letter of credit for which ICG had to bear an extra expenditure of ₹0.92 lakh.

We also noticed (February 2013) that as of December 2012, only 14 out of 17 Dorniers, were integrated with Elta radars and even in this, the integration of radars on three Dorniers could be possible through re-appropriation of INS GPS and Inverters available with the ICG through other contracts. The slippage in delivery of Inverters and INS GPS had impeded the optimum utilisation of the costly radars, thereby, limiting the mission role of the Dornier aircraft fleet of the ICG.

Ministry of Defence in its reply (November 2013), admitted that ten Inverters and INS GPS could not be contracted with the procurement of 10 Elta Radars as they did not form part of the Acceptance of Necessity but added that the procurement of these items from M/s HAL was in conformity with the previous procurements made by the ICG from M/s HAL i.e. under Repair Maintenance Order Route. Ministry also stated that M/s HAL was the OEM for the Dornier aircraft and the compatibility of Inverters and INS GPS was the reason due to which global tendering was not resorted to as the best option was to let M/s HAL procure a compatible Inverter and INS GPS for the ICG. Further, the Ministry held that the quote of M/s Elta Systems Ltd. (2008) was considered for benchmarking and that the extra cost due to procurement

through M/s HAL was limited to ₹1.66 crore as M/s HAL had to be paid escalations, handling charges and extended warranty. The Ministry also stated that Elta radar was installed on only one aircraft by re-appropriating an INS GPS from an ICG Dornier, which was under major servicing and an Inverter ex-ICG stock. The Ministry further accepted that there was a delay by M/s HAL in placing orders on M/s Elta Systems Ltd for Inverters and INS GPS and attributed the delay in integration of radars, to capacity constraints at M/s HAL and simultaneous integration of other systems *i.e.* X, Y and Z in addition to the Elta radars, on the Dornier aircraft.

The reply of the Ministry is not acceptable as the Defence Procurement Manual (DPM) issued in 2005 and 2009 does not contain any provision for procurement of stores under Repair Maintenance Order Route. The procurement of these items in March 2010 by the Ministry of Defence directly from M/s Elta Systems Ltd, without involvement of M/s HAL, underscores the fact that there were no issues relating to compatibility of these items vis-à-vis either the radar or the aircraft. The explanation offered by the Ministry with respect to the extra expenditure of ₹1.63 crores is also not acceptable as the Ministry has also taken into account various overheads payable to M/s HAL in determining the reasonability of quotes submitted by M/s HAL. Purchase of these items from the OEM i.e. M/s Elta Systems Ltd, would have resulted in a saving of ₹2.87 crore. Further the contention of the Ministry that only one aircraft was installed with re-appropriated INS GPS is also not acceptable as Coast Guard Headquarters in February 2013, had admitted that three Elta radars had been integrated on-board Dorniers, by initially re-appropriating Inverters and INS GPS available to the ICG through various contracts. Besides, there was no evidence on record to suggest that the replacement of Elta Radars on-board Dorniers was initially with fitment of X, Y and Z.

Thus, failure on the part of the Indian Coast Guard to synchronise the procurement of Inverters and INS GPS with the procurement/integration of Elta radars delayed the integration of radars. Besides, belated procurement of these items, made from M/s HAL, also led to extra expenditure of ₹2.87 crore.

5.3 Avoidable extra expenditure of ₹1.75 crore due to faulty exercise of option clause

Indian Coast Guard authorities did not carefully exercise the option clause in the contract for the 6th Advance Offshore Patrol Vessel. This led to an avoidable payment of ₹ 1.75 crore to M/s GSL, Goa.

In February 2004, Ministry accorded sanction for acquisition of one Advance Offshore Patrol Vessel (5th AOPV) from M/s Goa Shipyard Limited, Goa (M/s GSL) for the Indian Coast Guard (ICG) at a cost of ₹228.14 crore. Accordingly, a contract was concluded with M/s GSL on 18 March 2004. As per option clause of the contract, the buyer could place order for one more AOPV within one year from the effective date of contract, without any cost escalation. The cost of ₹228.14 crore for an AOPV was therefore valid up to 17 March 2005. Thereafter, the validity of the option clause was extended up to 30 September 2005.

Meanwhile the ICG proposal for placing order for an additional AOPV (6th AOPV) was examined by the Ministry and Acceptance of Necessity (AON) was accorded in February 2005 under option clause as a repeat order on nomination basis[3]. The Ministry in July 2005 accorded sanction for acquisition of 6th AOPV from M/s GSL as a repeat order of the 5th AOPV without any cost escalation and change in contract terms and contract for the same was concluded with M/s GSL in August 2005.

Our scrutiny (July 2012) showed that the relevant articles of contract provisions included the following:

- ✓ Article 2.1 provided that the vessel was to be designed, constructed and delivered as per the provisions of the contract, which included the Building Specification and the General Arrangements Drawing.
- ✓ Article 3.2 provided that in case any deletion, addition and modification was required to the list of machinery and equipment as specified in 'the Building Specification' the Contract price was also to be adjusted accordingly.

[3] Nomination in shipbuilding is selection of a defence public sector undertaking for construction of navy / coast guard vessels.

- ✓ Section 1.3 under Article 2.1 stated that the same 'Building Specification' provided for a model testing[4] of the hull form under different conditions.

Since the 6th AOPV was a repeat of the 5th AOPV and identical to the previous AOPV, design development and Model Testing was not required for the 6th AOPV. The time period of the 6th AOPV was also reduced from 41 months to 36 months since no design development and 'model test' was required. Accordingly no model test was carried out for the 6th AOPV.

However, we observed (July 2012) that the contract price was not suitably amended by ICGHQ in the contract for the 6th AOPV and no deduction in contract price was carried out for not carrying out any model testing. We also observed (January 2013) that ICG had made a payment of ₹1.75 crore towards model testing which was not warranted. Thus, failure of ICG in not adhering to the contract provisions led to a situation under which a payment of ₹1.75 crore had to be made for model testing which was neither required nor carried out.

Ministry replied (May 2013) that:

- As per contract, the cost of ₹228.14 crore was valid only upto 17 March 2005. M/s GSL agreed to extend the option clause up to September 2005, without any change in price; whereas there would have been substantial increase in input costs. Thus the cost advantage towards non-conduct of model testing was passed on by M/s GSL to the Government, in the form of retaining the validity of option clause period for additional three months and reduced delivery period.
- The Defence Procurement Board (DPB) took into consideration various aspects in totality viz. that the initial negotiated price for the 5th AOPV, the reduced delivery period and the extended validity period of option clause and decided to keep all the terms of contract unchanged.
- The Shipbuilding projects are highly complex in nature consisting of numerous elements and that the cost of the next AOPV cannot be revised only on the basis of one of the costing element i.e. model testing.

[4] 'Model Testing' is carried out to verify the design, for which the hull form is tested.

The reply of Ministry is however not acceptable since ICG had obtained reduction in delivery period on the ground that no model testing was necessary, indicating that they were fully aware of such deletion. Further ICGHQ note dated 28 January 2008 clearly brings out that an oversight had occurred by not raising the issue of reduction in expenditure while reducing the delivery period.

Thus, failure to enforce adequate attention to detail in exercising the option clause in the finalisation of the contract led to an avoidable expenditure of ₹1.75 crore.