

## INTRODUCTION

### 1.1 Profile of the audited entities

This Report relates to matters arising from the audit of the financial transactions of Indian Air Force (IAF) and relevant records relating to IAF of the following organisations:

- Ministry of Defence (MoD)
- Defence Accounts Department (DAD)
- Military Engineer Services (MES)
- Defence Research and Development Organisation (DRDO) and its laboratories dedicated primarily to IAF

**Indian Air Force** is headed by the Chief of the Air Staff. The overall administrative, operational, financial, technical maintenance and control of IAF rests with Air Headquarters. IAF has seven commands, of which five are operational and two are functional commands (one Training Command and one Maintenance Command). Operational and maintenance units of IAF normally consist of wings and squadrons, signal units, base repair depots and equipment depots.

**The Defence Accounts Department** headed by the Controller General of Defence Accounts (CGDA) is responsible for accounting of defence services expenditure and receipts as well as defence pensions and also provides services in terms of financial advice.

**Military Engineer Services (MES)** provides engineering support to the Services including IAF. It is one of the largest Government construction agencies with annual budget of approximately ₹9,000 crore. Engineer-in-Chief is the head of the MES.

**Defence Research and Development Organisation (DRDO)** undertakes design and development of weapon systems and equipment in accordance with the expressed needs and the qualitative requirements given by services. It has 52 laboratories of which nine normally provide services to Air Force.

## **1.2 Authority for audit**

Article 149 of the Constitution of India, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Regulations of Audit and Accounts 2007 give authority for audit and detailed methodology of audit and its reporting.

Office of the Principal Director of Audit, Air Force [PDA (AF)], New Delhi, along with its two branch offices at Bengaluru and Dehradun, is responsible for audit of Air Force and other related organisations.

## **1.3 Audit methodology and procedure**

Audit is prioritised through an analysis and evaluation of risks so as to assess their criticality in key operating units. Expenditure incurred, operational significance, past audit results and strength of internal control are amongst the main factors which determine the severity of the risks. An annual audit plan on the basis of risk assessment is formulated to conduct audit.

Audit findings of an entity / unit are communicated through Local Test Audit Reports / Statement of Cases. The response from the audited entity is considered, which may result in either settlement of the audit observation or referral to the next audit cycle for compliance. Serious irregularities are processed as draft paragraphs for inclusion in the C&AG's Audit Reports which are submitted to the President of India under Article 151 of the Constitution of India, for laying in the Parliament. Performance audits are done through a structured exercise by defining scope of audit, holding entry conference, sampling of units, exit conference, inclusion of feedback on draft report and issuance of final report.

## 1.4 Defence Budget

Defence Budget is broadly categorised under Revenue and Capital expenditure. While revenue expenditure includes pay and allowances, stores, transportation and work services etc., capital expenditure covers expenditure on acquisition of new weapons and ammunition and replacement of obsolete stores.

Details of Defence expenditure during 2011-12 to 2015-16 is reflected in the Table 1.1 below:

**Table 1.1: Total Defence Budget allocation and Actual expenditure**

*(₹ in crore)*

	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Final Grant</b>	1,78,891	1,98,526	2,17,649	2,54,000	2,64,142
<b>Actual Expenditure</b>	1,75,898	1,87,469	2,09,789	2,37,394	2,43,534

Source- Year wise Appropriation Account of Defence Services

The Defence Expenditure in the previous years registered an increase of 38.45 *per cent* from ₹1,75,898 crore in 2011-12 to ₹2,43,534 crore in 2015-16. As compared to previous year, the Defence expenditure increased by 2.58 *per cent* i.e from ₹2,37,394 crore in 2014-15 to ₹2,43,534 crore in 2015-16.

## 1.5 Budget and expenditure of IAF

The summarised position of Appropriation and Expenditure from 2011-12 to 2015-16 in respect of the IAF is reflected in the Table 1.2 below:

**Table 1.2: Appropriation and Expenditure**

(₹ in crore)

Description		Year				
		2011-12	2012-13	2013-14	2014-15	2015-16
<b>Final Grant</b>	Capital	28,305	32,735	38,679	26,536	30,792
	Revenue	16,757	18,329	19,983	23,186	24,302
	<b>Total</b>	<b>45,062</b>	<b>51,064</b>	<b>58,662</b>	<b>49,722</b>	<b>55,094</b>
<b>Actual Expenditure of IAF</b>	Capital <i>(per cent)</i>	28,812 (62.45)	32,980 (64.52)	38,585 (65.68)	32,796 (59.11)	31,198 (58.81)
	Revenue <i>(per cent)</i>	17,322 (37.55)	18,138 (35.48)	20,160 (34.32)	22,685 (40.89)	21,849 (41.19)
	<b>Total</b>	<b>46,134</b>	<b>51,118</b>	<b>58,745</b>	<b>55,481</b>	<b>53,047</b>
<b>Excess (+)/ Savings(-)</b>	Capital	(+)507	(+)245	(-)94	(+)6260	+406
	Revenue	(+)565	(-)191	(+)177	(-)501	-2,453
	<b>Total</b>	<b>(+) 1072</b>	<b>(+) 54</b>	<b>(+) 83</b>	<b>(+)5759</b>	<b>-2,047</b>

Source: Year-wise Appropriation Accounts of Defence Services

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

### 1.5.1 Air Force Expenditure

A broad summary of expenditure of IAF is given in the Table 1.3 below:

**Table 1.3: Expenditure of IAF***(₹in crore)*

Description	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Total Defence Expenditure</b>	1,75,898	1,87,469	2,09,789	2,37,394	2,43,534
<b>Total Expenditure of IAF</b>	46,134	51,118	58,745	55,481	53,047
<b>Percentage change over previous year of IAF expenditure</b>	(+)18.95	(+)10.80	(+)14.92	(-) 5.6	(-) 4.38
<b>As a percentage of total defence expenditure</b>	26.22	27.26	28.00	23.37	21.78
<b>Revenue expenditure</b>	17,322	18,138	20,160	22,685	21,849
<b>Capital expenditure</b>	28,812	32,980	38,585	32,796	31,198

The total expenditure incurred by IAF during 2011-12 to 2015-16 ranged between 21.78 and 28.00 *per cent* of the total defence expenditure. In the year 2015-16, the expenditure of IAF decreased by 4.38 *per cent* from ₹55,481 crore to ₹53,047 crore as compared to previous year. Thus, while the total defence expenditure increased by 2.59 *per cent* from 2014-15 to 2015-16, the share of IAF in total defence expenditure decreased by 1.59 *per cent* from previous year.

### 1.5.2 Capital expenditure

As depicted in Table 1.2, IAF has been spending 59 to 65 *per cent* of its total expenditure on Capital expenditure of IAF, which was mainly incurred on acquisition of new aircraft and modernisation or up-gradation of the existing fleet. The distribution of expenditure

over the different categories of Capital expenditure for the last five years (2011-12 to 2015-16) for IAF is depicted in the Table 1.4 below:

**Table 1.4: Details of components of Capital expenditure of IAF**

*(₹ in crore)*

Head	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Aircraft/Aero engine</b>	20,274 (70.37)	23,573 (71.48)	29,069 (75.40)	22,558 (68.78)	19,156 (61.40)
<b>Heavy &amp; medium vehicles</b>	73 (0.25)	81 (0.24)	59 (0.15)	33 (0.10)	101 (0.32)
<b>Other equipment</b>	6,788 (23.56)	7,399 (22.43)	7,761 (20.11)	8,219 (25.06)	9,788 (31.37)
<b>Special Projects</b>	521 (1.80)	587 (1.77)	348 (0.90)	343 (1.04)	292 (0.94)
<b>Construction work</b>	1,153 (4.00)	1,318 (3.99)	1,304 (3.38)	1,637 (4.99)	1,829 (5.86)
<b>Land</b>	3 (0.01)	22 (0.06)	44 (0.11)	6 (0.01)	32 (0.10)
<b>Total</b>	<b>28,812</b>	<b>32,980</b>	<b>38,585</b>	<b>32,796</b>	<b>31,198</b>

Source : Year-wise Appropriation Accounts of Defence Services, figures in bracket denote the percentage expenditure during that year.

Capital expenditure of IAF rose from ₹28,812 crore to ₹31,198 crore i.e by 8.28 per cent during five-year period from 2011-12 to 2015-2016. As compared to previous year, in 2015-16 capital expenditure decreased by 4.87 per cent i.e from ₹32,796 crore in 2014-15 to ₹31,198 crore.

Capital expenditure on acquisitions in respect of aircraft / aero engine was significant and ranged between 61.40 and 75.40 per cent of the total Capital expenditure; that for 'Other equipment' ranged between 20.11 and 31.37 per cent and on construction work 3.38 to 5.86 per cent of total Capital expenditure of IAF. A minor portion was being spent on vehicles, special projects and land. During the year 2015-16, a significant portion (61.40 per cent) was incurred on acquisition of aircraft/aero-engines, whereas

31.37 per cent and 5.86 per cent were spent respectively on other equipment and construction works.

### 1.5.3 Revenue expenditure

The Revenue expenditure of IAF was mainly on pay and allowances, stores and special projects. The distribution of expenditure over different categories of Revenue expenditure for last five years is depicted in Table 1.5 below.

**Table 1.5: Details of components of Revenue expenditure of IAF**

(₹ in crore)

Head	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Pay and allowances</b> (Minor Heads-101,102 and 104)	7,532 (44)	8,378 (46)	9,464 (47)	10,533 (46)	11,287 (52)
<b>Stores and special projects</b> (Minor Heads - 110,200)	6,931 (40)	7,038 (39)	7,779 (39)	8813 (39)	7,108 (33)
<b>Works</b> (Minor Head -111)	1,800 (10)	1,775 (10)	1,912 (9)	2,124 (9)	2,189 (10)
<b>Transport</b> (Minor Head -105)	763 (4)	611 (3)	661 (3)	761 (3)	774 (3)
<b>Others</b> (Minor Head - 800)	296 (2)	336 (2)	344 (2)	455 (2)	491 (2)
<b>Total</b>	<b>17,322</b>	<b>18,138</b>	<b>20,160</b>	<b>22,685</b>	<b>21,849</b>

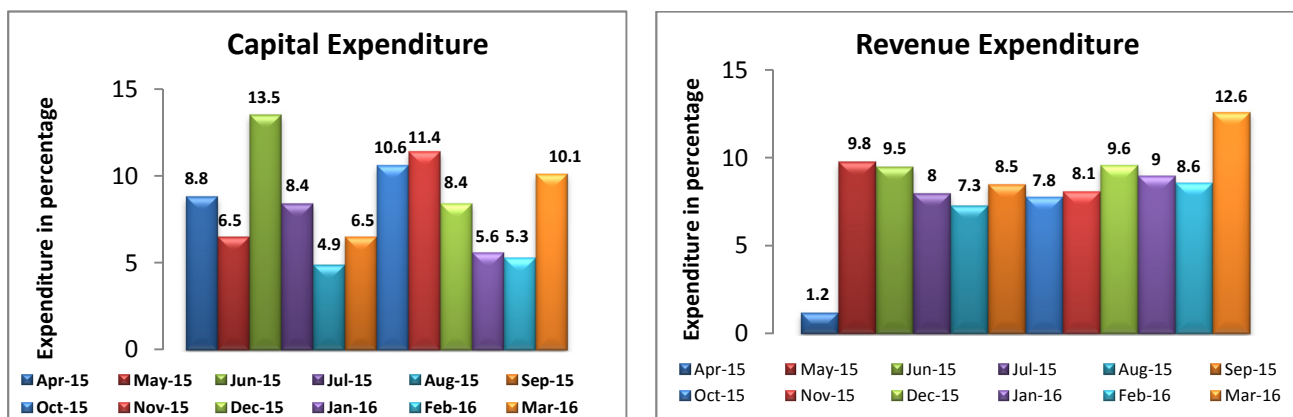
Source: Year-wise Appropriation Accounts of Defence Services, figures in bracket denote percentages

Revenue expenditure of IAF increased from ₹17,322 crore in 2011-12 to ₹21,849 crore in 2015-16 i.e. by 26 per cent during last five years. Pay and Allowances accounted for about 44 to 52 per cent, Stores and special projects for 40 to 33 per cent, Works for 9 to 10 per cent, Transport for 3 to 4 per cent and remaining 2 per cent for Others category of total revenue expenditure of IAF. As compared to previous year, Revenue expenditure of IAF decreased by 3.68 per cent from ₹22,685 crore in 2014-15 to ₹21,849 crore in 2015-16.

### 1.5.4 Trend of Expenditure of IAF during the year

Flow of Capital and Revenue expenditure during 2015-16 is depicted below:

Figure 1.1: Trend of expenditure of IAF during 2015-16



The Revenue expenditure of IAF was 12.6 *per cent* and 30.2 *per cent* of total annual revenue expenditure, for March 2016 and the last quarter of the year respectively, whereas for Capital expenditure it was 10.1 *per cent* and 21 *per cent* for March 2016 and last quarter respectively. These year-end expenditures were within permissible limits of 15 *per cent* and 33 *per cent*, as prescribed by the Ministry of Finance.

### 1.5.5 Revenue Receipts of IAF

The receipts represent recoveries on account of stores issued on payment, rent of buildings and furniture, sale proceeds of lands, buildings, *etc.*, declared surplus, credit for services rendered to other government departments and other miscellaneous receipt.

The details of receipts pertaining to the IAF during the five years are given in the Table 1.6 below:



Table 1.6: Revenue Receipts of IAF

(*₹ in crore*)

Description	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Receipts from works	64	75	80	101	105
Receipts from services and supplies	108	90	104	78	163
Stores	37	67	45	167	26
Other receipts	340	377	838	2,598	535
<b>Total Receipts and Recoveries</b>	<b>549</b>	<b>609</b>	<b>1,067</b>	<b>2,944</b>	<b>829</b>

Source: Figures of actual receipts as provided by MoD Finance (Budget-I)

The receipts and recoveries in respect of IAF ranged between ₹549 crore and ₹2,944 crore during the five-year period from 2011-12 to 2015-16 and have shown a decrease of 71.87 per cent as compared to previous year i.e from ₹2,944 crore in 2014-15 to ₹829 crore in 2015-16. A significant portion of revenue receipts of IAF were classified under ‘Other receipts’.

## 1.6 Response to Audit

### 1.6.1 Response of MoD to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee (PAC), the Ministry of Finance (Department of Expenditure) had issued directions to all the Ministries in June 1960 to send their response to the Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks.

The Draft Paragraphs proposed for inclusion in this Report were forwarded to the Secretary, Ministry of Defence through demi-official letters drawing attention to audit findings and requesting for timely response.

Despite the instructions of the Ministry of Finance, MoD's replies to three Paragraphs out of a total of nine Paragraphs included in this Report, were not received. Thus, the response of the Ministry could not be included in respect of these paragraphs.

### **1.6.2 Action Taken Notes (ATNs) on Audit Paragraphs of earlier Reports**

With a view to enforce accountability of the executive in respect of all issues dealt with in various Audit Reports, PAC desired that Action Taken Notes on all paragraphs pertaining to the Audit Reports for the year ended 31<sup>st</sup> March 1996 onwards be submitted to them, duly vetted by Audit, within four months from the laying of the Report in Parliament. The status of ATNs is as under.

**Table 1.7: Status of ATNs**

*(As on 30<sup>th</sup> April 2017)*

<b>Status of ATNs</b>	<b>IAF</b>
Audit Paragraphs/Report on which ATNs have not been submitted by the Ministry even for the first time	2
Audit Paragraphs/Report on which revised ATNs are awaited	9

## **1.7 Recoveries and savings at the instance of Audit**

IAF authorities had recovered unadjusted advances and liquidated damages, cancelled irregular sanctions and reduced sanctioned amount with total financial implication of ₹21.57 crore during 2016-17 (**Annexure-1**) based on audit observations.