

CHAPTER IV: INDIAN NAVY

4.1 Extra expenditure in procurement of Magnetrons

Integrated Headquarters, Ministry of Defence (Navy) procured Magnetrons for the refurbishment of Transmitter Receiver Units (TRUs) of Radar System of Sea King helicopters from a particular firm at an extra expenditure of ₹8.68 crore. Even after refurbishment, only five TRUs were serviceable against a requirement of 17 TRUs resulting in limited exploitation of the Sea King fleet for local missions only.

Magnetron is a critical sub-assembly of the Super Searcher Radar system installed on Sea King helicopters for surveillance purposes. Magnetrons are required to be integrated in the Transmitter Receiver Units (TRUs) of the Radar for its utilisation. The Indian Navy has an inventory of 17 Sea King MK42B helicopters and each helicopter is fitted with one TRU each. For operational exploitation, the Navy needs a minimum quantity of 20 TRUs (17 for helicopters, 03 as float/reserve) at any given time.

The Radar system installed on Sea King MK42B helicopters was severely affected due to obsolescence and closure of production lines in late nineties by the Original Equipment Manufacturer (OEM) *i.e.*, M/s Thales Aerospace Division (TAD), UK. The serviceability and repair feasibility of TRUs had also been affected, primarily due to non-availability of Magnetrons as these were not available commercially off the shelf (COTS) and had been declared obsolete many years back. In a meeting held (December 2009) by Navy, M/s TAD, UK, intimated that M/s TMD, UK *i.e.*, OEM of the Magnetrons had agreed to commence the production for one last time, subject to the condition that Minimum Order Quantity (MOQ) was 25. It was agreed after deliberations that M/s TAD, UK would source quantity eight Magnetrons for replacement on TRUs held on Indian Navy Repair Orders with them from

M/s TMD, UK and the balance¹ required quantity of 12 Magnetrons would be procured by the Indian Navy.

Directorate of Naval Air Material (DNAM), Integrated Headquarters Ministry of Defence (Navy) [IHQ MoD (N)] issued (February 2010) Request for Proposal (RFP) to eight firms for the procurement of 12 Magnetron. However, RFP was not issued to M/s TMD, UK who was the OEM of the Magnetron, on the assumption that the firm would not accept the terms and conditions of Defence Procurement Manual (DPM)-2009. Out of these, only four firms responded. M/s Aerospace Logistics Ltd., UK quoted PDS 59,222 (₹0.41 crore) (per unit) for Magnetrons, provided that the MOQ was 25, whereas M/s TAD, UK, L-3, quoted a unit price of PDS 118,500 (₹0.81 crore) for 12 Magnetrons. DNAM, however, placed the purchase order (June 2010) on M/s TAD, UK for 12 Magnetrons at PDS 1,379,340 (unit cost PDS 114,945), as two bids (L-1 & L-2) carried MOQ condition for supply of 25 Magnetrons. Magnetrons were supplied by the firm in June 2011.

DNAM further placed seven Repair Orders on M/s TAD, UK between June 2011 and May 2012 for repair/refurbishment of eight² TRUs at PDS 1,560,028 (₹12.86 crore) which included, *inter alia*, the cost of eight Magnetrons at PDS 919,560 (₹7.58 crore).

Audit examination (October 2012) revealed that though the Indian Navy had a requirement for 20 Magnetrons, the L-1 offer of M/s Aerospace Logistics Ltd. UK was rejected, in April 2010, due to the MOQ for 25 Magnetrons. Further, no effort was made to prevail upon M/s Aerospace Logistics Ltd., UK to reduce / delete MOQ condition from their bid. Non-acceptance of the offer led to a loss of PDS 1,115,460³ (₹8.68 crore). The action of DNAM, IHQ MoD (N) was in disregard to the fundamental principles of public buying which

¹ Headquarters Naval Aviation, Goa no. 21/328/10/RADAR dated 3.11.2009

² In one repair order 02 TRUs were repaired

³ Unit cost of Magnetrons purchased outright and under repair orders from M/s TAD, UK = PDS 114,945
Cost for 20 Magnetrons = PDS 2,298,900
Unit cost of Magnetrons from M/s Aerospace Logistics Ltd, UK = PDS 59,222
Cost for 25 Magnetrons = PDS 1,480,550
Difference in cost = PDS 819,350 + 05 Magnetrons worth PDS 296,110 = PDS 819,350 + PDS 296,110
= PDS 1,115,460 (₹8.68 crore)

stipulates that every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring efficiency, economy, transparency in matters relating to public procurement and for fair and equitable treatment of suppliers and promotion of competition in public procurement.

Additional Principal Director, DNAM (September 2012) admitted to Audit that against the total requirement of 20 Magnetrons, the procurement of 25 Magnetrons vis-à-vis the MOQ at almost half the rate ought to have been made. However, DNAM subsequently apprised (September 2012) Audit that the procurement of Magnetrons from M/s Aerospace Logistics Ltd, UK was not pursued as the firm was not the OEM of the system/component. DNAM also stated (September 2012) that procurement of Magnetrons from the supplier/stockist, to be integrated in the TRUs and furnished by M/s TAD, UK, would have resulted in complex after sales warranty management of dealing with two different agencies / firms.

The reply of DNAM lacks justification because if procurement through repair agency was the preferred choice for the Indian Navy, then short listing of the other seven firms was not required. Further, the issue of warranty and dealing with two agencies could have been mitigated by incorporating better contractual terms and their management. Meanwhile, six out of 12 Magnetrons procured by the Indian Navy in June 2010 were issued to the firm in June 2012 for use in refurbishment of six TRUs.

Audit further noticed (September 2015) that despite sourcing Magnetrons from M/s TAD, UK at higher rates and undertaking the repairs/refurbishment of the TRUs, through them (M/s TAD, UK), their serviceability remained poor and impacted adversely the exploitation of Sea King fleet. The details are discussed below:

- Out of eight TRUs refurbished against seven Repair Orders placed worth PDS 1,560,028 (₹12.86 crore) by DNAM, between June 2011 and May 2012, six TRUs refurbished at a cost of PDS 1,166,495 (₹9.61crore)

continue to be unserviceable as of July 2015. The firm had used their own procured Magnetrons in these TRUs.

- Out of four TRUs⁴ refurbished against four Repair Orders worth PDS 727,210 (₹7.26 crore) placed by Directorate of Aircraft System Engineering (DASE) in March 2014, two TRUs refurbished at a cost of PDS 366,082 (₹3.02 crore) continue to be unserviceable as of July 2015.
- The labour component in Repair Orders placed between June 2011 and May 2012 ranged between PDS 35,733 (₹0.29 crore) and PDS 44,166 (₹0.36 crore) whereas the labour component in Repair Orders placed in March 2014 ranged between PDS 126,507 (₹1.04 crore) and PDS 140,672 (₹1.16 crore). Thus, the labour cost paid in March 2014 was 216 to 254 *per cent* more vis-à-vis Repair Orders placed for refurbishment of TRUs on the same firm between June 2011 and May 2012, resulting in extra expenditure of PDS 353,881 (₹3.52 crore).
- The OEM viz. M/s TAD, UK in October 2013 admitted to the Navy that they did not have the capability to carry out a full overhaul/refurbishment of TRUs.
- The Indian Navy had an inventory of only five serviceable TRUs as of July 2015 against the requirement of 17 TRUs for fitment onboard Sea King helicopter fleet and six out of 12 Magnetrons were with Navy (July 2015).

Directorate of Aircraft Systems Engineering (DASE), IHQ MoD (N) accepted (September 2015) that unserviceability of TRUs had impacted the Sea King helicopters as the fleet was being exploited for local flying missions only.

Thus, the Indian Navy failed to ensure availability of serviceable radars / TRUs despite refurbishment through its OEM, who despite being L-3, were the preferred choice for sourcing Magnetrons at an additional expenditure of ₹8.68 crore. Resultantly, the Indian Navy was constrained to exploit the Sea

⁴ Two remaining TRUs were under refurbishment with the firm as of August 2015

King fleet for local missions only as only five TRUs were serviceable as against a requirement of 17 TRUs.

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

4.2 Avoidable procurement of Radio Receiver Beacons for naval ships

Lack of coordination amongst various Directorates/establishments and ships within Navy resulted in avoidable procurement of five Radio Receiver Beacons worth ₹6.19 crore.

Procedures for provisioning and procurement of equipment against Anticipatory Beyond Economic Repair (ABER) mandate the Board constituted for review of ABER equipment to take into view the estimated residual life of equipment, obsolescence, recurring defects and need for technological upgrade. The Board must also consider the aspect of the feasibility of installation and interface with other equipment/systems while recommending provisioning against ABER. The procedures further stipulate that items procured under the ABER requirements are replaced in due course of time as per the actual requirements and during the planned refits in case of ships/submarines. Further, the equipment shall not be replaced if the same is serviceable even if it has been declared ABER.

Navigational Radar Fitment Policy (NRFP) of Indian Navy (November 2004) mandated replacement of Rashmi radar and other non-commercial radars installed onboard all Indian Naval ships with Commercially Off the Shelf (COTS) radars as primary navigation radars. The policy approved use of Rashmi/other non-commercial radars only as secondary radars for their residual life.

Despite the promulgation of a NRFP in November 2004, wherein it was mentioned that Commercial Navigation Radars are to be fitted as primary navigation radars on all class of ships wherein the existing radar had expired

its life, Directorates of Integrated Headquarters, Ministry of Defence (Navy) [IHQ MoD (N)] viz; Directorate of Electrical Engineering (DEE)⁵ and Directorate of Procurement (DPRO) along with Material Organisation, Mumbai [MO (MB)] processed the procurement of Radar Receiver Beacons⁶ (RRBs) for the non-commercial radars fitted onboard the four naval ships. Details of the cases are as follows:

DEE, IHQ MoD (N) approved (April 2006) ABER requirement of RRBs for Radar fitted onboard Indian Naval Ship (INS) Godavari and INS Vindhyagiri. Based on the approval, MO (MB) raised an indent (October 2006) for the requirement of four RRBs from M/s Tyco Electronics, UK (M/s Tyco) on Proprietary Article Certificate (PAC) basis and DPRO, IHQ MoD (N) concluded (March 2008) an agreement with the firm at a cost of PDS 654500 (₹4.90 crore). RRBs were delivered in May 2009.

Similarly, on the basis of an ABER approval received from DEE, IHQ MoD (N) (November 2006) for the installation of RRB onboard INS Brahmaputra and INS Betwa, MO (MB) concluded (January 2010) another contract with M/s Cobham Mal Ltd UK (Ex M/s Tyco) on PAC basis for the supply of two RRBs at a cost of PDS 332980 (₹2.58 crore). RRBs were delivered in August 2010.

Audit scrutiny (March 2014) revealed that two RRBs planned for installation onboard INS Godavari were to be interfaced with the ZW-06 navigational radar,⁷ a Down mast configuration⁸ radar. However, the ZW-06 radar was replaced (by end 2007) with COTS radar,⁹ an Up mast

⁵ DEE-is responsible for all technical matters pertaining to inspection, acceptance, testing, tuning and maintenance of electrical, electronics, sensors and communication systems

⁶ Radio Receiver Beacons (RRB) are I-Band receiver systems to receive signals from helicopter borne I-band transponders and to convert them into suitable video signals for Display

⁷ ZW-06 radars was the non-commercial navigational radar fitted onboard INS Godavari to be interfaced with RRBs

⁸ Down mast configuration – In this configuration, trans-receiver assemblies are located far from the antenna assembly of the radar and the RF energy channel losses are high and the configuration is maintenance intensive

⁹ COTS Radar- The Commercially off the Shelf (COTS) radar for replacement of the installed navigational radars such as ZW-06 in case of INS Godavari

configuration¹⁰ radar during the MR of the ship. Further, since the interfacing of RRBs was feasible only with Down mast configuration radars, these could not be interfaced with the new COTS radar with the Up mast configuration. Resultantly, the RRBs were returned (April 2013) by the ship to MO (MB) stating that the RRBs are of no use to them as the ZW-06 radar had already been replaced with COTS radar. Similarly, Rashmi radar, a Down mast radar installed onboard INS Brahmaputra commissioned in the year 2000, was replaced (2011) with Vision Master E radar (COTS) of an Up mast configuration and thus the ship did not raise any demand for the RRBs due to unsuitability of the same for the newly installed COTS radar. Further, the RRBs for INS Vindhyagiri scheduled to be fitted during her refit between June and September 2011, could not be fitted as at the time of receipt of RRBs, ship was in operation and later on decommissioned (January 2011) due to sinking. In the case of INS Betwa which was commissioned in 2004, RRB was issued for installation (March 2011) on Rashmi radar which was serviceable as a secondary radar along with the newly installed COTS radar.

As a result, out of the six RRBs procured for the four ships, five RRBs remained unutilised since its receipt as the life of the existing non-commercial radar installed on INS Godavari and INS Brahmaputra had expired at the time of installation of COTS radar while INS Vindhyagiri was decommissioned. On ascertaining the reasons for holding this inventory without use, MO (MB), in its reply, stated (March 2014) that the replacement of the existing radar with COTS radar was not known at the time of provisioning. The contention of MO (MB) is not tenable because NRFP of Indian Navy (November 2004) mandated fitment of COTS radar as primary radar and considered replacement of Rashmi/other non-commercial radars on all major war vessels when their electronic life is over.

Further, the assurance of Navy (January 2015) that RRBs available with the MO (MB) would be exploited on other naval platforms fitted with Down mast

¹⁰ Up mast configuration – In this configuration, trans-receiver assemblies are placed adjacent to the antenna assembly of the radar and the RF energy channel losses are reduced

radar onboard is also not acceptable as the five RRBs are lying in stock since their receipt without utilisation, implying that the item was no longer warranted.

Thus, lack of coordination amongst various Directorates/establishments *i.e.*, DEE, DPRO, MO (MB), and ships within the Navy as they kept on pursuing for the procurement of RRBs for non-commercial radars despite promulgation of policy in 2004 for their replacement, resulted in procurement of five RRBs costing ₹6.19 crore, which was avoidable.

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

4.3 Non levy of liquidated damages in the procurement of pumps

Ministry of Defence accorded extension for delivery of pumps with levy of liquidated damages. However, Integrated Headquarters Ministry of Defence (Navy) failed to levy liquidated damages amounting to ₹1.56 crore on the firm for the delayed supplies.

INS Viraat, second aircraft carrier commissioned in the Indian Navy in May 1987, is fitted with two Main Feed pumps and two Auxiliary Feed pumps which had been consistently unreliable. The Anticipated Beyond Economical Repair certificate for these pumps was initiated by INS Viraat in 2002 for replacement in refit of the carrier scheduled in 2009, subsequently revised to 2012-13.

An indent was raised (December 2008) by Material Organisation (MO), Mumbai and the Directorate of Procurement (DPRO)/Integrated Headquarters Ministry of Defence (Navy) [IHQ MoD (N)] issued (November 2009) a Request for Proposal (RFP) on Proprietary Article Certificate (PAC) basis to M/s Clyde Union Pumps, UK for supply of one Main and one Auxiliary Feed pumps. DPRO/IHQ MoD (N) concluded a contract (October 2010) at a cost of GBP 1,503,280 (₹11.65 crore) with scheduled delivery of pumps in 38 weeks

i.e., by 27 June 2011 and authorised (March 2011) 15 *per cent* advance payment *i.e.*, GBP 225,492 (₹1.66 crore) to the firm without the necessary approval of the Ministry of Defence (MoD). The firm, in November 2011, sought extension of delivery period up to 31 January 2012. DPRO/IHQ MoD (N) proposed (December 2011) to the MoD to grant extension in delivery period up to 31 January 2012 with the levy of Liquidated damages (LD) as the delay was attributed to the firm and also requested the Ministry to accord *ex-post facto* approval for 15 *per cent* advance payment released to the firm in May 2011 without the approval of the Competent Financial Authority *viz.* MoD. The case was returned by the MoD (Finance) a number of times raising observations regarding procedure for opening of Letter of Credit (LC), requirement of concurrence of Principal Integrated Financial Advisor (Navy) {PIFA (N)} for authorizing payments, norms for issue of Government letter authorizing payments etc.

The Ministry of Defence accorded approvals (March 2014) to regularise the advance payment made in May 2011, extension of delivery up to May 2014 with levy of LD and release of balance 85 *per cent* payment to the firm. The firm supplied the pumps in May 2014. The replacement of Main Feed pump onboard INS Viraat was carried out in December 2014 and that of Auxiliary Feed pump in June 2015¹¹.

Audit scrutiny (December 2014) revealed the following inadequacies in procurement of these vital pumps:

- The Ministry of Defence approved the regularisation of 15 *per cent* advance payment only in March 2014 after admission (December 2011) of the lapse by DPRO, IHQ MoD (N). This delayed the opening of LC and consequently the delivery of pumps.
- The replacement of Main and Auxiliary Feed pumps was envisaged during Normal Refit (NR) 2012-13, however, these pumps could be

¹¹ Intimated by IHQ MoD (N) to Audit under letter no. EG/2501/AUDIT/STM dated 10 February 2016

replaced in December 2014 and June 2015 respectively *i.e.*, after more than two years from the scheduled date.

- The installation of pumps onboard INS Viraat was delayed despite the fact that these were critical for operational exploitation of the carrier. The non-availability of reliable pumps was likely to adversely affect the reliability of the entire propulsion package and preclude optimal exploitation of the carrier.
- The RFP provided for LD at 10 *per cent* of the value of delayed stores in line with the Defence Procurement Manual (DPM) 2009. PIFA (N) while vetting the draft contract advised (June 2010) IHQ MoD (N) that the LD leviable should be 10 *per cent* and not 5 *per cent* as included in the draft contract. However, DPRO, IHQ MoD (N) in violation of extant orders and despite the advice of PIFA (N) included LD at 5 *per cent* only in the contract. Subsequently, no effort was made to rectify this deficiency by an amendment to the contract (October 2010).
- No LD was recovered from the firm for delayed supply of pumps even though the MoD had granted extension in delivery period with levy of LD.

DPRO, IHQ MoD (N) intimated (July 2015) Audit that they had approached the firm in March 2015 for refund of LD at 10 *per cent* amounting to GBP 150,328 (₹1.56 crore). However, the firm intimated (May 2015) the Navy to withdraw the claim as the LC was opened belatedly after readiness of shipment and the firm had to incur storage cost for the pumps.

In sum, procedural delay of more than two years by the MoD in regularising the advance payment delayed the deliveries of the Main and Auxiliary Feed pumps which were replaced onboard INS Viraat only in December 2014 and June 2015 respectively. Besides, IHQ MoD (N) failed to levy LD of ₹1.56 crore for delayed supply of pumps.

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

4.4 Under recovery of ₹6.18 crore due to non-revision of rates of landing charges

Indian Navy's failure to submit the details of capital expenditure and maintenance charges to Airports Economic Regulatory Authority of India (AERA), denied them the revised tariff rates for the landing charges for the Goa Airport since July 2013 resulting in under recovery of ₹6.18 crore.

Goa Airport, termed as Civil Air Enclave by the Airport Authority of India (AAI) is under the control of Indian Navy (IN). Goa Airport is categorized as a Major International Airport by AAI and the responsibility for collecting Landing Charges rests with the defence authorities *i.e.*, Indian Navy, whereas other charges like Route Navigation Facility Charges (RNFC), Terminal Navigational Landing Charges (TNLC), User Development Fee (UDF), Parking and Housing Charges etc. are collected by AAI.

Indian Navy has been collecting the Landing Charges for Goa Airport at the rate fixed (as revised with effect from 01 March 2009) by AAI applicable for an International Airport.

Airports Economic Regulatory Authority of India (AERA) established (2008) to determine tariff for aeronautical services, noticed (March 2011) that in addition to the maintenance of infrastructure, Defence Forces also incur Capital Expenditure (CAPEX) for their air strategic reasons and asked AAI to ascertain such CAPEX from Defence Forces within three months for the preparation of the Multi Year Tariff Proposal (MYTP). In pursuance, Integrated Headquarters, Ministry of Defence (Navy), [IHQ MoD (N)] expressed to the Ministry of Defence (MoD) its inability (December 2011) to provide the information on the ground that computation of expenses incurred and quantification of specific end usage would be an extremely complex process. Accordingly, AAI also informed AERA (April 2012) that the defence

authorities have not provided the information relating to CAPEX, maintenance charges etc.

Audit noticed (December 2014) that the AAI with the approval of AERA had revised (July 2013) all its existing tariffs for the International Airport at Kolkata and Chennai along with other major airports at Ahmedabad, Calicut, Jaipur, Lucknow and Guwahati except the landing charges at Civil Air Enclaves¹² including the Goa International Airport.

Audit observed (December 2014) that Indian Navy continued to recover the landing charges for the Goa airport at the old prevailing rates fixed in 2009. Navy intimated (December 2015) Audit that they had initiated (January 2015) the issue with the AAI, and AERA decided (May 2015) that due to delay in submission of the MYTP at the fag end of the control period¹³, the status quo of the tariff rate for landing charges may be continued for the Goa airport till 31 March 2016 as revision at such belated stage would involve steep increase in tariffs. Navy further stated (December 2015) that the process for applicable tariff for Civil Air Enclaves of joint-user Defence airfields, was being deliberated at MoD.

Thus, failure of the Indian Navy to provide requisite information to the AERA and taking up the matter appropriately with AAI, denied Navy the revised tariff for the landing charges for the Goa Airport, a major international airport at the true deserving rates, resulting in under recovery of at least ₹6.18 crore from July 2013 to October 2015 even if compared with the rates revised for the non-major airports.

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

¹² Civil Air Enclaves; Pune and Srinagar are the two such major airports under the control of Air Force

¹³ Control period is the period to regulate the tariff for five years fixed by AERA. The first such control period commenced from 01.04.2011 and would end on 31.03.2016

4.5 Extra expenditure of ₹3.09 crore in procurement of spares

Integrated Headquarters, Ministry of Defence (Navy) procured aircraft spares on Proprietary Article Certificate (PAC) basis even when other firms were available for the supply of spares, resulting in extra expenditure of ₹3.09 crore.

The Proprietary Article Certificate (PAC) is issued to the Original Equipment Manufacturer (OEM) and items are procured on PAC basis from that particular firm, when such items are available only with that firm or its authorised dealers. As per Defence Procurement Manual (DPM) 2006, PAC bestows monopoly and obviates competition, and thus PAC status must be granted after careful consideration of all factors like fitness, availability, standardization and value for money. Procurement officers must keep abreast with the proper source knowledge and procure items from the right source to protect the interest of the state. Further, DPM 2006 also states that Last Purchase Price (LPP) is one of the relevant factors in deciding price reasonableness.

PAC was accorded (May 2008) to “Illyushin” Russia, being the OEM, for the supply of spares and product support services of IL-38 SD aircraft through M/s Rosoboronservice (India) Ltd (M/s ROS(I)), Mumbai. Accordingly, Integrated Headquarters, Ministry of Defence (Navy) [IHQ MoD (N)] accorded sanction (December 2009) and placed a supply order (January 2010) on M/s ROS (I) for 45 ‘by type’ spares for IL-38SD aircraft on PAC basis at a total cost of ₹4.38 crore with date of delivery as November 2010.

While scrutinising the Supply Order placed in January 2010, audit noticed (September 2013) that IHQ MoD (N) had previously accorded (August 2008) sanction for procurement of 127 ‘by type’ of spares for IL-38 SD aircraft and the supply orders were placed on five foreign firms (September 2008) which also included M/s RoS (I) although PAC status had already been granted to the firm in May 2008 itself for the supply of spares. Thus, granting PAC status to

M/s RoS (I) was not justified as there were other firms eligible for the supply of spares for IL-38SD aircraft. A comparison of the items procured from M/s ROS (I) vide supply order of January 2010 further revealed that the procurement prices of eight 'by type' spares for IL-38SD aircraft were 95 to 3245 *per cent* higher than the procurement made against supply order placed for the same spares in September 2008 resulting in excess expenditure of ₹3.09 crore.

On being pointed out by Audit (September 2013), IHQ MoD (N) stated (October 2013) that there is a quality difference between the spares supplied by Russian firms and that of Commonwealth of Independent States (CIS) firms as most major OEMs are located in Russia, whereas the firms of CIS are normally stockist. It further stated that, M/s RoS (I) does not respond to low value revenue procurement of spares and hence other firms were also approached to overcome the problem.

The reply of IHQ, MoD (N) is not tenable as it contradicts Navy's own action of procurement of spares for the same aircraft through firms of CIS in August 2008 and September 2008. Further, the contention of Navy that there would be a quality difference in the spares supplied by CIS firms is an afterthought to justify the procurement of spares from the PAC firms as the firms of CIS are merely stockist of spares.

Thus, conferring PAC status on M/s ROS (I) in violation of provisions of DPM and overlooking the earlier purchase order resulted in the procurement of eight items of aircraft spares from them at an extra expenditure of ₹3.09 crore.

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

4.6 Extra expenditure of ₹63.35 lakh in procurement of Transmitter due to non-availing of option clause

Failure of Material Organisation, Visakhapatnam to avail the benefit of option clause resulted in extra expenditure of ₹63.35 lakh in procurement of Transmitter.

Defence Procurement Manual-2009 prescribes for the option clause entailing that the purchaser retains the right to place orders for additional quantity up to a maximum of 50 *per cent* of the originally contracted quantity at the same rate and terms within original period of contract.

Directorate of Procurement (DPRO), Integrated Headquarters, Ministry of Defence (Navy) {IHQ, MoD (N)} had placed (November 2010) a purchase order (PO) on M/s Hindustan Aeronautics Ltd, Avionics Division [HAL (AD)], Hyderabad for supply of high frequency (HF) transmitters with accessories, installation and On Board Spares (OBS) for Indian Naval Ship (INS) Rana at a total order value of ₹4.54 crore, which included three numbers HF Transmitter along with accessories at a unit price of ₹1.21 crore. The PO (November 2010) had the option clause valid till November 2012.

Audit examination (September 2014) showed that Material Organisation, Visakhapatnam [MO (V)] placed (August 2013) a PO on M/s HAL (AD), Hyderabad for procurement of a HF Transmitter with OBS, Tool Kit and installation material for INS Karwar, at a total order value of ₹2.64 crore, which included ₹1.84 crore as the cost of HF Transmitter. However, MO (V) failed to approach IHQ MoD (N) for processing the procurement of the transmitter under the option clause although the procurement was for the same equipment and from the same vendor.

In response to audit observation (September 2014), MO (V) replied (September 2014) that IHQ was processing the case for three sets of the same equipment and order placement was not confirmed. MO (V) added that the procurement made by IHQ (November 2010) was against an indent raised in

the year 2006 and the price of this indent were updated only by March 2013. Thus, in the absence of a firm price, option clause could not be exercised.

MO (V)'s reply that order placement was not confirmed is factually incorrect as the PO of IHQ MoD (N) was placed in November 2010 and MO (V) was the consignee *vis-a-vis* the PO. Further, MO (V)'s argument about absence of a firm price is not tenable because a copy of the PO was endorsed to MO (V) in November 2010.

Thus, failure of MO (V) to approach IHQ MoD (N) for procuring an HF transmitter with OBS etc. against option clause led to an extra expenditure of ₹63.35 lakh.

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

4.7 Undue benefit to the shipyard due to delayed remittance of liquidated damages

The contracts for construction of four Naval Offshore Patrol Vessels had a provision for remittance of back to back Liquidated Damages (LD) recovered by the shipyard from its sub-vendors in Government account. Delay of 9 to 30 months in remittance of LD resulted in undue benefit of ₹1.03 crore to the shipyard by way of interest for the delayed period.

General Financial Rules (GFRs) stipulate that it is the duty of the Department of the Central Government concerned to ensure that the receipts and dues of the Government are correctly and promptly assessed, collected and duly credited to the Consolidated Fund or Public Account as the case may be.

Government of India, Ministry of Defence (MoD) concluded (April 2007) a contract with M/s Goa Shipyard Limited (M/s GSL) for the construction of three Naval Offshore Patrol Vessels (NOPVs) at a total cost of ₹1,828 crore. Another contract was concluded (November 2007) with M/s GSL under option

clause of the contract (April 2007) for construction of one NOPV at a total cost of ₹624.48 crore. The four NOPVs were to be delivered between March 2010 and December 2011.

As per the contracts, in cases where the builder has been provided extension for delivery of the vessels for delays that are consequential to delay in supply of equipment/ machinery/items of the vessel by the Original Equipment Manufacturers (OEM)/ subcontractors of the builder, Liquidated Damages (LD) for delay in delivery of equipment/machinery/items of the vessels levied by the builder on OEMs/subcontractors would be returned to the owner i.e. Navy on 'Back to Back' basis. During the currency of the contracts, M/s GSL sought (September 2010) extension of delivery schedule up to November 2012, May 2013, November 2013 and May 2014 for the four NOPVs. While intimating the approval of Competent Authority for extension of delivery schedule without levying LD, Integrated Headquarters, Ministry of Defence (Navy) {IHQ, MoD (N)} asked (February 2012) M/s GSL that 'Back to Back LD' for all equipment recovered by the shipyard be reimbursed to MoD (N) and the modalities/details of LD reimbursement be forwarded to IHQ, MoD (Navy) by early March 2012. IHQ, MoD (N) further asked (February 2012) M/s GSL that the modalities/details of LD reimbursement were required to be intimated to PCDA during stage XI payment.

Audit observed (September 2014) that instead of reimbursing an amount of ₹12.84 crore recovered as LD from indigenous and foreign vendors immediately, M/s GSL retained the amount and remitted/adjusted the same along with stage XI payments of NOPVs, with a delay ranging from nine to thirty months. As a result of delay in remittance of LD, the shipyard earned an amount of ₹1.03 crore as interest on the amount of LD retained by it.

In pursuance of the audit observation (September 2014) Navy endorsed (December 2014), the justification of GSL by stating that the adjustment of the amount under stage XI was as per Article 5.5 of the contract.

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The contention of the Navy is not acceptable because, as per Article 5.5 of the contract, the adjustment should be only carried out in stage XI if a “reduction in the contract price is envisaged” and since the remittance of back to back LD does not have the effect of reducing the contract price, Article 5.5 cannot be invoked. Further, LD levied by M/s GSL was required to be returned to the Navy on back to back basis as reiterated by IHQ, MoD (N) to M/s GSL in February 2012. Moreover, the retention of LD charges was in violation of the provisions of GFRs which stipulates that Government dues should be promptly and duly credited in to Government without any delay.

Thus, lack of diligence on the part of IHQ, MoD (N) in ensuring timely reimbursement of back to back LD, resulted in an undue benefit to the tune of ₹1.03 crore in the form of interest earned by shipyard on Government dues.

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