

CHAPTER III: MINISTRY OF DEFENCE

3.1 Non-delivery of sewage barges

Acquisition of sewage barges initiated by Indian Navy is yet to fructify because of its failure to carry out the required capacity assessment of the shipyard resulting in non-achievement of core objective of prevention of sea pollution even after spending ₹25.97 crore.

Indian Navy proposed (November 2007) to induct six sewage barges having capability to collect, treat and discharge the treated sewage from warships and other crafts at sea/ harbour.

Amongst the five shipyards¹ who were technically compliant and had submitted their techno-commercial bids, a contract was concluded (March 2012) with M/s Bharati Shipyard Limited (BSL) Mumbai, the lowest bidder, at a total cost of ₹102.67 crore. The delivery schedule for the first sewage barge was 18 months from the date of signing of the contract *i.e.*, in September 2013 and thereafter, one sewage barge each was to be delivered at an interval of three months.

On an Audit query (January 2015) regarding the delivery of sewage barges and the system followed by Indian Navy for collection and treatment of sewage, Indian Navy intimated (March 2015) Audit that none of the sewage barges had been delivered and further added that the sewage was collected in internal tanks of the ships and discharged at high seas.

Audit observed (October 2015), that Indian Navy did not assess² the capacity of M/s BSL before concluding the contract (March 2012) with them, even

¹ a) M/s. Bharati Shipyard Ltd, Mumbai b) M/s. Shoft Shipyard, Thane c) M/s Modest Shipyard, Mumbai d) M/s Corporated Shipyard, Kolkata e) M/s Temba Shipyard, Chennai.

² Capacity assessment is carried out prior to issue of RFPs for ship/ yard craft building in order to determine the capability of the shipyard to undertake the required ship building activity. The assessment includes Technical capacity and Financial strength of the shipyard. The validity of capacity assessment is for two years.

though previous capacity assessment of the shipyard was done in February 2009, wherein review was recommended after a period of two years (February 2011). Audit further observed (October 2015) from records that Indian Navy had called for (February 2013) the credit rating of M/s BSL and in their reply BSL had intimated (March 2013) Indian Navy that it faced liquidity mismatch since 2009 due to which the shipyard went into an unhealthy financial state and was undergoing debt restructuring since January 2012. Had Indian Navy carried out the required capacity assessment in February 2011, it would have detected the unhealthy financial state of the shipyard since 2009 and could have avoided entering into a contract with M/s BSL in March 2012.

In reply to further audit observations (October 2015) on the proposed date of delivery of the sewage barges, Indian Navy stated (December 2015) that the proposed delivery dates had now been revised as between 31 May 2016 and 31 December 2016.

Thus, failure of Indian Navy to assess the capacity of the shipyard in February 2011, prior to conclusion of the contract in March 2012, has resulted in non-delivery of the barges and discharge of untreated sewage at high seas thereby defeating the core objective of prevention of sea pollution. Further, even after payment of ₹25.97 crore (March 2015), the delivery of the six barges in near future appears bleak as four out of the six barges were still at the planning stage³ and balance two were at the initial construction stage⁴(December 2015).

The matter was referred to the Ministry (December 2015); their reply was awaited (April 2016).

³ Out of the total fifteen stage payments, the Stage three payment consists of 10 per cent on signing the contract, 10 per cent on proof of ordering steel, finalisation of build specifications and GA drawings, submission of cardinal date and production PERT and 5 per cent on submission of drawing schedule and order of all major pre launch items.

⁴ Stage five consists of details of stage three and 10 per cent payment on erection of 60 per cent hull and completion of auxiliaries seatings as applicable to erection of 60 per cent hull

3.2 Avoidable expenditure of ₹9.97 crore on the procurement of armament for an aircraft

The Ministry concluded a contract on 8 March 2010 with the firm for procurement of armament for MiG29K/KUB by providing price escalation to the firm although an option clause was valid till 27 March 2010 under an earlier contract, resulting in an avoidable expenditure of ₹9.97 crore.

A contract was concluded (March 2006) with Russian Aircraft Corporation MiG, Russia (RAC MiG) for the supply of armament, associated equipment and services for the MiG29K/KUB aircraft. The contract (March 2006) carried an option clause which gave the purchaser a right to purchase additionally from the same firm at the same terms and conditions within four years from the effective date of contract *i.e.*, up to 27 March 2010. The contract had a provision that after expiry of the validity of option clause up to 27 March 2010, the contracted prices would be adjusted by the price escalation at 2.5 *per cent* per annum.

The Ministry of Defence (MoD) obtained (December 2009) approval of Cabinet Committee on Security (CCS) for the procurement of the armament and associated equipment from M/s RAC MiG under the option clause valid up to 27 March 2010.

Audit observed that the contract was signed on 8 March 2010 at a cost of USD 148,755,486.50 (₹693.94 crore) for the armament and associated equipment inclusive of escalation of USD 2,136,962 (₹9.97 crore). This was not correct as the validity of the option clause under the armament contract was till 27 March 2010.

Integrated Headquarters, Ministry of Defence (Navy) stated (November 2015 and February 2016) that reason for the escalation was not found in the file notings and, therefore, could not be commented upon.

Thus, an avoidable expenditure of ₹9.97 crore was incurred by way of price escalation, within the validity of option clause under the contract (March 2006).

The matter was referred to the Ministry (January 2016); their reply was awaited (April 2016).