

Press release

**C&AG's Audit Report No. 13 of 2018 on Defence Services
(Army) tabled in Parliament today.**

Comptroller and Auditor General of India's Audit Report No.13 of 2018 on Defence Services, Army has been tabled in Parliament.

About the Report

This Report of the Comptroller and Auditor General of India contains the results of audit of the financial transactions and performance reviews of projects/schemes of Ministry of Defence, Department of Defence, Department of Defence Production pertaining to Army, Defence Research and Development Organisation, Military Engineer Services and Border Roads Organisation in 2016-17.

Significant findings are given below:

Loss due to delay in opening of Letter of Credit

Ministry of Defence (MoD) signed a contract with a Russian firm for supply of Missiles in November 2012 at a cost of US\$ 232,570,000. Payment upto 85 *per cent* i.e. US\$ 197,684,500 had to be made to the firm through an irrevocable revolving Letter of Credit (LC), to be opened for an initial amount of US\$ 59,305,350. In case of delay in opening of LC, MoD had to pay liquidated damages (LD) at the rate of 0.07 *per cent* to the firm for each day of delay.

MoD opened the LC after a delay of 81 days and calculated LD of US\$ 9,884,225 payable to the supplier based on the entire amount of LC payment i.e. US\$ 197,684,500 and not on the initial amount of LC i.e. US\$ 59,305,350 which would have resulted in LD payable by MoD as US\$ 2,956,267.5 only. MoD should obtain legal opinion on the amount to be reckoned for calculation of LD and raise a supplementary claim on the supplier, if need be, as the difference at the prevailing exchange rate (1US\$ = ₹66.72) is ₹ 46.16 crore.

(Paragraph 2.1)

Undue benefit to a foreign firm due to non-levy of liquidated damages in the procurement of 23 MM Cartridges

The MoD concluded a contract with a Russian firm, for procurement of 23 MM Cartridges wherein as per contract conditions, the supplier was liable to pay liquidated damages (LD) for late delivery. As the supplies were not completed by the stipulated time, MoD signed a Supplement for extension of validity without incorporating the LD provisions. When MoD claimed LD of US\$ 1,123,875 (₹4.56 crore), it was refuted by the firm stating that the Supplement did not mention of LD. Thus, the omission on the part of the MoD to clearly incorporate the condition of LD in the Supplement, resulted in a disputed claim of ₹4.56 crore.

(Paragraph 2.2)

₹7.48 crore pending for recovery on account of Old Grant Bungalow being unauthorisedly used as hotel

The occupant of an Old Grant Bungalow (OGB) in Ranikhet was operating a hotel in the premises since 1995, without paying the applicable rent. The Defence Estate Officer (DEO) had neither computed nor demanded from the occupant ₹7.48 crore due from September 1995 to June 2017. The DEO intimated to Audit in July 2017 that proceedings were being initiated for eviction and recovery of damages of ₹7.48 crore.

(Paragraph 2.3)

Unauthorized provision of Operations cum sand model room

In violation of the laid down scales, Headquarters Northern Command (HQNC) sanctioned in March 2011 an additional Operations cum sand model room along with conference hall and library for the Corps Headquarter at an estimated cost of ₹3.01 crore. This additional Operations cum sand model room and library was constructed at a cost of ₹2.95 crore. Further, central air – conditioning at a cost of ₹1.15 crore was also provided without the approval of the competent authority.

(Paragraph 3.2)

Delay in development and failure in meeting the user requirements of Unmanned Aerial Vehicles

There was inordinate delay in the indigenous development of Unmanned Aerial Vehicles (UAVs) by Defence Research & Development Organisation (DRDO). Despite incurring an expenditure of ₹79.75 crore in procurement of four UAVs through Limited Series Production, the UAVs developed by DRDO failed to meet the user's requirements. Further, in another case, delay in development of Medium Altitude Long Endurance UAV system adversely affected the aerial surveillance capability of Indian Army.

(Paragraph 3.3)

Delay in Production of Electronically Upgraded 155mm/45 Calibre Gun System "DHANUSH"

Ordnance Factory Board (OFB), in 2011, undertook development of electronically upgraded 155mm/45 Calibre Gun System “DHANUSH” based on the Transfer of Technology (ToT) obtained in 1986 from the foreign firm while procuring 155 mm/39 Calibre guns. The development undertaken by OFB was yet to clear the user trials completely, resulting in continued deficiency of modern artillery gun in Army.

(Paragraph 3.4)

Unfruitful expenditure on baffle range

Ministry of Defence, in March 2011, sanctioned for construction of a Baffle Range at Indian Military Academy, Dehradun for firing training. The work was awarded in December 2012 for ₹8.66 crore for completion by February 2015. The tender included drawing for staggered boundary wall but the quantities of the materials for the wall, originally based on straight boundary wall, were erroneously not amended. Within a day of conclusion of the contract, the process for Revised Administrative Approval (RAA) was initiated to incorporate deviations. The work was held up for want of RAA and the assets created at an expenditure of ₹7.60 crore remained unutilized as of July 2017.

(Paragraph 4.1)

Loss of ₹ 56.17 lakhs besides an avoidable liability of ₹9.27 crore

Poor workmanship and inadequate monitoring during execution of work relating to construction of accommodation for Infantry Battalions at Suratgarh led to construction of unsafe and substandard buildings thereby warranting their demolition and subsequent re-construction/rehabilitation at a cost of ₹9.83 crore just seven years after construction.

(Paragraph 4.2)

Delay in provisioning of air-conditioners denied the ready availability of Missiles to a field formation

Storage accommodation for Missiles constructed at a cost of ₹2.20 crore in 2008 could not be put to the desired use due to non availability of air conditioners. Despite the user requirement, provisioning of air conditioners was inordinately delayed and the Field Formation, in a distant location that remains cut off from mainland for over six months in a year, was functioning without Missiles in its Armoury.

(Paragraph 4.3)

Engineer Stores of Engineer Origin – Follow up Audit

Engineer Regiments provide critical mobility support to the armed forces both in war and peace times. Our review indicates persistence of some chronic issues which, if not addressed, will continue to pose serious challenge to this critical support system for the armed forces. Some of these issues are shortages across various categories of stores & spares, accentuated by delays and

inefficiencies in the procurement system that results in an unduly long procurement cycle and consequently the inability to spend the allocated funds. Lack of an automated system created bottlenecks in the two-way flow of information across different parts of the organization and led to inadequate control and monitoring. This resulted in delays in registration of demands for stores and their eventual issue, uneven distribution of stores, and also infructuous expenditure in purchase of unwarranted spares. The delay in initiation/ approval of PRCs and the inability to finalize the purchase proposals in time aggravated the availability of plants and spares.

Non-formulation of five-year perspective roll-on plans for repairs and delays in finalization of annual targets delayed provisioning of stores and spares. The non-compliance with the overhaul policy led to a situation where the equipment and plants were pressed into service without the scheduled overhauls, potentially impacting their optimum performance.

(Paragraph 4.4)

Unfruitful expenditure

Non-adherence to laid down technical instructions of Director General Border Roads regarding work of realignment/ construction of roads led to foreclosure of works resulting in unfruitful expenditure of ₹15.58 crore.

(Paragraph 5.1)

Loss due to inadequate terms of insurance for imported equipment

Instruments Research & Development Establishment (IRDE) placed order for importing polishing machine at a cost of ₹19.68 crore. The insurance policy covered risk of deferred unpacking upto 30 days. The consignment was opened after nearly three months and the machine was found beyond economic repairs. The insurance claim was rejected as the policy included insurance cover for 30 days period for deferred unpacking only.

(Paragraph 6.1)

Avoidable procurement of stores valuing ₹6.09 crore for stockpiling

As per general principles of purchase in the Purchase Management Manual, 2006 of Defence Research & Development Organization (DRDO), all expenditure on purchases will only be need based and stores should not be procured to stockpile in anticipation of future requirements. In two cases, Combat Vehicle Research & Development Establishment procured stores valuing ₹6.09 crore for stockpiling citing future utilization. The stores are still held in stock. The stockpiling not only resulted in blocking of government money, but its future utilization is also uncertain.

(Paragraph 6.2)

Unfruitful expenditure of ₹13.78 crore in taking up a project without complete test facilities

Research and Development Establishment (Engineers) (R&DE(E)), took up a project for Aircraft Arrester Gear (AAG) required to arrest fighter aircrafts of 6-40 Ton capacity. The Project was closed after incurring ₹11.88 crore, without testing the AAG for its capability, as adequate testing facilities were not available within the country, a fact known to R&DE(E) even before taking up

the project. Thereafter, it also constructed part test facility at a cost of ₹1.90 crore. As the AAG could not be tested for 40 Ton load capacity, Centre for Military Airworthiness & Certification (CEMILAC) did not certify the AAG system for use by the Indian Air Force. Resultantly, the entire expenditure of ₹13.78 crore proved unfruitful.

(Paragraph 6.3)

Unwarranted expenditure of ₹14.43 crore on procurement of stores

In February 2014, Director General (Artillery) intimated Research Centre Imarat (RCI) that 'N' missile, which was under development by RCI, was not recommended for induction into service. Despite this, RCI placed six supply orders between March 2014 and July 2015 for stores valuing ₹14.43 crore, which were received by January 2016. As users had not shown interest in 'N' missile, the project was closed in December 2015. The stores were transferred to RCI inventory/other projects and are since lying unused as of October 2017.

(Paragraph 6.5)