

CHAPTER I : INTRODUCTION

1.1 Foreword

This report relates to matters arising from the compliance audit of the financial transactions of the Ministry of Defence and its following organisations. :

- Army;
- Ordnance Factories;
- Defence Research and Development Organisation and its laboratories dedicated primarily to Army and Ordnance Factories
- Inter Service Organisations; and
- Defence Accounts Department.

The report also contains the results of compliance audit of the transactions of the Border Roads Organisation under Ministry of Shipping, Road Transport and Highways.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets, and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

The primary purpose of the report is to bring to the notice of the legislature important results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the volume and magnitude of transactions. The findings of audit are expected to enable the executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organisations, thus contributing to better governance and improved operational preparedness.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant audit observations followed by a brief analysis on the expenditure of the above Organisations. Chapter II onwards, present detailed findings and observations arising out of the compliance audit of the Ministry and the aforementioned Organisations.

1.2 Auditee Profile

Ministry of Defence at the apex level, frames policies on all defence related matters. It is divided into four departments, namely Department of Defence, Department of Defence Production, Department of Research and Development and Department of Ex Servicemen welfare. Each department is headed by a Secretary. The Defence Secretary who is the Head of the Department of Defence also coordinates the activities of other departments.

Army is primarily responsible for the defence of the country against external aggression and to safeguard the territorial integrity of the nation. It also renders aid to the civil authorities at the time of natural calamities and internal disturbances. It is, therefore, incumbent upon the Army to suitably equip, modernize and train itself to meet the challenges.

DRDO, through its chain of laboratories is engaged in research and development primarily to promote self reliance in Indian defence sector. It undertakes research and development in areas like aeronautics, armaments, combat vehicles, electronics, instrumentation, engineering systems, missiles, materials, naval systems, advanced computing, simulation and life sciences.

The Inter Service Organisations like Armed Forces Medical Services, Military Engineer Services (MES), Defence Estates, Quality Assurance, etc. serve the Defence Forces in the fields which are common to the Army, Navy and Air Force. They are responsible for development and maintenance of common resources in order to economize on costs and provide better services. They function directly under Ministry of Defence.

Ordnance Factory Board (OFB) functions under the administrative control of the Department of Defence Production and is headed by Director General, Ordnance Factories. 39 factories are responsible for production and supply of Ordnance stores to the Armed Forces.

1.3 Integrated Financial Advice and Control

Ministry of Defence and the Services have a robust internal financial control system in place. With fully integrated Finance Division in the Ministry of Defence, the Financial Advisor, Defence Services and his/her officers scrutinize all proposals involving expenditure from the Public Fund. FADS is responsible for providing financial advisory services to Ministry of Defence, and the Services at all levels and also for treasury control of the Defence expenditure.

Being Chief Accounting Officer of the Defence Services, FADS is also responsible for the internal audit and accounting of Defence expenditure. This responsibility is discharged through the Defence Accounts Department with the Controller General of Defence Accounts at its head.

1.4 Authority for Audit

The authority for our audit is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. We conduct audit of Ministries/Departments of the Government of India under Section 13¹ of the

¹ Audit of (i) all expenditure from the Consolidated Fund of India (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts & balance-sheets & other subsidiary accounts.

CAG's (DPC) Act. Major Cantonment Boards are audited under Section 14² of the said Act. Principles and methodology of compliance audit are prescribed in the "Regulations of Audit and Accounts, 2007".

1.5 Planning and Conduct of Audit

Our audit process starts with the assessment of risk of the Organisation as a whole and each unit based on expenditure incurred, criticality and complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Local Test Audit Reports (LTARs) containing audit findings are issued to the Head of the unit. The units are requested to furnish replies to the audit findings within a month of receipt of the LTARs. Whenever the replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these LTARs are processed for inclusion in the audit reports which are submitted to the President of India under Article 151 of the Constitution of India.

During 2007-08, audit of 1151 units/formations was carried out by employing 58,557 man days. Our audit plan ensured that most significant units/entities, which are vulnerable to risks, were covered within the available manpower resources.

1.6 Significant Audit Observations

Over the last few years, audit has commented on many critical areas in the Defence sector. Significant deficiencies had been pointed out in the procurement processes. In the present report as well, a large number of cases relate to procurement- both under Capital and Revenue- by Ministry of Defence as also by the Services Organisations. Over the last few years, Ministry of Defence has taken several measures to improve the procurement procedures. Most important of them are the introduction of Defence Procurement Procedure and Defence Procurement Manual.

The present report highlights several important cases involving substantial expenditure, in which either the procurement has been delayed or it has failed to achieve its objective due to inadequate contract management and improper trials and quality inspection impacting adversely the operational preparedness of Services. While in some cases, delay is attributed to lag in development of technology in alignment with the quality requirements set out in the beginning, in many cases, particularly in cases of revenue procurement, such delays relate

² Audit of receipts and expenditure of bodies or authorities substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory.

to procedural problems and lack of co-ordination among the different agencies.

Induction of Advanced Light Helicopter (Paragraph 2.1) has been dogged by delay in development of technology. Hasty procurement of Krasnopol ammunition without adequate trials has resulted in a situation where these are not available for use by the Army (Paragraph 2.2). Induction of Lorros has been hampered due to delay in procurement of the Buyer furnished equipments (BFE) (Paragraph 2.6).

Notable is the fact that several cases mentioned in the report involve procurement of items with stable technology, which had been procured earlier. Yet these could not be procured without delay or causing loss to the Government exchequer. Paragraph 2.4 mentions the case of contract of a missile in a single vendor situation that took four years to finalize despite the precarious stock position. A delay of more than one year in placing the order to a single vendor PSU for another missile cost the exchequer more than Rs 31 crore (Paragraph 2.5). Paragraph 3.2 mentions the case of Ni-Cd batteries which did not pass through the life cycle test, yet were distributed to the units. The contract was amended to free the vendor of all liabilities.

Our reports have also highlighted operation of special financial powers by the Army commanders. Often, such powers have been invoked to sanction procurement or additional works which were non-operational in nature. Paragraph 3.6 mentions a few of such cases. Notable among them is procurement of Golf Carts under several guises. Similarly the audit reports have consistently pointed out cases of serious delay in renewal of leases of Defence land. Unauthorized use of Defence land and buildings has also quite frequently featured in the audit reports. Paragraph 2.7 narrates the circumstances in which the renewal of lease for Army Golf Club, Delhi Cantonment is pending since 1989.

Works management is another area in which the audit has found several cases of inadequate management every year. Cases of delay in sanction, cost overruns and unauthorized civil works appear in the audit reports every year. This year's report also highlights such cases in Chapter IV, in which loss to the Government could have been avoided.

Defence Accounts Department is responsible for treasury control of the Defence expenditure. Several cases have been highlighted where more vigilance on the part of the Department was required. Cases of overpayment to Cantonment Boards and failure to recoup the expenditure from other organisations have been featured in this report in Paragraphs 2.8, 2.9, 2.10, 3.8, 3.9, 4.3 and 4.4.

In case of Ordnance Factories, audit has commented on several cases of procurement, where extra expenditure was incurred due to delay in finalization of contracts. Special mention is made of the case in Paragraph 7.8 in which a vendor received reimbursement of Customs Duty of Rs 31.20 lakh allegedly paid by him in import of machinery for end use at Ordnance Factory Kanpur. Cross checking by audit with customs record indicated that the said duty was

never paid by him. It would appear that the letter head and rubber seal of the factory has been used by the vendor in the forged Customs Duty Exemption Certificate produced by him before the customs authorities. This points to strong possibilities of involvement of personnel from the factory.

1.7 Response of the Ministry/Department to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee, Ministry of Finance (Department of Expenditure) issued directions to all 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 are forwarded to the Secretaries of the Ministry/departments concerned drawing their attention to the audit findings and requesting them to send their response within six weeks. It is brought to their personal attention that in view of likely inclusion of such Paragraphs in the Audit Reports of the Comptroller and Auditor General of India, which are placed before Parliament, it would be desirable to include their comments in the matter.

Draft paragraphs proposed for inclusion in this Report were forwarded to the Secretaries concerned between April 2008 and October 2008 through letters addressed to them personally.

Ministry of Defence did not send replies to 16 Paragraphs out of 26 Paragraphs featured in Chapters II to VI. Department of Defence Production also did not send reply to eleven of the Draft Paragraphs included in Chapter VII of this Report. However, the response of Ordnance Factory Board, wherever received, had been suitably incorporated in the paragraphs in Chapter VII.

1.8 Action taken on earlier Audit Paragraphs

With a view to enforcing accountability of the executive in respect of all issues dealt with in various Audit Reports, the Public Accounts Committee desired that Action Taken Notes (ATNs) on all paragraphs pertaining to the Audit Reports for the year ended 31 March 1996 onwards be submitted to them duly vetted by Audit within four months from the date of laying of the Reports in Parliament.

Review of ATNs relating to the Army as of February 2009 indicated that ATNs on 78 paragraphs included in the Audit Reports up to and for the year ended March 2007 remain outstanding, of which the Ministry had not submitted even the initial ATNs in respect of 17 paragraphs as shown in Annexure-IA. With regard to Ordnance Factory Board as of February 2009, Ministry of Defence had not submitted ATNs in respect of 17 Paragraphs included in the Audit Report for the years ended March 2003 to March 2008

even for the first time as per Annexure-IB. Further, Audit could not vet ATN in respect of other 22 Audit Paragraphs, as per the details given in the Annexure-IC, for want of revised Action Taken Note based on Audit's observations.

1.9 Financial Aspects/ Budgetary Management

What is commonly known as Defence Expenditure comprises expenditure under six Grants. Grant No 22 authorizes expenditure on Army, Inter Service Organisations and others like Inspection Organisations, NCC, Rashtriya Rifles including Stores and Transportations etc. Grants No 23 and 24 relate to Navy and Air Force. Grant No 25 authorizes expenditure on Ordnance Factories. Grant No 26 relates to expenditure for Defence Research and Development Organisation. Grant No 27 authorizes Capital Outlay on all Services.

Defence outlays can broadly be categorized into Revenue and Capital. Revenue outlays cover Pay and Allowances, Stores, Transportation, etc.. Capital outlays cover expenditure on acquisition of new weapons and ammunitions, replenishment of obsolete stores with modern variety. Much of the modernization of Services takes place under Capital expenditure.

The budgetary provision (Voted portion) on Defence Services has increased from Rs 86264 crore in 2005-06 to Rs 99778 crore in 2007-08- an increase of 16 *per cent* The increase on the Revenue side was 12 *per cent* - an increase from Rs 51904 crore to Rs 57921 crore during the period. The Capital outlay was increased by 22 *per cent*, from Rs 34360 crore to Rs 41858 crore.

The actual Revenue expenditure increased by 12 *per cent* from Rs 51302 crore in 2005-06 to Rs 57620 crore in 2007-08. The Capital expenditure could not however keep pace with budgetary outlay in as much as the increase in expenditure was 16 *per cent* from Rs 32326 crore in 2005-06 to Rs 37440 crore in 2007-08. Indeed, the unspent provision under Capital had increased from Rs 2034 crore in 2005-06 to Rs 4418 crore in 2007-08- an increase of 117 *per cent*. This would indicate the lack of capacity in the Ministry to process acquisitions in a timely manner.

1.10 Analysis of Revenue Expenditure of Army

For the year 2007-08, the Voted portion of the original grant of the Army for Revenue Expenditure was Rs 35178 crore. Another Rs 232 crore was sanctioned in the Supplementary Grant, making the Final Grant of Rs 35410 crore. As against this, the expenditure recorded was Rs 35481 crore, registering an excess expenditure of Rs 71 crore. In the earlier financial year of 2006-07, the excess expenditure was Rs 667 crore.

Pay and Allowances for the Army constituted 41 *per cent* (Rs 14523 crore) of the total expenditure in 2007-08. If Pay and Allowances for Civilians (Rs 1572 crore) and Auxiliary Forces (Rs 277 crore) are added, the Pay and Allowances component would constitute 46 *per cent*. Stores (Rs 9809.86

crore: 28 per cent), Transportation (Rs 1350.62 crore: 4 per cent), Works (Rs 3619.96 crore: 10 per cent) were other significant components of expenditure.

While comparing the expenditure within the Grant, significant excess expenditure took place in mostly the heads involving Pay and Allowances. The excesses took place mainly due to additional dearness allowances and in case of Works due to payment of long outstanding dues of hired and leased buildings in J&K, increased tariff rates of electricity and increased costs of maintenance and construction of buildings.

Savings took place in Stores (Rs 321 crore), Transportation (Rs 39 crore), ECHS (Rs 7 crore), Other Expenditure (Rs 53 crore) and Inspection Organisation (Rs 22 crore). The savings particularly in stores took place due to re-classification of revenue expenditure to capital, due to non materialization of contracts, reduced expenditure in petroleum products and “routine slippages in finalized contracts pertaining to electronics, missiles, general stores, clothing and Mechanical Transport stores”.

Sharp increase has taken place in 2008-09 and 2009-10 in the army revenue budget due to implementation of the recommendations of the Sixth Pay Commission. As against the budget estimates of Rs 15034 crore for 2008-09 for Pay and Allowances for Army, the revised estimates stand at Rs 24331 crore. The budget estimates for 2009-10 for these are at Rs 33126 crore.

1.11 Analysis of Revenue Expenditure of Ordnance Factories

The bulk of expenditure of Ordnance factories are met by “deduct recoveries” for supplies to Army, Navy and Air Force etc. In addition, Ordnance Factories sell stores to para military forces and to the public. These are booked as Receipts into the Consolidated Fund of India. The following table will give the picture:

(Rs in crore)				
Year	Expenditure	Deduct Recoveries	Receipt on supply of surplus stores	Net Receipt
2005-06	6847.13	5701.31	1537.81	391.99
2006-07	6191.89	5147.77	1384.52	340.40
2007-08	7125.63	5850.65	1464.12	189.14

The surplus of receipts over expenditure in Ordnance Factory Organisation has now been negated mainly due to cost increase in manufacturing resulting from increase in Pay and Allowances. The stagnation in supplies to both military and non military has also resulted in the worsening financial situation.

In the revised estimates for 2008-09, net budgetary support from the Consolidated Fund of India after adjustment of Deduct Recoveries and Revenue Receipts has been pegged at Rs 1326 crore. For the year 2009-10, the net budgetary support has been estimated at Rs 833 crore. In simple words, Ordnance factories will run into losses and would require huge

budgetary support in addition to sharp upward revision of prices of supplies to Services.

While, till now, the Ordnance Factories have been able to maintain negative charge to the Consolidated Fund of India, supplies to the Services have never been able to match the budget provision indicating less supply than anticipated. Against the budgeted supply of Rs 6445 crore in 2007-08, the supplies booked were at Rs 5851 crore- a shortfall of Rs 594 crore. In 2006-07, the shortfall was of Rs 633 crore and in 2005-06, it amounted to Rs 328 crore. The budget provision of Rs 8393 crore for such supplies in the year 2009-10 therefore may prove to be very ambitious unless, prices of such supplies are revised sharply upwards.

Overall performance of Ordnance factories for the year 2007-08 has been analyzed in this report at Paragraph 7.1.

1.12 Analysis of Army Capital Expenditure

In 2006-07, Army could spend Rs 7235 crore against a Capital outlay of Rs 8518 crore, surrendering Rs 1283 crore. In 2007-08, however, it spent Rs 11912 crore against an allocation of Rs 11864 crore. However, detailed analysis indicates that there are several areas where money has remained unutilized as would be evident from the following table:

(Rupees in Crores)

	2006-2007				2007-2008			
	O	R	FG	Actual	O	R	FG	Actual
Land	31.50	(-) 22.41	9.09	8.12	50.15	(-)26.98	23.17	7.83
Aircraft and Aero Engines	1299.43	(+) 255	1554.43	640.21	1040.49	(+)513.78	1554.27	1560.62
Heavy and Medium Vehicles	585.76	(+)75.54	661.30	684.23	719.19	(+)670.21	1389.40	1378.61
Other Equipments	5899.84	(-)2322.87	3576.97	3206.85	6616.47	(-)555.87	6060.60	6136.31
Rolling Stock	107.32	(-)28.01	79.31	56.57	72.00	(-)46.96	25.04	25.35
Construction Works	2390.91	(+)194.10	2585.01	2583.53	2932.77	(-)178.56	2754.21	2758.16
ECHS	44.00	(-)20.80	23.20	20.22	57.00	(-) 48.90	8.10	9.65
Rashtriya Rifles	15.30	(-)14.52	0.78	22.82	72.95	(-) 48.40	24.55	26.47

O-Original Grant; R-Reappropriations; FG- Final Grant; ECHS- Ex Servicemen's Contributory Health Scheme

The increase in the appropriation of Rs 514 crore for Aircraft and Aero Engines was mainly due to supply of additional quantity of equipments and corresponding additional payments in certain schemes. The increase of Rs 670 crore under Heavy and Medium vehicles was mainly due to reclassification of expenditure from Revenue to Capital. Much of the savings have taken place in equipments, construction, Rolling stock and ECHS. The savings were mainly due to non materialization of schemes and projects and delay in delivery of vehicles.

Notable is the fact that the Capital Budget outlay for Army in 2008-09 was Rs 13331 crore. In the Revised Estimates in the year, it has been brought down to Rs 11331 crore, indicating that the trend of under-utilization of capital outlay is expected to continue.

1.13 Rush of expenditure in the last quarter of the financial year and in particular, in the month of March

Ministry of Defence (Finance/Budget) has, from time to time, issued instructions to maintain an even pace of expenditure through the year. Such instructions had, however, little effect on the pace of expenditure. 51 *per cent* of the annual capital expenditure for all services was spent during the last quarter of 2007-08. 27 *per cent* of the total expenditure took place in the month of March. Even for the revenue expenditure for Army, 29 *per cent* of the total expenditure took place in the last quarter. 21 *per cent* of the total expenditure took place in March. Considering that bulk of the revenue expenditure is on pay and allowances, which necessarily is even paced, a huge percentage of non-pay expenditure is incurred at the fag end of the year.

CHAPTER II : MINISTRY OF DEFENCE

2.1 Procurement of Advanced Light Helicopter

40 Advanced Light Helicopters (ALHs) valuing Rs 1747 crore contracted with M/s HAL are being inducted with technological gaps which may impact operational preparedness of Army. Induction of another 105 ALHs valuing Rs 9490 crore with Shakti engine is unduly delayed. Alternative measures to improve performance of ALHs are yet to be put in place even after a decade of its development at a cost of Rs 2488 crore. Thus de-induction of old fleet of Cheetah and Chetak helicopters has been considerably delayed impacting the operational preparedness of Indian Army in forward high altitude areas.

Helicopters are used by the Army for reconnaissance, observation, aerial attack and transportation of troops and materials. The Army Aviation Corps presently uses Cheetah and Chetak helicopters, which have become overdue for replacement. The de-induction of these helicopters planned to be carried out by the 10th Plan, was postponed to 12th Plan for want of replacement. As early as in 1980, Army planned to acquire Advanced Light Helicopters (ALHs) to provide quick logistics and troop movement in the battle zone, besides enhanced surveillance capability. Weapon systems were also to be integrated into ALHs to configure them for the attack role.

In June 1984, Government approved a project for design and development of ALH by M/S Hindustan Aeronautics Limited, Bangalore (HAL) in collaboration with M/s Turbomeca, France, based on the Qualitative Requirements (QRs) of the Air Force. The project was completed in June 2001 at a cost of Rs 2487.99 crore, of which Army had borne a share of Rs 808.89 crore.

In September 1995, Army projected a requirement of 99 helicopters to be inducted by 2007, which was subsequently reduced to 40 helicopters. The ALH initially produced under the Limited Series Production in 2001 had technical shortcomings and failed to meet the QRs. The ALH was not able to fly above 5000 metres though the Army's requirement stipulated an ability to fly up to 6500 metres. This deficiency was because of the limitation of the B2 engine used in the ALHs. Also the vibration level of ALH was not within the acceptable limits. Despite the shortcomings, four ALHs were accepted by the Army and further order for eight placed in order to sustain the production lines of HAL. Waiver for ALH not meeting the QRs was granted by the RM in November 2001 as a one time exception based on the following assurances given by HAL:

1. HAL would identify a more powerful engine to replace the B2 engine in order to meet the qualitative requirement.

2. HAL would try to improve the performance of B2 engine to meet the qualitative requirements.
3. Basic empty weight (BEW) of the helicopter would be reduced from 2550 kg to 2450 kg.

HAL undertook development of a more powerful engine “Shakti” in collaboration with M/s Turbomeca in order to replace the B2 engine. HAL however failed to overcome the shortcomings in the ALH even after five years as of December 2008. Army meanwhile ordered supply of another 28 ALHs in 2006. The inability of the ALHs to fly above 5000 metres was due to the inability of HAL to reduce the basic empty weight of the helicopter as had been assured to the Government.

Thus Army had to procure 40 ALHs valuing Rs 1746.88 crore despite these helicopters having technical shortcomings of not being able to fly above 5000 metres altitude. Contracts were signed with HAL in March 2006 for the above supply of 40 ALHs for the Army, at a total cost of Rs. 1746.88 crore. The delivery of all the 40 ALHs was to be completed by March 2007. Prior to signing of the contract, 16 ALHs were already supplied from December 2001 to March 2006. Up to March 2008, HAL could supply only 24 ALHs to Army, as against the 40 ALHs ordered for delivery by March 2007. Thus due to delay and inability of HAL to develop the ALH according to Army’s requirement, Army is saddled with 40 ALHs valuing Rs 1746.88 crore with technical shortcomings. Also Army is compelled to rely on the old fleet of single engine Cheetah and Chetak helicopters which are of more than 30 years old technology.

In December 2007, Ministry finalized another three contracts with M/s HAL for procurement of 105 ALHs, at a cost of Rs 9490.79 crore. These ALH were to be fitted with the newly developed Shakti engine. The delivery schedule for these three contracts was to commence from 2008-09 onwards provided the Shakti engine was evaluated by August 2008. Army Aviation (Maintenance Advisory Group) at HAL Bangalore stated in September 2008 that Shakti engine under development had deficiency in power and necessary improvements were underway. Therefore, it is not yet certain whether another 105 ALH ordered in December 2007 at the cost of Rs 9490.79 crore would be devoid of the shortcomings and meet the Army’s requirement.

Thus failure of the Army to acquire suitable ALHs timely has led to considerable delay in de-induction of old fleet of Cheetah and Chetak helicopters, which may impact operational preparedness of the Army adversely, especially in high altitude areas in forward locations. Ministry may ensure that the induction/de-induction plan of critical systems and aircraft is not allowed to suffer on account of serious slippages in adhering to the time schedule or quality requirements.

The case was referred to the Ministry in September 2008; their reply was awaited as of February 2009.

2.2 Import of defective ammunition

Krasnopol ammunition costing Rs 375 crore was accepted without necessary trial evaluation. The ammunition proved unsuccessful subsequently. The same ammunition procured earlier in 1999 at the cost of Rs 151 crore was also found unfit for use after seven years of receipt against shelf life of 15 years. Thus procurement of ammunition without adhering to the procurement norms led to unfruitful expenditure of Rs 526 crore. Such procurement of defective quality ammunition adversely impact operational preparedness of the Army.

Krasnopol ammunition is Artillery ammunition fired from 155 mm guns for destruction of enemy armour, high value mechanized forces and static pinpoint targets, both during offensive and defensive operations. Mention was made in Paragraph 4.2 of the Report on Union Government (Defence Services) No. 7A of 2001 of the Comptroller & Auditor General of India about purchase of 1000 Terminally Guided Munitions and 10 laser designators by the Army in August 1999 at a cost of USD 34.75 million (Rs 151 crore) from M/s KBP Tula, Russia even though the munitions did not meet the General Staff Qualitative Requirement and were found to have limitations of range, angle and precision in high altitudes. Despite its limitations, the Army procured the ammunition because of operational urgency. When the ammunition were received in April 2000, instead of the regular check proof, the consignment was accepted based on demonstration firing in inspection. Subsequently during October 2006, when confirmatory firing was carried out to assess the performance of these ammunition held in stock, all the six rounds fired blind. The confirmatory firing showed that the ammunition had degraded within half its shelf life of 15 years. The firm was therefore, asked to repair the ammunition and its use was banned till it was repaired. The ammunition was yet to be repaired as of September 2008.

In 2001, action for repeat procurement of the ammunition from M/s KBP Tula, Russia on the ground of operational urgency was again taken up despite the limitations discussed above. After price negotiation, the procurement was to be approved by the Cabinet Committee which was the Competent Financial Authority (CFA). In view of a request made by the Deputy Chairman of the Government of Russian Federation for signing of the contract during the second session of Russian and Indian Inter-Governmental Commission on Military and Technical Co-operation (6-8 February, 2002), the contract was signed on 8 February 2002 in anticipation of approval of the Competent Financial Authority. The contract provided for procurement of 2000 rounds of 155mm Krasnopol ammunition along with 71 laser designators at a cost of USD 77.2 million (Rs 375 crore) which were considered operationally inescapable minimum requirement. The firm completed the delivery by April 2002 and was paid the full amount of Rs 375 crore between March 2002 and April 2003.

The consignment was inspected by the Artillery in June 2003 after more than a year of its receipt. During test firing of the ammunition in the high altitude area, five rounds were fired and none of them hit the target. One more round

had to be declared unserviceable due to non-opening of the cap. Army, therefore, came to the conclusion that the ammunition was not suitable for high altitude and probable causes of failure were identified as (a) Firing Table might not have been pre-validated by Original Equipment Manufacturer (OEM) for high altitude firing; (b) malfunctioning of the stabilizing unit (c) failure of the inertial guiding system, and (d) failure of target illumination by Laser Designator cum Range Finders. Ministry of Defence in September 2003 raised a quality claim for an amount of USD 77.2 million against the company for the whole supply of ammunition and laser designators. Though the quality claim was raised after the limit of 120 days stipulated in the contract, the vendor accepted it. In response to the quality claim, the vendor carried out demonstration firing in India in June 2005 using modernized version of the ammunition developed by it. Performance of the modernized ammunition was also not found satisfactory. Army therefore could not accept the offer of the vendor to carry out extended trials using the modern version of the ammunition as the product was totally different from the K-155/D 155-03 projectiles that were originally procured.

MGO in June 2005 directed all the Commands not to issue the ammunition to units till finalization of the quality claim. While talks were being held between the Ministry and the vendor for last several years, as of July 2008, the issue of repair/replacement of the ammunition worth Rs 321 crore has not yet been settled.

During initial trials in 1998/1999, the Krasnopol ammunition was found to be short of range and accuracy at high altitudes. Though the initial procurement of 1000 ammunition in 2000 might have been on the grounds of operational urgency, the subsequent procurement of another 2000 ammunition in 2002 without any trial evaluation was incorrect and against procurement norms. As a result, the same limitation of the ammunition in high altitude persisted in the second consignment also.

Thus, 3000 rounds of ammunition worth Rs 526 crore remain unavailable for use. Failure of Army to conduct adequate trials and evaluations of the ammunition led to this situation despite the fact that procurements were carried out in view of the operational urgency and inescapable requirement. The Bank guarantee and warranty bond of USD 3.86 million each i.e. Rs 37.5 crore held by Ministry is little compensation for the loss.

The matter was referred to the Ministry in September 2008; their reply was awaited as of February 2009.

2.3 Irregularity in procurement of equipment

Ministry of Defence procured 15572 equipment 'X' costing Rs 1089 crore from a foreign firm during 2002/2004, without fully evaluating the critical parameters of the equipment. Acceptance of the equipment without fulfilling the mandatory condition was highly irregular and compromised reliability of the equipment in modern battlefield conditions.

The Army had a long felt need for replacing a communication equipment used by its mechanized forces, with the latest equipment 'X' having capability of secure communication. Since such equipment was not available from indigenous sources, the Ministry of Defence approved in May 2001 procurement of 7786 equipment 'X' (50 *per cent* of the projected requirement) through import from a foreign firm. The remaining 50 *per cent* was earmarked for procurement from indigenous sources, since such an equipment was in advanced stage of development by Defence Research and Development Organization (DRDO). While obtaining approval of the competent authority for the procurement, the Ministry assured that confirmatory trials would be carried out before delivery of the first lot of the equipment to confirm the performance. It further assured that payment to the suppliers would be made only on satisfactory completion of these trials.

Contract was finally concluded with a foreign firm in June 2002 for purchase of 7786 such equipment and its accessories at a cost of Rs 577.13 crore (USD 11,87,02,719). The contract stipulated that the seller would provide information on key parameters of the equipment for verification within three months of signing the contract. All formalities of verification by Scientific Analysis Group (SAG) and Joint Cipher Bureau (JCB) were to be completed two months before the first delivery.

The SAG team visited the foreign country during February 2003 and validated a reference equipment 'X' against the firm's own simulator and received only part of the information required for evaluation of the critical parameters. The team, therefore, could not fully evaluate the critical parameters. No team from Joint Cipher Bureau accompanied SAG team for the evaluation. The SAG team in their evaluation certificate of February 2003 stated that the equipment with the required capability performed satisfactorily and advised the Army to go ahead with the procurement. Consequently, a Letter of Credit was opened and the supplies materialized by March 2005 on full payments made to the supplier.

In the meantime, the Ministry concluded another contract with the same firm in March 2004 for purchase of another 7786 such equipment at a cost of Rs 511.87 crore (USD 11,25,72,468), since the equipment to be developed by DRDO was not available for induction in the Army. The supplies against this contract were received by June 2006.

The supplier was, however, yet to provide the essential information for operating key parameters as of December 2008. As a result, the equipment was being used without the key parameters, thus defeating one of the most important objectives of the procurement. Army HQ indicated in February

2008 that supplier had promised to provide specific information on these parameters to resolve the issue. According to Army HQ, its implementation would take a minimum of three to four years.

The Ministry stated in January 2009 that based on limited evaluation, the SAG team had given a go ahead for acceptance of the equipment and recommended formal approval by a committee which was also needed in such cases. However, due to delay in providing complete information by the supplier, the requisite approvals were yet to be obtained. The Ministry added that the equipment was extensively being used and the firm had agreed to provide specific information on key parameters at no additional cost.

Taking solace in the offer of the supplier to provide specific information at no extra cost is fallacious since the contract of June 2002 had provision to bind the supplier to furnish those data even before delivery of the first lot. The acceptance of the equipment and payment of Rs 1089 crore without fulfilling the mandatory condition in the contract was irregular and placed an operational handicap on the Army. The long felt need by Army for replacing the old equipment used by its mechanized forces with latest equipment 'X' having key capabilities was compromised, despite spending Rs 1089 crore for their procurement. The Ministry may investigate the circumstances leading to the acceptance of the equipment, without meeting the contractual conditions and take adequate remedial action to deter such irregularities in future.

2.4 Deficient acquisition planning of a missile system

While severe shortages in stock level of missile 'S' existed since 2004, Army placed orders for procurement of only one-third of the shortage in 2008 for Rs 103.72 crore. The supplies would be completed by 2012 while the missile system is planned to be de-inducted from 2013.

A short range surface to air missile 'S' is deployed for the protection of mechanized forces from attack by low flying aircraft. Army had decided in 2003 that these missiles did not fit into the current Air Defence philosophy and these were to be de-inducted from service from 2013.

War Wastage Reserves (WWR) requirement of missiles is 'X' days. In 2004, the holding of the Army came down to only 20 *per cent* of WWR. Army HQ initiated a proposal for procurement of missiles in May 2004 to meet the 80 *per cent* shortage of WWR. The requirement was later reduced to 250 missiles.

Despite the precarious shortfall in the reserves, it took four years to finalize the contract arrangements and finally a contract agreement was concluded in March 2008 for supply of 250 missiles with M/s ROSOBORNEXPORT, Russia for a sum of USD 26,125,250 (Rs 103.72 crore at the then exchange rate of Rs 39.70 per USD). As per the delivery schedule, the firm was to deliver the entire contracted quantity in five lots of 50 missiles every year commencing from 2008. The first lot was expected to be delivered by

December 2008 and the entire supply is expected to be completed by December 2012 i.e. just one year before the planned de-induction from 2013.

Despite the operational urgency, the procurement of these missiles at a cost of Rs 103.72 crore took four years and the staggered supply would continue to impact the WWR adversely. Ironically, by the time the last batch of missiles reach the users, their de-induction would have already commenced. It shows highly deficient planning in procurement of important missiles which may adversely affect operational preparedness.

The Ministry in February 2009 stated that the delay of four years was due to time taken for processing the case as per the existing procedure and also stated that the procurement would cover the existing serious voids to some extent. Ministry must put in place an effective oversight system in the contract to ensure that WWRs of important missiles and other ammunition are not allowed to be depleted below the prescribed minimum stock limits.

2.5 Loss on account of failure to invoke an option clause

Failure of Army HQ to take advantage of an option clause in an existing contract for procurement of missiles led to a loss of Rs 31.60 crore in contracting 2000 missiles.

Missile 'M' is an anti-tank guided missile (ATGM) capable of destroying tanks fitted with explosive reactive armour. Procurement of 28000 missiles 'M' was approved by the Competent Financial Authority in June 2002. A contract was signed by the Ministry with a foreign supplier in October 2002 for procurement of 1000 missiles in fully formed configuration and transfer of technology for production of 27000 missiles through M/s Bharat Dynamics Ltd. (BDL), Hyderabad. Subsequently, BDL became the sole supplier of the missiles.

The supply order/indent for 4000 missiles was placed by Army HQ on M/s BDL on 31 March 2006 at the rate of Rs 6.70 lakh per missile. The contract had an option clause valid up to 31 March 2007 for ordering additional 50 *per cent* of the quantity at the same rate. Between April 2006 and April 2007, Army was having a deficiency of 22271 missiles but did not place any order.

Ministry placed an indent for 15140 missiles only on 28 March 2008 on M/s BDL with prices ranging from Rs 8.28 lakh to Rs 9.58 lakh per unit.

The Ministry could have very well placed orders for 2000 missiles under the option clause of March 2006 contract at Rs 6.70 lakh each, instead of procuring at an enhanced rate of Rs 8.28 lakh through a fresh indent in March 2008. Delay in finalizing the proposal has resulted in loss of Rs 31.60 crore due to failure to take advantage of option clause.

Ministry in its reply of January 2009 accepted that there was delay in moving the proposal for procurement of additional quantities of missiles.

2.6 Ineffective use of surveillance system

Twenty three surveillance systems imported at the cost of Rs 46.69 crore could not be put to effective operational use for one and a half years as the necessary associated equipment could not be procured by the DGOS due to procedural delays.

Long Range Reconnaissance Observation System (LORROS) is used for long range day and night surveillance. Ministry of Defence in August 2006 concluded a contract with M/s Electro Optics Industries Ltd., Israel for procurement of 23 LORROS along with accessories and engineering support package (ESP) at a total cost of US Dollar 9.99 million equivalent to Rs 46.69 crore. This contract was an addendum to an earlier contract concluded with the firm in February 2002. All the systems were to be consigned to Central Ordnance Depot (COD) Agra within 20 months. The LORROS required certain associated equipment which were to be procured separately by the Army and provided as Buyer Furnished Equipment, (BFE). This included 23 sets of Digital Global Positioning System (DGPS), Laser Range Finder (LRF), Generator, Voltage Stabilizer, Vehicle Jonga/Gypsy and Truck. The contract also stipulated that the LRF and DGPS required to be integrated with each LORROS should be procured by the buyer and delivered to the firm within 30 days of the signing of the contract. The warranty of LORROS was 12 months from the date of acceptance by joint receipt inspection but not later than 15 months from the date of delivery, whichever was earlier.

LORROS were received in COD, Agra in March 2007 after joint receipt inspection. Though planning action for procurement of BFEs was initiated by Army HQ in November 2006, the supply of BFEs was yet to materialize as of September 2008. The procurement was delayed due to delay in deciding whether their procurement was to be made under repeat order or as a fresh purchase. Later, after fresh requests for proposals were invited, contract for procurement of LRF was concluded with a Defence Public Sector Undertaking in April 2008. However, the contract for procurement of DGPS could not be concluded and the case was pending for approval as of 30 September 2008.

In the meantime, in August 2007, Director General Ordnance Services (DGOS) directed COD Agra to issue all the 23 LORROS to the user units. The user directorate in Army HQ (Directorate General of Artillery), however, asked the COD in October 2007 to issue the LORROS only after procuring complete accessories (BFEs). In February 2008, DG Artillery intimated all the Command HQ concerned to instruct the user units to collect LORROS as their holding at COD for long duration had been objected to by Audit and the warranty period had already commenced. By then, COD had already issued the LORROS to the user units.

Director General (DG) Artillery stated in September 2008 that the main equipment (LORROS) could carry out all primary tasks except range finding and position finding. He added that all units holding LORROS with complete BFE procured earlier could exploit the equipment rather than storing them at the Depot. However, in response to separate queries by Audit, user units

reported that the LORROS were being used for training purposes and could not be deployed for operational tasks without LRF, DGPS and Generator Sets.

Thus, 23 surveillance systems valuing Rs 46.69 crore could not be utilized for intended purpose for one and a half years due to delay in procurement of BFEs. Further, warranty of these systems also expired in March 2008 without their being put to an effective operational use. The Ministry must cut down procedural delays in procurement of imported components/support systems so that the critical systems/equipment are put to effective operational use immediately on their purchase fully exploiting the benefit of warranty clause.

The matter was referred to the Ministry in August 2008; their reply was awaited as of February 2009.

2.7 Non-renewal of lease of land occupied by Army Golf Club

Failure of the Ministry to renew the lease of land used by Army Golf Club for about two decades resulted in non-recovery of an estimated rent of Rs 54.95 crore.

Ministry of Defence approved lease of Defence land (A-1)³ measuring 49.03 acres to Army Golf Club, Delhi Cantonment for a period of 10 years in February 1969 at annual lease rent of Rs 3266. The lease was extended for another ten years up to February 1989. Until 1989, Rs 3266 per annum was being recovered as lease rent. Mention was made in paragraph 18 of Report No. 7 of 1997 of the Comptroller and Auditor General of India that the lease was not renewed after 1989. Ministry was yet to furnish the Action Taken Note on the above paragraph as of November 2008.

Audit noticed that a proposal to renew the lease of land for Army Golf Club for another period of 10 years from February 1989 was sent to the Ministry by the Director General Defence Estates (DGDE) in March 1994, five years after expiry of the lease. However, no decision was taken on the extension of lease. Another proposal for renewal of lease from February 1999 to February 2009 was sent by DGDE in 2001 to the Ministry. DGDE assessed the lease rent at Rs 1.72 crore per annum for the lease period from February 1989 to February 1999 and Rs 4.19 crore per annum for the period February 1999 to February 2009. The assessment was based on the prevailing Standard Table of Rent (STR).

Army HQ suggested in 2001 that since the Golf Club provided training activity to Officers posted in Delhi to keep them physically fit, it should be charged concessional rent of Rs 3266 per annum for the period 1989 to 1999 and Rs 10000 per annum for the next lease period. In February 2002, the Ministry asked Army HQ to furnish the income and expenditure details of last three years of the Golf Club in order to arrive at a reasonable rent. Army HQ

³This is the land in Cantonment, actually used or occupied by the military authorities for the purposes of fortification, barrack stores, arsenals, aerodromes, bungalows for military officers etc., which are the property of Government.

did not furnish the details even after several reminders by the Ministry (February 2004). Ministry was yet to take a decision on extending the lease of the defence land to the Army Golf Club.

DGDE stated in December 2006 that besides the 49.03 acres considered for lease, another 37.70 acres of A-1 defence land belonging to Rajputana Regimental Centre had also been occupied by the Army Golf Course, Delhi as reported by the Defence Estates Officer. Army HQ however, asserted in January 2007 that though initially the land was taken on lease for exclusive use as Army Golf Course, it was also being utilized as Army Environment Park and Training Area, where besides playing Golf, other training activities were also undertaken. Army HQ, therefore, proposed to the Ministry that in view of the above stated public usage of the land, there was no need of execution of any lease.

The contention of the Army HQ is inconsistent with the facts. Army Zone Golf, a registered society, is the apex body controlling the 93 Army Golf Courses all over India which are run on fee collected from the users. The users not only include service, ex-service and civilian members from India, but also foreign tourists and heads of foreign missions. It is also to be noted that the renaming of Army Golf Course at various stations as Environmental Park and Training Area had not changed their primary role as Golf Clubs.

Thus the Army Golf Club, Delhi was tacitly permitted by the Ministry for rent free use of defence land for over 19 years, though Rs 54.95 crore was recoverable up to February 2008 as per DGDE. Indecision of the Ministry about the quantum of rent recoverable from the Army Golf Course for nearly two decades resulted in huge accumulation of arrears of revenue.

The Ministry may take early action to recover rent recoverable as per the Defence Lands Manual/Standard Table of Rents and credit the revenue to the Consolidated Fund of India, not only for 49.03 acres of land but also for 37.70 acres of land used by Delhi Golf Course. The Ministry may also review the position in respect of similar Golf Courses in other stations and take appropriate action. The Army Golf Club also did not furnish details of its income and expenditure to the Ministry. This indicates that on one hand the club does not want to disclose the income it has been generating from its members for the use of defence land and on the other hand it wants to continue exploiting defence land without paying any lease charges as per rules.

The matter was referred to Ministry of Defence in October 2008; their reply was awaited as of February 2009. Further, the Ministry was yet to submit Action Taken Note on the Audit Paragraph 18 of Report 7 of 1997.

2.8 Outstanding service charges of Territorial Army

A sum of Rs 21.16 crore incurred by the Ministry of Defence for the services rendered by Territorial Army was outstanding for recovery from other Ministries for periods ranging from 2000-01 to 2007-08.

Territorial Army (TA) was constituted under the Territorial Army Act 1948 to relieve the Regular Army of static duties, to aid the civil administration, if and when required. During peace time, the TA carries out plantation of saplings/trees, undertakes soil conservation works, water harvesting, pasture development, wild life protection etc. The Territorial Army inducts volunteers from the Central/State Government departments and undertakings and imparts regular military training. The cost of training and charges for services rendered are recoverable from the departments/organizations concerned by the Territorial Army through the Principal Controller of Defence Accounts, Headquarters, New Delhi (PCDA).

Comments were made in Paragraph 3.5 of Report No. 4 of 2006 (Army and Ordnance Factories) of the Comptroller and Auditor General of India regarding delay in recovery of outstanding charges recoverable from Public Sector Undertakings in Oil sector for the services/training rendered/imparted by TA. The Ministry in their reply to the Audit paragraph had agreed for incorporating a penal clause for charging interest on outstanding amounts to discourage delay in reimbursement of service charges by the PSUs to the TA. The Ministry has, however, not submitted Action Taken Note on the Audit paragraph as of November 2008.

Further test check in audit revealed that a sum of Rs 21.16 crore for the services/training provided by 10 TA Battalions for the period from 2000-01 to 2007-08 was outstanding against the Ministries of Environment & Forests, Petroleum and Natural Gas, Shipping Road Transport & Highways and Telecommunications as of August 2008. The major sum of Rs 11.38 crore was due from the Ministry of Environment and Forests for the services rendered by the Ecological TA Units for tree plantation and their maintenance. The Additional Directorate General Territorial Army informed Audit in August 2008 that quarterly expenditure statements were being submitted regularly to the PCDA for claiming reimbursement from the respective Ministries but the PCDA started pursuing the matter with the Ministries concerned only from October 2006 onwards. This indicated lax attitude of the PCDA towards obtaining reimbursement of TA charges from the respective Ministries/PSUs.

Despite the assurance given by the Ministry on the earlier Audit Paragraph to recover outstanding amount from the Ministries/Companies concerned, an amount of Rs 21.16 crore pertaining to the period 2000-01 to 2007-08 was yet to be recovered as of November 2008.

The matter was referred to Ministry in September 2008; their reply is still awaited as of February 2009.

2.9 Overpayment to Cantonment Board Ambala

Failure of the PCDA, Western Command to verify actual expenditure on conservancy services led to overpayment of Rs 1.59 crore to the Cantonment Board during four consecutive years.

To provide conservancy services to the offices, barracks, officers' bungalows and other defence buildings and properties in Ambala Cantonment area, agreements had been concluded between the Station Commander, Ambala and the President Cantonment Board, Ambala for the years 2004-05, 2005-06, 2006-07 and 2007-08 duly concurred by the Principal Controller of Defence Accounts (PCDA) Western Command (WC) for Rs 2.54 crore, Rs 2.37 crore, Rs 2.55 crore and Rs 2.58 crore respectively. The periodicity of the agreements was from 1 March to 28 February. The bills in respect of conservancy services in Cantonment were to be submitted by Cantonment Boards to PCDA through the Station Commander for payment.

According to the agreements, the payment was to be made in twelve equal monthly installments. The Cantonment Board was not entitled to claim the cost of conservancy services in excess of the actual expenditure incurred during the year. The amount received for such services from the Station Commander was to be adjusted by the Cantonment Board in the final claim for the month of February.

Audit scrutiny indicated that the actual expenditure of the Cantonment Board on military conservancy services as per actual expenditure statements duly vetted by the Local Audit Officer (LAO) during the year 2004-05 to 2007-08 was less than the amount paid each year. The bills for 11 months from March to January had been preferred each year and paid accordingly by the PCDA, WC. This had resulted in overpayment of Rs 1.59 crore as under:-

Year	Amount of agreement as concurred by PCDA,WC (in Rs)	Total payment made for March to January (in Rs)	Actual expenditure for the whole year (in Rs)	Excess paid (in Rs)
2004-05	25405536	23288408	17872347	5416061
2005-06	23692853	21718444	18459863	3258581
2006-07	25549838	23420683	19664225	3756458
2007-08	25803204	23652937	20192374	3460563
Total				15891663

Say Rs 1.59 crore

The final bills for the month of February (Twelfth installment) were neither preferred by the Cantonment Board, nor the same had ever been called for by the PCDA. The overpayment made to the Cantonment Board was not recovered by the PCDA while making payment for the subsequent year.

The Ministry, in January 2009, replied that the overpayment to Cantonment Board, Ambala primarily occurred due to inadequate or faulty provision in the standard conservancy contract and indicated that there had been no fault of PCDA (WC) and the overpayment was due to failure of Cantonment Board to

claim actual expenditure. The Ministry further stated that the overpaid amount of Rs 1.59 crore had been recovered from Cantonment Board Ambala and deposited to Government.

The Ministry's contention is not acceptable as the PCDA WC had failed to regulate the payments in accordance with the agreement. PCDA remained unaware of the recurring overpayment and the overpayment of Rs 1.59 crore could be recovered only after Audit observed the irregularity during test check. The system of internal control in PCDA WC needs to be strengthened to ensure that such excess disbursements do not occur in future.

2.10 Irregular payment of service charges to a Cantonment Board

Defence Estates Officer (DEO) Pune failed to verify and restrict the claims of Cantonment Board Ahmednagar towards service charges leading to overpayment of Rs 49.31 lakh.

Cantonment Land Administration Rules, 1937 stipulate that the Defence Estates Officer (DEO) shall prepare a General Land Register (GLR) of all land in the Cantonment. The Ministry of Defence in July 1984 ordered that service charges would be paid to Cantonment Boards in respect of properties belonging to Government of India at a uniform rate of 33 1/3 *per cent* of the leviable property tax/house tax. Further, while calculating the cost of assets, the areas of A-1 land⁴ covered by forest, parade grounds, military roads, play grounds and rifle ranges was not be taken into account.

Audit scrutiny indicated that Cantonment Board Ahmednagar preferred claims of Rs 113.61 lakh on account of service charges for 12 pockets of A-1 land used for parade grounds, play grounds, rifle range etc., during the period 1996-97 to 2005-06 which were otherwise exempted from these charges. DEO Pune, without verifying the status/usage of the land, authorized the bills for payment and the Principal Controller of Defence Accounts, Pune (PCDA) paid the amount to the Cantonment Board.

When the irregular payment was pointed out in Audit in December 2007, the DEO stated (December 2007) that though GLR showed these lands as parade ground, play ground and rifle ranges, these were not actually used for those purposes. He claimed that most of the A-1 land was used for construction of building and other purposes. Subsequently, a joint survey carried out in March 2008 by DEO, Station HQ and the Cantonment Board indicated that out of the 12 pockets, some structures had been built in only two pockets, whereas the remaining 10 pockets were used as parade ground, play ground, firing range etc. Thus, an overpayment of Rs 49.31 lakh for 10 pockets on account of service charges was made to Cantonment Board Ahmednagar by the PCDA Pune on authorization by the DEO.

⁴ A-1 land : Land which is under active occupation of Armed Forces.

When Audit took up the matter separately with the Cantonment Board Ahmednagar, it agreed in May 2008 to adjust the same against bills of service charges in future.

Had the DEO checked the demands for service charges with reference to his own records, the overpayment could have been avoided. It was at the instance of Audit that the Cantonment Board agreed to refund the overpayment. The DEO needs to address the control weaknesses in his office to avoid occurrence of such recurring irregular payments, besides watching the adjustment of the overpayment agreed to be refunded/adjusted by Ahmednagar Cantonment Board.

The matter was referred to the Ministry in September 2008; their reply was awaited as of February 2009.

CHAPTER III : ARMY

3.1 Avoidable expenditure of Rs 7.98 crore on procurement of an item

Incorrect provisioning by Central Ordnance Depot Jabalpur resulted in excess procurement of compensating weight worth Rs 7.98 crore.

Compensating weight is one of the parts included in Consolidated Complete Equipment Schedule (CCES) for T-72 Tanks. The responsibility for provisioning of this item was entrusted to Central Ordnance Depot (COD) Jabalpur in October 2003. In the annual provision review conducted by the COD in November 2003, a quantity of 8424 numbers of compensating weights was worked out for procurement.

Audit scrutiny disclosed that 966 compensating weights (CW), which were already held in stock by COD, were not taken into account while provisioning. The existing stock was held under old part number⁵ which was revised in 2001. COD failed to realize that the item with the new part number was the same as that already held in stock.

The indent for quantity 8424 of CWs was placed on the Ordnance Factory Board in December 2003 and the entire quantity valuing Rs 7.98 crore was received from two ordnance factories between September 2005 and February 2008. Meanwhile, 1299 CWs were also received from Heavy Vehicles Factory Avadi in August 2004(300) and April 2006 (999).

Audit found that during September 2003 to February 2008, only 266 compensating weights were issued to the user units. Out of these, 220 CWs were issued for overhaul of tanks against overhaul programme of 330 tanks for the period 2008-09 to 2012-13. The total requirement for the overhaul programme up to 2012-13 was 1320 compensating weights.

This implied that the procurement of 8424 CWs valuing Rs 7.98 crore was much more than reasonable requirement in foreseeable future. The COD replied that tanks were not likely to be de-inducted from service for at least next three decades and the stock could therefore be utilized. The reply is not tenable as provisioning for an unduly long period defies the purpose of annual provisioning. It amounts to injudicious planning and unnecessary blocking of money as indents could have been placed on the Ordnance Factory on an annual basis.

Thus, incorrect provision by COD Jabalpur without considering the existing stock and the consumption rate resulted in avoidable procurement of compensating weights worth Rs 7.98 crore.

⁵ Part number is a number allotted to a store to assist its identification and accounting

The matter was referred to Ministry in July 2008; their reply was awaited as of February 2009.

3.2 Acceptance of substandard batteries

Though 6416 batteries valuing Rs 2.32 crore procured by DGOS did not withstand the prescribed life cycle tests, yet these were issued to troops and the contract for supply was subsequently amended to free the suppliers of their liability to replace/refund the cost of such defective batteries.

Army required Nickel-Cadmium (Ni-Cd) batteries for powering a type of Radio Set. In March 2005, Director General Ordnance Services (DGOS) placed orders for purchase of 4416 batteries for Rs 1.44 crore from M/s HBL-NIFE, Hyderabad. To ensure that batteries give specified/guaranteed number of cycle life, the supply order provided for drawal of control samples from each lot delivered by the supplier to facilitate their testing for life cycle. In case of the failure of the control sample to meet the required life cycle of 392, the firm was liable to refund 100 *per cent* of the payment received for the entire lot from which the control sample was drawn.

In July 2005, DGOS placed another supply order on M/s Bharat Electronics Limited (BEL) Pune for supply of 2000 similar batteries for Rs 88.40 lakh. The contract with BEL too contained a condition for the control samples meeting the prescribed life cycle of 392. But, unlike the contract with HBL-NIFE, it did not make BEL liable to refund payments for the entire defective lot, in case of failure of control sample to endure the prescribed life of 392 in tests.

BEL supplied 2000 batteries in September 2005, and HBL-NIFE delivered 4416 batteries in three lots to Central Ordnance Depot, Agra (COD) during October-December 2005. The COD issued the batteries to user units from December 2005 onwards. The control samples were then subjected to life cycle testing and after conducting the tests, DGQA⁶ reported in March 2006 that the batteries supplied by BEL failed in life cycle tests after 140 cycles. In June 2006, DGQA reported that all the three lots supplied by HBL-NIFE failed in life cycle tests with the third lot (3200 batteries) failing in the life cycle tests at 56 cycles itself. HBL-NIFE contested the results of life cycle test on the grounds that testing standard used by DGQA were obsolete. The firm demanded that testing should be conducted according to the internationally accepted standards since the cells used in the batteries were imported. This was despite the fact the vendor had agreed to supply the batteries as per the standards of Joint Service Specification (JSS) quoted in the tender enquiry. According to the JSS, the batteries should have survived life cycle of 392 cycles in testing conducted as per the environmental conditions specified therein.

⁶ Directorate General of Quality Assurance

In the light of the objections raised by HBL-NIFE, Master General Ordnance branch of Army HQ, in October 2006, debated the issues relating to the test procedure. The following issues emerged during the discussions:

- Before placing the supply orders, DGQA had given test certificates for the batteries offered by both the suppliers and many other lower offers from firms had to be rejected as they did not have the test certificates issued by DGQA. The position emerging from the situation therefore raised questions about the test certificate being one of the criteria for selection of vendors;
- 95 *per cent* of the payment for the supplies had been released to the suppliers based on acceptance in inspection by the representatives of DGQA as required under the terms of supply orders. The tests carried out before acceptance did not have any relation to the life cycle tests, though it was one of the essential conditions for accepting the batteries offered by these suppliers;
- The contention of the firms that between the cycles of charging and discharging, the temperature gets raised and this led to failure of the batteries was not correct since the cells used in the batteries were designed to last 1000-1500 cycles while the specification prescribed for the cells was to meet only 392 cycles;
- The test certificates were issued after establishing that the firms could produce such batteries, but did not guarantee that the batteries would conform to specifications as many factors come into play during bulk production. All tests, including life cycle tests, should have been conducted before acceptance;
- While the contract on HBL-NIFE provided for a guarantee for refund of 100 *per cent* payment, the contract with BEL did not contain any such clause. Both the contracts should have been on the same conditions;
- Notwithstanding the clause of the contract for refund of 100 *per cent* of the payment received, the amount cannot be claimed from the firm unless the batteries were returned. It was not possible to identify and return the batteries from the field; and
- COD Agra did not receive any defect reports from the users.

Based on the above, Army HQ decided to change the terms of the contract to absolve HBL-NIFE of their liability to refund the full payment in respect of lots whose control samples failed in life cycle testing. Army HQ also decided to get an undertaking from the firms to replace the defective batteries if any defect reports were received from the users during the warranty period of four years. The suppliers, in turn, agreed to extend the Bank Guarantee to cover the warranty period of four years.

Thus, instead of invoking the provisions in the supply order, DGOS issued amendments to the contracts in October 2006 which was irregular and favoured the defaulting supplier.

The Ministry stated in October 2008 that none of the user units had reported any defects in the batteries and that in case of receipt of defect reports, either the batteries would be got replaced or the cost would be recovered from the supplier's Bank Guarantee. This contention of the Ministry does not address the basic question as to why life cycle tests were not made a part of the pre-acceptance inspection before releasing payments, particularly when the suppliers were supplying the batteries for the first time to the Army. It also does not address the issue of standards (JSS or International) to be used in control sample testing of stores procured by Army.

It is recommended that DGQA should strictly adhere to the prescribed standards and specifications in quality testing and DGOS should not arbitrarily make post contract amendments in testing standards or quality requirements.

3.3 Abnormal delay in procurement of equipments after making advance payment

Supply of Explosive Decompression and Rapid Recompression chambers required urgently by Institute of Aerospace Medicine, Bangalore (IAM) for patients' treatment and air crew training was abnormally delayed by four years, due to the failure of DGAFMS and PCDA HQ to rectify errors in the Letter of Credit and enforce timely delivery of equipments by the supplier. This also led to grant of undue benefit of Rs 84 lakh to the firm on account of interest on the advance of Rs 1.92 crore retained by the firm for four years without delivering the equipments. The equipments were yet to be commissioned as of December 2008 though these were urgently required by IAM in June 2000 for replacement of the existing 30 year old chambers.

Explosive Decompression and Rapid Recompression Chambers are used for the training of aircrew, evaluation of life support equipment used in aircraft and treatment of patients with Hyperbaric Oxygen Therapy (HBOT). Against the urgent requirement of two Chambers projected in June 2000 by Institute of Aerospace Medicine (IAM) Bangalore through Air HQ, the Director General Armed Forces Medical Services (DGAFMS) in July 2002 placed supply order on M/s Kasco Industries Pune for supply and commissioning of a decompression and a recompression chamber with accessories by July 2004 at a cost of Rs 6.39 crore. The supplier was to be paid 30 *per cent* advance against Bank Guarantee and 50 *per cent* of the order value through irrecoverable letter of credit (LC) payable against initial inspection report and delivery of material at site. The balance 20 *per cent* amount was payable after erection, commissioning and acceptance of the equipments. The firm was paid a total advance of Rs 1.92 crore in two installments in September 2003 (Rs 1.30 crore) and March 2004 (Rs 0.62 crore).

For payment of 50 *per cent* of the order value through LC, LC documents were sent by DGAFMS to Principal Controller of Defence Accounts (HQ) New Delhi (PCDA) in June 2003. PCDA returned the documents pointing out that it would be uneconomical to keep LC open for long duration. After complying with the PCDA's observation, LC was opened at State Bank of

India, New Delhi (SBI) for Rs 3.20 crore on 05 April 2004 with the validity up to 31 July 2004.

The firm, soon after receipt of LC documents, pointed out certain mistakes in the documents and requested DG AFMS to ask SBI to issue necessary amendments to the LC. DGAFMS requested PCDA only in August 2004 to issue necessary instruction to SBI to make required corrections and for extending validity up to December 2004. In between, the firm requested for allowing minimum delivery period of 24 months from the date of issue of correct LC. Finally, the correct LC was opened on 09 February 2007. Due to considerable delay in opening of correct LC, the delivery period was extended from time to time and ultimately refixed as nine months from the date of corrected LC, i.e. 09 November 2007.

The firm failed to deliver the stores even by November 2007. The delivery period was therefore extended up to October 2008. The firm supplied the equipments in October 2008 and commissioning of the equipments had not been done as of December 2008.

The above case revealed the following:

- (i) According to Defence Procurement Procedure 2002 applicable at the time of conclusion of contract, LC was to be opened only after supplier intimates that goods are ready for delivery which is to be done not earlier than 30 days prior to intended delivery and shall be valid for 90 days. However, in this case without any intimation of readiness of goods for delivery by the firm, LC was opened four months prior to date of delivery stipulated in contract and kept open since then with repeated extensions. In spite of the above special dispensation given to the firm, the firm could supply the contracted items after four years of stipulated delivery period. In addition, inadequacies and discrepancies in documents produced by DGAFMS led to amendments in the LC from time to time, besides amendment to the contract. As DGAFMS was responsible for these amendments, Rs 10.39 lakh had to be paid against charges for amendment of LC.
- (ii) The firm took the benefit of errors/mistakes occurred in LC and got the delivery period extended by more than three years. The equipment could only be delivered in October 2008 after four years of placing supply order. This resulted in undue benefit of Rs 84 lakh to the firm on account of interest on the advance of Rs 1.92 crore at the rate of nine *per cent* for the delayed period of four years. DGAFMS informed Audit in December 2008 that PCDA had been authorised to recover interest on the advance at the prevailing rates for the slippage in delivery schedule.
- (iii) Delay of more than four years in procurement of equipments was unjustified as IAM had projected their requirement on urgent basis to replace the existing 30 years old equipments that were repeatedly becoming unserviceable. Abnormal delay would have hampered the indoctrination and training of air crew, evaluation of air borne life support

equipment of Aircraft and treatment of patients with Hyperbaric Oxygen Therapy.

Thus poor contract management by DGAFMS resulted in loss of Rs 10.39 lakh to the state, blocking of Rs 1.92 crore of Government money with the firm for more than four years and delay in fulfillment of urgent requirement of equipment.

The matter was referred to Ministry in August 2008; their reply was awaited as of February 2009.

3.4 Unauthorized use of A-1 Defence land by Army Welfare Education Society

Army Welfare Education Society (AWES), a private society, has been irregularly allowed to construct a Medical College on 25.559 acres of A-1 Defence land at Delhi Cantonment without sanction of the Government of India. Further, assessed rent of the land of Rs 27.61 crore for the period September 2005 to October 2008 and premium of Rs 43.59 crore aggregating to Rs 71.20 crore was also not recovered from the AWES.

Cantonment Land Administration (CLA) Rules 1937 stipulate that class A-1 Defence Land⁷ shall not be used or occupied for any purpose other than official requirements of the Military authorities without the previous sanction of the Central Government. No alteration in the classification of Defence land shall be made except by the Central Government.

Ministry of Defence in January 2004 decided 'in principle' to allot 25.559 acres of A-1 Defence land in Delhi Cantonment on leasehold basis to Army Welfare Education Society (AWES), a private society, for a period of 30 years for establishment of Army Medical College ignoring the suggestion of HQ Delhi Area that the college should not be based in Delhi Cantonment due to acute shortage of land for the Army units in Delhi and to avoid further congestion in the area. The infrastructure for the college to be constructed included college campus, hostel buildings and married accommodation.

Army HQ in January 2004 instructed AWES to utilize the A-1 Defence land for opening of the Medical College, only after the Government sanction was received for conversion of the said land into class B3⁸ and after leasing out the same to AWES. The Ministry, in February 2004, informed Director General Defence Estate (DGDE) that land admeasuring 25.559 acres in Delhi Cantonment would be leased out on commercial terms for 30 years after obtaining the approval of Finance Division of the Ministry and the Union Cabinet and asked DGDE to indicate lease rent and premium at commercial rate.

⁷ A-1 Defence Land is the land which is actually used or occupied by the Military Authorities, for the purposes of fortification, barrack stores, arsenals aerodromes, bungalows for military officers, etc., which are the property of Government.

⁸ Class B-3 land in Cantonment is land held by Private persons.

On the instructions of DGDE, the Defence Estates Officer (DEO), Delhi Cantonment in July 2005 worked out the rent for commercial purposes for the said land as Rs 8.72 crore per annum and premium as Rs 43.59 crore for 2004-05.

No handing/taking over of land to AWES had taken place, yet the work for construction of campus and hostel building of the Medical College in Delhi Cantonment was commenced in August 2005 by the AWES. The work was completed in May 2007. Though DEO Delhi Cantonment in May 2007 referred the matter to higher authorities, neither the Government sanction for transfer of land had been received nor lease agreement had been executed with the AWES as of October 2008. Also no amount on account of rent and premium had been recovered from AWES.

Thus, a private institution had unauthorizedly been allowed to construct Medical College in Delhi Cantonment on defence land, without obtaining sanction of the Government and execution of lease deed. This was in spite of acute deficiency of land for the Army. Further, assessed rent of the land of Rs 27.61 crore for the period September 2005 to October 2008 and premium of Rs 43.59 crore aggregating to Rs 71.20 crore was also not recovered from the AWES.

The matter was referred to Ministry in October 2008; their reply was awaited as of February 2009.

3.5 Utilization of Government assets for non-governmental purposes

There have been repeated instances of misuse of Defence land, buildings and manpower for running the activities of non-governmental organizations, in violation of government instructions. Station Commander Pachmarhi provided Defence land valued at Rs 2.96 crore to a Society to establish an education centre for conducting B. Ed course for dependents of the Army personnel. The Station Commander further re-appropriated six Defence buildings for use by the Society and got them repaired at a cost of Rs 29.90 lakh spent out of government funds. In another case, Station Commander Jalandhar allowed opening of an Army College of Nursing on Defence land and buildings Rs 19.23 lakh was also spent from Government funds for the repairs to these buildings. In a third case, Army Service Corps deployed 9 to 15 Army personnel for running a hostel for wards of Army personnel studying in a private Engineering College at Aurangabad. The expenditure on the personnel irregularly deployed for non-bonafide duties was Rs 1.01 crore for the period from February 2003 to July 2008.

A. Misuse of Defence land and buildings

Ministry of Defence had issued instructions to the Army authorities in October 2001 to adhere to the regulations and not to re-appropriate Defence buildings for non-bona fide use without the sanction of the Government. The Ministry

also cautioned that disciplinary action would be taken against those flouting the said regulations. Mention was also made in the Reports⁹ of the Comptroller & Auditor General of India, Union Government (Defence Services), Army and Ordnance Factories for the year ended March 2006 and 2007 about the misuse of Defence buildings for private purposes by the local Army Commanders.

Disregarding the above instructions, Station Commanders of three stations re-appropriated Defence buildings/ land for private use as enumerated below:

Case-1

Station Commander, Pachmarhi, in August 2003, issued sanction for re-appropriation of six Government buildings having plinth area of 1691 square metres for establishment of Army Centre of Education (ACE) for running B. Ed course for dependents of Army personnel under the aegis of Army Welfare Education Society (AWES), a non-Governmental body. These buildings were constructed for use as accommodation for single Junior Commissioned Officers. An amount of Rs 29.90 lakh was spent by Military Engineer Services during 2006-07 on addition/alteration to these buildings even though the sanction for re-appropriation was issued on the condition that no additions and alterations would be done. Further, AWES constructed new buildings on Defence land measuring 1175 square metre during 2006-07 out of their own funds. The cost of defence land (2866 square metre) occupied by AWES worked out to Rs 2.96 crore at commercial rates¹⁰. Hence, besides incurring irregular expenditure Rs 29.90 lakh on Defence buildings unauthorisedly re-appropriated for private purpose, Defence land valuing Rs 2.96 crore was also diverted by the Station Commander for private use by the Society.

Case-II

In May 2004, Chief of the Army Staff approved the opening of Army College of Nursing (ACN) at Jalandhar for conducting four years programme of B. Sc (Nursing) with effect from academic session 2005-06. Funds to run the ACN were to be provided by AWES.

For housing the ACN and providing hostel facilities to the students, two blocks of Nursing Officers Mess and one ward of Military Hospital, Jalandhar Cantonment were handed over to ACN before July 2006. However, sanction of the Station Commander for re-appropriation of these Government buildings from August 2005 to July 2008 was accorded *post-facto* in February 2008. An expenditure of Rs 19.23 lakh was incurred by Military Engineer Service on addition/alteration to these buildings from 2005-06 to 2007-08, besides land (1339.26 sqm) costing Rs 52.55 lakh was occupied by the ACN. Thus Government buildings were unauthorisedly re-appropriated by the Station Commander, Jalandhar to benefit private institutions.

⁹ (i) Para 3.3 of Report No. 4 of 2007

(ii) Para 3.8 of Report No. 4 of 2008

¹⁰ Commercial rate of land during the year 2006-07 was Rs 10316 per square metre, as notified by the District Collector Hoshangabad.

B. Misuse of manpower

As a part of regimental activity, the Army Service Corps (ASC) decided to provide hostel facilities for the wards of its personnel admitted to a private Engineering College at Aurangabad. Eight flats were accordingly purchased out of non-public fund from Maharashtra Housing and Area Development Authority at an approximate cost of Rs 16 lakh. The hostel started functioning with effect from July 1993.

In October 1999, the Director General Supplies and Transport (DGS&T) issued Standard Operating Procedure (SOP) for the running of the hostel by the Supply Depot, Aurangabad. To facilitate running of the hostel, 9 to 15 personnel below officers rank (PBORs) were specifically posted to the ASC Platoon from February 2003 to July 2008. The pay and allowances of these personnel for the above period which worked out to Rs 1.01 crore were borne out of Government funds. The pensionary contribution of the PBORs deployed was also met out of Government funds, which should be recovered from the regimental funds.

Headquarters, Southern Command replied in January 2008 that the hostel had been established as a welfare measure like other institutes being run by the Army and the manpower was deployed at the cost of other ASC units and at no extra cost to the Government. The reply is not acceptable as non-governmental activities are to be managed from non-public funds and government assets, manpower and funds should not be diverted for such activities.

The Ministry should take deterrent action against the authorities concerned for violating its instructions and diverting defence assets, funds and personnel for private use.

The matter was referred to Ministry of Defence in September 2008; their reply was awaited as of February 2009.

3.6 Misuse of special financial powers by Army Commanders

Special financial powers delegated to Army Commanders for meeting operational requirements were irregularly used by the Army Commander, Western Command to procure Golf Carts costing Rs 1.17 crore. Northern Command also committed certain irregularities in procurement of equipments worth Rs 99.43 lakh made under the special financial powers of the Army Commander.

The Ministry of Defence delegated special financial powers to General Officer Commanding in Chief (GOC-in-C) of various Commands in April 2002 to facilitate procurement of stores/equipments to cater for operational requirement such as readiness of strike corps for deployment, counter insurgency, aid to civil authorities, internal security duties etc.

Audit noticed two cases of misuse of special financial powers by the Army Commanders of Western Command and another two cases of irregularities in procurement of equipments by Northern Command (NC) which are discussed below:

Case-I

Procurement of Golf Carts in the guise of vehicles for transportation of patients in hospitals

GOC-in-C, Western Command sanctioned in May 2006 the procurement of five “Electric Multi Utility Vehicle” (Motorised Carts) for Rs 15.60 lakh under Army Commander’s special financial powers. According to the Statement of Case dated 31 December 2005 prepared for obtaining the sanction, these vehicles were required for transporting aged/handicapped patients in the Military Hospitals. Headquarters Western Command placed a supply order in May 2006 on M/s Mahindra Stillers Auto Trucks Ltd, Faridabad for supply of five EMUs (Motorised Carts) costing Rs 15.60 lakh. These were received by Research and Referral Hospital, Delhi. Three Motorised Carts were issued to Command Hospital, Western Command, Chandimandir and one each was issued to Military Hospitals at Amritsar and Jammu. The three Motorised Carts received by Command Hospital, Chandimandir were in turn issued in September 2006 to Shivalik Golf Course, Chandimandir which has since been renamed as Shivalik Environmental Park and Training Area (SEPTA). SEPTA issued these Carts to Army Golf Courses at Ambala and Jalandhar.

Examination of the specifications of the Motorised Carts as indicated in the supply order showed that the EMUs procured were actually Golf Cart (Battery Golf Cart Model-27) which were purchased under the guise of “Electric Multi Utility Vehicle”.

The Ministry in their reply of September 2008 denied the issue of Golf Carts to the Golf Courses and stated that these were being used in the hospitals. The denial by the Ministry was contrary to the documentary evidence (Receipt and Issue Voucher) available in the Command Hospital Western Command which indicated that the three Golf Carts were finally issued to the Golf Courses and not to hospitals. The receipt and issue voucher clearly showed that these EMUs were received by the Command Hospital Chandimandir and issued to SEPTA. Audit examination also disclosed that in November 2006, the Executive Secretary, SEPTA wrote to M/s Mahindra Stiller Auto Trucks that the three Electric Golf Carts supplied by the firm had been further issued to the Army Golf Courses at Ambala and Jalandhar and that the firm should liaise with the above Golf Courses for maintenance and repair of these Golf Carts.

Case-II

Procurement of Golf Carts in the guise of ‘Track Laying Reece Vehicles’

The GOC-in-C, Western Command, sanctioned in March 2008, the procurement of 22 “Track Alignment Reconnaissance Vehicles” (TARVs) for

Rs 1.01 crore under the Army Commander's special financial powers. The vehicles were sanctioned for use by the Regiments of Army Engineers. HQ, Western Command procured them from M/s Zaverchand Sports Equipment Private Limited, Mumbai, a distributor of Golf equipments in India. The procurement was made in March 2008 at the sanctioned cost of Rs 1.01 crore. Scrutiny of the purchase order and the specifications indicated that the vehicles supplied in the name of TARV were actually Golf Carts of the brand name "Club Car". These were trial evaluated in Shivalik Environmental Park and Training Area during December 2007, (formerly known as Shivalik Golf Course) before placing the purchase order in March 2008.

Audit noticed that the 22 vehicles received in March 2008 were issued to nine Engineer Regiments. These Regiments, apart from their normal duties were responsible for the maintenance of Golf Courses (Army Environmental Park and Training Area) at Chandimandir, Ambala, Jalandhar and Amritsar, etc. Though the TARVs were shown as procured for Engineer Regiments, the specifications indicated that these were intended for use in Golf Courses. The Ministry, in September 2008, replied that the commercially available Golf Carts facilitated noiseless reconnaissance in close proximity of the enemy and helped in quick laying of track material, which enhanced operational capability of Engineer Regiments. Audit, however, observed that four of the 22 vehicles were actually handed over to Shivalik Environmental Park and Training Area (Golf Course). Further there were no documents to show that these vehicles were ever used for laying of track in operational areas.

Since operation and maintenance of Golf Courses is a non-Governmental activity, purchase of Golf Carts from Defence funds for issue to Golf Courses in the above two cases indicate misutilisation of Rs 1.17 crore of public money for non-public purpose by misrepresenting facts. This is also a serious violation of Army Commanders' special financial powers which should not have been exercised for such purchases.

Case-III

Improper Procurement of Trailers

A Corps HQ in Northern Command placed demand for three Trailers of 30 ton capacity along with Prime Movers for transportation of dozers by the Engineer Regiments in Ladakh sector. Against the demand, Northern Command HQ in January, 2005 procured three Trailers of 50 ton capacity each from a private firm for Rs.26.10 lakh, under the Army Commanders special financial powers. Prime Movers for these Trailers were not procured on the basis of an observation of Master General of Ordnance Branch of Army HQ that if both Prime Mover and Trailer were combined, the cost would be higher and would fall under capital procurement. As per the instructions of the Ministry of Defence, procurement of heavy and medium vehicles which have a value of Rs 10 lakh each and life of seven years or more is to be considered as capital procurement. Since capital procurements were not permissible under the special powers, the Trailers were procured without Prime Movers. Apart from this irregularity in purchase, the Trailers of increased capacity, 50 tonne instead of 30 tonne, were purchased though these were intended for used in

hilly terrain of Ladakh Sector. Engineers Branch of Northern Command observed in April 2007 that the requirement projected by the Corps was for Trailers integrated with Prime Movers and that the Trailers procured were unsuitable for the intended use, as their turning radius was higher. Thus, the Trailers purchased by exercising the special financial powers intended for procurement of equipment required for immediate operational deployment, remained without use since their purchase in January 2005.

Northern Command, in September 2008, stated that the Trailers had been issued to an Engineer Regiment for suitable modification and use with available Prime Movers. The reply did not address the basic question of inability of the high capacity Trailer to negotiate curves in hilly terrains, where these were intended to be used.

Case-IV

Irregularities in procurement of Stretchers

Northern Command HQ issued tender enquiry in August 2007 for procurement of Field Stretchers (Light Weight) for use by the medical units. The procurement was sanctioned under the special financial powers of the Army Commander. Five vendors responded and offered samples for technical evaluation but none of the Stretchers met the required specification of "maximum 4 Kg weight". German Stretcher (UT2000) offered by three firms had a weight of 7.8 Kg for a full Stretcher. The specification was, therefore, amended to 8 Kg and three firms offering the German Stretchers were qualified, finally 163 Stretchers were purchased at a total cost of Rs 73.33 lakh from a private sector firm that offered the lowest rate.

The Board of Officers in March 2008, during receipt inspection of the consignment received from the firm, observed the following deviations from the contracted specification of Stretchers:-

- i) There was no provision to hold intravenous fluid bottles;
- ii) The Stretcher could not be converted to a Field Hospital bed.
- iii) The Stretcher was unsuitable for casualty evacuation as it could not float in water and helicopter evacuation facilities were unsuitable; and
- iv) There was no provision for fitting of wheels.

In spite of these discrepancies, the Board accepted the Stretchers under instructions from HQ Northern Command to avoid lapse of funds. Thus, the technical evaluation and selection of the Stretchers offered by the vendors were not done correctly resulting in procurement of Stretchers which could not fulfill the requirement of casualty evacuation.

The above cases point to continued misuse and irregularity in exercising of Army Commanders' special financial powers for non-operational purposes, despite disclosure of such irregularities in Report No. 7 of 2002 and CA 4 of 2008 of the Comptroller and Auditor General of India. Neither the Ministry,

nor its Integrated Finance with whose concurrence such purchases were made took any effective measures to curb such misuses.

3.7 Irregular sanction of works out of operational funds

Commander of an Infantry Division irregularly sanctioned additional works of Rs 3.50 crore out of funds meant for operational works in violation of Defence Works Procedure.

Paragraph 23 of Defence Works Procedure – 1986 provides that if additional works to a sanctioned project become necessary, administrative approval (A/A) will be obtained from the authority competent to accord A/A to the entire work including both original and supplementary estimates. Further Operational Works Procedure (OWP) stipulates that operational work should be of temporary nature actually needed for the conduct of operation and restricted to the limited items of operational works as mentioned therein. This does not cover the construction of permanent assets related to war memorial. Contrary to this, supplementary works of Rs 3.50 crore to a project sanctioned (Rs 7.25 crore) by the Ministry of Defence were sanctioned by a lower authority under OWP out of funds meant for operational works.

The case is detailed below:

An amount of Rs 10.50 crore was projected in approx estimates for construction of Shaheed Minar at Bahuwali Rakh at Jammu as a defence works comprising all works viz memorial tower, protective works, Amar Jawan Jyoti, musical fountain, roads, water/electricity supply etc including security related works. However in July 2004 Engineer-in-Chief's Branch Army HQ omitted the security related work to the tune of Rs 3.50 crore to be met ex-operational works. The Ministry in November 2004 sanctioned the project for the reduced scope of works for Rs 7.25 crore.

For the balance work of Rs 3.50 crore, Commander of an Infantry Division accorded sanction in May 2006 under operational works procedure for security of the War Memorial out of the funds placed at his disposal for operational works. The sanction comprised security buildings, security wall, electrical security system & allied works such as roads, external water/ electrification, sewage disposal which were being executed in under four contracts and the Physical progress thereof were 89 *per cent* and 100 *per cent* respectively as of June 2008.

Since these additional works were integral to the original project of War Memorial, reduction in scope of works by Rs 3.50 crore from the sanction issued under Defence Works Procedure and sanction of the same under OWP was irregular. Sanction of the Ministry which sanctioned the original work was required as per paragraph 23 of Defence Works Procedure. Thus, the Commander of the Infantry Division had violated the codal provisions while sanctioning additional works worth Rs 3.50 crore.

The matter was referred to Ministry in July 2008; their reply was awaited as of February 2009.

3.8 Non-recovery of training charges

Training institutions failed to recover training charges of Rs 13.21 crore from the sponsoring Ministries of External Affairs and Home Affairs towards cost of training of foreign trainees and Assam Rifles recruits thus putting unnecessary burden on Defence Budget.

Audit examination of records of Principal Controller of Defence Accounts (PCDA) Pune and a Gorkha Training Centre (GTC) revealed non-recovery of training charges amounting to Rs 13.21 crore for the period from January 1999 to January 2008 in respect of students from friendly countries and Assam Rifles recruits. Both the cases of non-recovery of training charges are discussed below:

Case-I

Non-recovery of training charges in respect of foreign students

The Ministry of Defence undertakes training of students from friendly countries in their training establishments. These trainings are organised under the Indian Technical and Economic Cooperation (ITEC) programme of the Ministry of External Affairs (MEA).

As per procedure, the living allowance in respect of foreign students will be claimed by the Defence training establishments in advance from the Controller of Defence Accounts (CDA) concerned. On completion of the training, the training establishments/units will prepare the recovery statements towards training charges including living allowance and forward them to the CDA. The CDA will prefer a claim on the MEA, in case of foreign trainees.

The training charges for foreign students in respect of eight training establishments falling under Southern Command amounting to Rs 7.74 crore were not recovered from MEA for the period from January 1999 to January 2008.

On being pointed out in audit, Principal CDA, Pune replied that the training institutions had not forwarded the claims towards training charges leading to non-raising of claim on the MEA. The reply is not acceptable as the PCDA, had been passing the living allowance claims submitted by the training institutions in respect of the ITEC trainees and should be well aware of such training and reimbursements to be claimed from other Ministries. However, on completion of the training, neither the Defence training institutions submitted the statements for recovery of training charges including the living allowance to PCDA nor did the PCDA take any action to remind the training institutions to submit such statements. Thus, due to inaction on the part of the training institutions as well as the PCDA, Rs 7.74 crore was not recovered from MEA, thus putting unnecessary burden on Defence Budget.

Case-II

Non-recovery of training cost from Assam Rifles

The Ministry of Defence accorded sanction in August 2001 for imparting of training to Assam Rifles recruits at various Category 'B' training establishments of the Army from the year 2000-2001 onwards. The cost of training including ration, messing, accommodation, medical and clothing at prevalent rates was to be recovered from the Ministry of Home Affairs out of the Assam Rifles Budget. The cost of training for the financial year 2000-01 was fixed at Rs 35960 per recruit per annum. The Commandant of the training centre concerned was to prepare the recovery statements for the number of recruits trained and forward them to the Director General Assam Rifles (DGAR) through regional Controller of Defence Accounts (CDA) for claiming reimbursement.

Audit scrutiny revealed that training to 1633 Assam Rifles recruits was imparted at a Gorkha Training Centre (GTC) from June 2001 to August 2006. However, training cost of Rs 3.50 crore for 972 recruits only had been claimed by the Commandant GTC and claims for balance recruits (661 nos) amounting to Rs 2.38 crore had not been preferred as of October 2008. Out of the claims of Rs 3.50 crore preferred between June 2002 and August 2005 for 972 recruits, only Rs 0.41 crore had been claimed by the PCDA Western Command in May 2005 and this amount was received in June 2005 from DGAR. Balance Rs 3.09 crore was still to be claimed/ recovered as of August 2008.

In October 2008, HQ Western Command intimated that suitable action was in hand and Regimental Centre had been directed to process the pending cases speedily and submit the claims to Army HQ at the earliest.

Thus, due to inaction on the part of the training institution, training charges amounting to Rs 5.47 crore for the training imparted to the Assam Rifles recruits at the GTC during the year 2001 to 2006 had not been recovered from the DGAR till date.

The matter was referred to Ministry of Defence in September 2008; their reply was awaited as of February 2009.

3.9 Non-availing of concessions on Value Added Tax

Failure of formation heads and a Principal Controller of Defence Accounts(PCDA) to avail of the concession on Value Added Tax(VAT) given by the State Government led to overpayment of Rs 1.16 crore.

The 'Maharashtra Value Added Tax Act, (Levy and Amendment) 2005 (Act) came into force with effect from 1 April 2005. The Act empowered Government of Maharashtra to exempt, fully or partly, from payment of the tax, any sales or class of sale of goods by a dealer to Central Government.

In July 2006, the State Government exempted Central Government from paying VAT in excess of four *per cent* subject to the conditions that value of goods in an invoice (excluding tax) should not be less than Rs 5000 and the purchasing organisation obtains a certificate from the Sales Tax Department indicating that the organisation, being part of Central Government, is eligible to purchase goods at concessional tax from the Registered dealer. The exemption, effective from 1 August 2006, was withdrawn with effect from 1 May 2007.

Audit scrutiny of purchase documents in 10 Defence establishments¹¹ in Maharashtra State indicated that exemption admissible to Central Government Departments from paying VAT in excess of four *per cent* was not availed of by any of them, except one unit, viz. Central Ordnance Depot Dehu Road (COD) which had obtained concession at the end of the exemption period, i.e. from 12 March 2007. The Ministry of Defence (Finance) stated (October 2008) that there was no ultimate loss to the State as excess payment of VAT was made to a State Government. The Ministry added that the units' authorities had been advised to ensure that all vendors deposit excess tax with the State Government or refund it to the Defence. Ministry's contention is not acceptable as the Defence budget had to bear the excess payment due to failure of the procurement agencies to keep watch on the concessions admissible on VAT. Further, the PCDA who had responsibility for scrutinizing the bills did not evolve a system to update itself with the changes in tax laws/rules.

Thus, failure on the part of formation heads as well as PCDA as a Financial Adviser and payment controller led to overpayment of Rs 1.16 crore. On being pointed out in audit, three units recovered Rs 7.22 lakh from suppliers.

Controller General of Defence Accounts should put an effective system in place to ensure that the Principal Controllers of Defence Accounts/ Controllers of Defence Accounts acting as paying authorities remain aware of the latest orders of Central and State Governments on taxation and concessions admissible, if any, to render proper financial advice to the Defence Establishments and exercise effective payment controls.

3.10 Recoveries and savings at the instance of Audit

Recoveries

Based on audit observations, the audited entities recovered or agreed to recover irregular/over payments amounting to Rs 1.73 crore.

Test check of records of Principal Controller of Defence Accounts, Pay Accounts Office (Other Ranks), Central Ordnance Depot, Mumbai, Ordnance Depot Avadi, Military Engineer Services divisions, Defence Research and Development Establishment, units/ formations of the Army and Canteen

¹¹ Eight Army Establishments, one DRDO lab and Principal Controller of Defence Accounts, Southern Command

Stores Department revealed instances of overpayments/non-recoveries and non-debit of advances as per details given in **Annexure II**. On being pointed by Audit, the units/formation concerned recovered/agreed to recover the irregular payments.

Savings

HQ Armoured Corps Centre and School, Station Headquarters Chennai, Station HQ Ferozpur, Station HQ Amritsar, HQ 3 Corps, and certain other formation HQ cancelled irregular sanctions at the instance of Audit, resulting in savings of Rs 4.74 crore.

Consequent upon a test check of accounts at units and formations, Audit noticed instances of irregular sanctions. On being pointed out, the audited units took corrective measures, resulting in savings of Rs 4.74 crore as indicated in **Annexure III**.

The case was referred to the Ministry in September 2008; their reply was awaited as of February 2009.

CHAPTER IV : WORKS AND MILITARY ENGINEER SERVICES

4.1 Irregular diversion of savings of a project for execution of new works

A Zonal Chief Engineer irregularly diverted saving of a project to undertake new works valuing Rs 1.81 crore not originally contemplated in the approved project. He did not surrender such savings, as required under rules.

Defence Works Procedure (DWP) 1986 provides that when the scope of work is reduced for administrative or other reasons, the administrative approval need not be revised but the approved amounts for the abandoned items of the service and the total approved amount will be reduced accordingly. Details of the reductions will be sent by the Garrison Engineer to the Controller of Defence Accounts and all concerned. Further, Regulations for the Military Engineer Services (RMES) provide that any anticipated or actual savings in a project cost must not be applied to carry out additional work not contemplated in the approved project without the sanction of the competent authority.

Army HQ sanctioned a job in February 2005 for provision of four laning of Jessore Marg at Military Station Chandimandir at an estimated cost of Rs 3.22 crore. As per the scope of work, existing two lane 7.2 metre wide and 2.2 Km long Jessore Marg was to be made four lane by widening it to 14.4 metre with divider and protective works. The work also included area drainage, cutting of 487 trees, shifting of signals/BSNL cables, water supply and electric lines that ran alongside the road.

To avoid cutting of large number of trees and large scale shifting of signal/BSNL cables, water supply and electric lines, widening of the road was limited to 9.8 metre instead of 14.4 metre i.e. additional widening of 2.6 metre only. Revision in the scope of work was approved by the Army Commander, Western Command in August 2005. The work with the reduced scope and additional items such as foot bridge (Rs 10.10 lakh) and special items of work (Rs 80.50 lakh) were got executed through a contract concluded in March 2006 with a private firm by a Zonal Chief Engineer, which was completed in February 2008. Due to reduction in scope of the sanctioned work, there were considerable savings amounting to Rs 2.04 crore. Out of the savings from the above work, Rs 90.60 lakh of additional works, not provided in the original scope were executed through the above contract. Another Rs 90.85 lakh from the above savings were spent on additional works for which fresh contract was concluded by the Zonal Chief Engineer in July 2007. Sanction of Army HQ was not obtained by the Zonal Chief Engineer before spending the savings on execution of new works amounting to Rs 1.81 crore. This resulted in unauthorised expenditure of Rs 1.81 crore in violation of the Defence works Procedure and provision of Paragraph 10 of RMES.

The matter was referred to Ministry in August 2008; their reply was awaited as of February 2009.

4.2 Avoidable cost overrun in civil works

Failure of a Zonal Chief Engineer to cancel timely the outsourced consultancy contract for preparation of architectural and structural design despite serious default resulted in delay of three years in conclusion of contract for execution of sanctioned works, which led to a cost overrun of Rs 2.96 crore.

Ministry of Defence issued sanction in March 2004 for construction of lecture halls, library and lady cadets accommodation alongwith allied works at Officers Training Academy (OTA), Chennai at an estimated cost of Rs 12.53 crore. The work was to be completed by March 2008.

Structural and architectural design of lady cadets accommodation was done in house and contract for its execution was awarded in March 2006 to a private builder by the Chief Engineer, Chennai Zone (CECZ). The work was completed in October 2007.

Preparation of architectural and structural design for lecture halls, library and allied works was outsourced to adhere to the target date of completion of the work. For these consultancy services, CECZ concluded a contract in June 2004 with a private firm for Rs 4.40 lakh which was to be completed within six weeks i.e. by 1 August 2004. The consultant failed to complete the work by due date. After two years, the CECZ cancelled the contract in June 2006 and got the consultancy work completed in March 2007 at the risk and cost of the defaulting firm.

Based on the structural and architectural design submitted by the consultant, tenders for execution of the works were invited (in re-tender) in December 2006. The lowest offer of Rs 9.37 crore could not be accepted immediately by the CE due to shortage of Rs 3.22 crore in the administratively approved amount for the tendered items of work. Contract for execution of the works could only be accepted in November 2007 by the CECZ on getting revised sanction for the job.

Thus, abnormal delay of two years in cancellation of the consultancy contract on the part of CECZ led to delay of more than three years in conclusion of contract for remaining building works resulting in cost overrun of the order of Rs 2.96 crore over the administrative approval amount.

In October 2008, the Engineer-in-Chief, Army HQ instructed the executing agencies concerned to avoid recurrence of such delays and resultant cost overruns, in future.

The Ministry, while admitting the facts, stated in December 2008 that the consultancy system was newly introduced in the department (Military Engineer Services) to augment staff resources; a new system takes time to evolve and stabilise and as such cancellation of contract by CECZ after two years should not be misconstrued as lapse. The reply of the Ministry is not acceptable as CECZ should have ensured timely execution of the project by appointing a new consultant if the first consultant had failed to prepare architectural and structural design as per agreed time schedule. This is not

dependent on the stabilization of consultancy system in the department, which is not a new area for Defence.

4.3 Extra expenditure due to delay in obtaining financial concurrence

Delay in obtaining financial concurrence resulted in re-tendering and conclusion of contract at extra cost of Rs 63.16 lakh.

Standard Operating Procedure (SOP) – 1990 of the Engineer-in-Chief (E-in-C) provides eight weeks period for according financial concurrence to works proposals. As per the SOP, the Chief Engineers (CE) are required to forward the proposals within three weeks of receipt of tenders to the E-in-C and a minimum period of five weeks is required by the E-in-C and the Ministry to accord concurrence.

In the following case, failure in obtaining financial concurrence of the competent financial authority within the validity period of a tender resulted in re-tendering and consequential extra expenditure of Rs 63.16 lakh.

In March 2006, the Ministry of Defence issued sanction for the provision of Quarter Master Stores and kotes at Officers Training Academy Chennai at an estimated cost of Rs 233.70 lakh. The Zonal CE Chennai invited tenders for the work in December 2006. The offers were received on 30 March 2007 and the lowest quote of Rs 256.84 lakh was valid up to 27 June 2007. With this lowest offer, the cost of works worked out to be Rs 260.20 lakh, which was beyond the amount of Rs 250.64 lakh, inclusive of contingencies and tolerance limits sanctioned for the works. The Zonal CE, on 09 May 2007, i.e. after about six weeks against the prescribed time limit of three weeks, forwarded a case to the E-in-C for obtaining financial concurrence of the Ministry. The E-in-C could not process the financial concurrence case as the proposal had been sent by the Zonal CE without attaching the necessary recommendation of the Command CE. Meanwhile, the tenderer who was requested to extend validity of the offer up to 15 July 2007 refused to do so. Financial concurrence could also not be accorded by the Ministry as the validity of the offer expired. Retendering thus became necessary and the lowest offer of Rs 342.48 lakh received in second tender (July 2007) was considered high. The tenders were invited for the third time in August 2007. The lowest offer of Rs 320 lakh received in third tender (September 2007) was considered reasonable and after obtaining financial concurrence of the Ministry, contract was concluded in December 2007. Thus failure on the part of Zonal CE in forwarding the proposal for financial concurrence in time and with the required recommendations of Command CE resulted in delayed contracting and an extra expenditure of Rs 63.16 lakh being the difference in the L1 rates of first and the third tender.

Ministry in January 2009 stated that the delay on the part of the Zonal CE had been due to work load. Further, non-accord of FC within validity period of tender was attributable to procedural delay and the extra expenditure was nominal. The contention of the Ministry is not correct as timely submission of

the proposal could have saved the exchequer of an extra and avoidable expenditure of Rs 63.16 lakh.

4.4 Sanction of unauthorised additional works by GOC/GOC-in-C

Contrary to Codal provisions and instructions of Army HQ, local station commanders sanctioned and got executed additional works worth Rs 55.32 lakh in newly constructed officers' mess. Besides, servant quarters sanctioned at a cost of Rs 17.10 lakh were irregularly modified as single officers' accommodation.

Defence Works Procedure provides that if additional works to a sanctioned job become necessary, administrative approval (A/A) will be obtained from the authority competent to sanction the entire work including both original and supplementary estimates. Army Headquarters, in October 2005 also instructed all the Commands to include special items of works, if any, in the proposals for issue of A/A for the job and to cease the practice of including special items of works after issue of A/A.

Ministry of Defence sanctioned a work in July 2002 for construction of accommodation for a Corps Headquarters. The work inter alia catered for construction of Officers' mess including 18 servants' quarters for Rs 81.87 lakh, which was completed in July 2005. The newly constructed Officers' mess (Konark Officers Mess) was handed over to users in October 2005.

Audit scrutiny revealed that during execution of the work, servants quarters sanctioned for Rs 17.10 lakh were modified as Single Officers' accommodation on the approval of GOC, 12 Corps on the plea of acute shortage of Single Officers accommodation at the station. However, against nil authorizations, the station was holding 198 Single Officers' accommodation. Besides, the GOC of a Corps is not competent to modify the work sanctioned by the Ministry. Further, additional works worth Rs 60.67 lakh, including Rs 24.66 lakh for special works such as hard standing, fountain, split type ACs, compound wall, path and rocking, additional lights, false ceiling etc. were sanctioned for the newly constructed Konark Officers Mess by the General Officer Commanding of the Corps/General Officer Commanding-in-Chief of Southern Command between June 2005 and March 2007. These works were executed at a cost of Rs 55.32 lakh.

The additional works sanctioned to improve the Officers' mess required the sanction of the Ministry who had sanctioned the original works. Issue of piece meal sanctions by the lower authorities was irregular. Similarly, conversion of servants quarters (sanctioned by the Ministry at a cost of Rs 17.10 lakh) as Single Officers' accommodation under the orders of the GOC was also irregular.

The matter was referred to the Ministry in July 2008; their reply was awaited as of February 2009.

CHAPTER V : BORDER ROADS ORGANISATION

5.1 Defective procurement of Hot Mix Plants

Procurement of 18 defective Hot Mix Plants valuing Rs. 9.77 crore was made on the basis of incorrect technical evaluation and dilution of specifications. Six of the plants were found defective during installation.

Director General Border Roads (DGBR) invited open tender in November 2005 for procurement of 14 Hot Mix Plants (HMP 20/30) during the year 2005-06. Three firms viz. M/s Gujarat Apollo Equipments Limited (GAEL), M/s Speedcrafts Limited (SL) and M/s Solid and Correct Engineering Works submitted their tenders. The HMPs offered by GAEL and SL were found to be technically qualified in technical evaluation conducted by DGBR in January 2006.

Commercial bids of both the firms were opened in July 2006 and the offer of GAEL at Rs 48.19 lakh per plant was found to be L-I. Supply order for purchase of six HMPs at a total cost of Rs.3.09 crore (including transportation charges Rs. 19.73 lakh) was placed by DGBR in March 2007 on GAEL.

Audit of the above procurement indicated that the offer of GAEL was treated as technically qualified by DGBR despite the fact that it did not meet five of the important specifications stipulated in the Tender Enquiry (TE) as shown below:

Sl. No.	Specification as per T.E dated 28.11.2005	Specification as per GAELs offer dated 03.01.2006
1	Cold Aggregate Feeder: The wall thickness of bin shall be 6 mm and material shall be of MS plate.	The wall thickness of bin will be 5 mm and material will be MS plate.
2	Rollers : Hardness of rollers shall be 35-40 RC.	Hardness of rollers shall be 15-18 RC.
3	Slinger Conveyor : Conveyor belt shall be of 4 ply width 450 mm or more.	Conveyor belt is of HR grade of 3 ply and width 450 mm.
4	Oil Burner unit for Dryer Drum : The oil burner unit shall be capable of heating the aggregate to a temperature of not less than 180°C without any unburnt fuel or carbon residue.	The oil burner unit is capable of heating the aggregate to a temperature of not less than 160°C without any unburnt fuel or carbon residue.
5	Direct Heating tank of adequate capacity each fabricated from minimum 6 mm thick MS glass wool insulation shall be provided.	Bitumen Tanks of 10000 litres capacity will be fabricated from minimum 5 mm thick MS plate width 50 mm thick fibre glass wool insulation will be provided.

Significant deviations were found with regard to the parameters for feeder wall thickness, hardness of rollers, thickness of conveyor belt, minimum heating temperature for oil burner unit and minimum wall thickness of heating

tank. For example, the hardness of the rollers of the cold aggregate feeder was stipulated in the tender enquiry as 35-40 RC and the hardness of the roller in the firm's offer was 15-18 RC. Thus Audit found the qualitative requirements to have been diluted during the procurement process.

During commissioning and testing, the users reported defects in the newly acquired HMPs. These included premature wearing/tearing out of conveyor belt due to manufacturing defects, non-functioning of generating sets, leaking of bitumen tank, choking of dust collector pipe and defect in the pollution control unit. There was also fire accident in one of the HMPs. This was indicative of the inadequate quality and manufacturing defects in the HMPs supplied by the firm which in turn reflected the incorrect technical evaluation of the offers.

Four supply orders were later placed for another 12 HMPs valuing Rs 6.68 crore with the same firm M/s GAEL by DGBR in January 2008. Audit found qualitative requirements specified in the tender enquiry were amended this time to match the specifications offered by the firm during the previous procurement.

Thus, incorrect technical selection and dilution of specifications in favour of the firm resulted in procurement of poor quality and defective HMPs worth Rs 3.09 crore. The quality of another 12 HMPs worth Rs 6.68 yet to be received also remains suspect.

In his reply, the Director General Border Roads stated that the Tender Evaluation Committee felt that the specifications offered by the company were adequate and hence modified specifications were incorporated. This is not tenable as changing the specifications on the basis of an offer at the time of evaluation, favours the tenderer.

The matter was referred to Ministry in October 2008; their reply was awaited as of February 2009.

CHAPTER VI : DEFENCE RESEARCH AND DEVELOPMENT ORGANISATION

6.1 Avoidable expenditure on a research project

Defence Research and Development Organisation (DRDO) undertook a project for enhancing the capability of Pinaka weapon system, without ascertaining the user's (Army) requirement and delayed foreclosure of the project even when the user did not approve the project. Resultantly, an expenditure of Rs 1.06 crore was rendered unfruitful.

Ministry of Defence in April 2003 sanctioned a Technology Demonstration Project at a cost of Rs 4.95 crore to develop a Universal Rocket Launcher (URL) capable of launching rockets of different calibers.

Armament Research and Development Establishment (ARDE) to which the project was assigned by DRDO got the design of the system approved in January 2004 and in December 2005 got the engineering drawings prepared by hiring the services of a private firm. During the period from January 2004 to October 2005, ARDE placed 18 supply orders for procurement of stores and equipment for Rs 1.06 crore. Of these, 16 supply orders for Rs 1.02 crore were placed between January 2005 and October 2005.

Meanwhile, in December 2004, Army HQ informed ARDE that they did not approve the development of a short range URL. ARDE, however, went ahead with the project and purchased equipment and stores by spending Rs 1.02 crore, even with the knowledge that the Army was not interested in the project. The items included two firing system for URL, one each ordered in January 2005 from two private sector firms, at a cost of Rs 75.61 lakh and received by ARDE in March/April 2006.

In May 2006, ARDE recommended closure of the project, on the ground that the Army was not interested in the project.

Ministry in their reply in September 2008 stated that the technology development would benefit programmes in future as it addresses ongoing trends in the field that the project team felt that the Universal Launcher approach was correct. Although ARDE felt that continuation of the project was justified on technical ground, yet ARDE foreclosed the project due to persistent disinterest shown by users.

Technology Demonstration Projects, by definition, are research projects to develop new technologies. The fact that the user was not interested in development of the technology was well known even before placing orders to procure equipments. The equipments were received in April 2006 and almost immediately in May 2006, ARDE closed the project citing persistent disinterest shown by the user. Reply is not acceptable as the argument that the equipment can be used for some other purpose is no justification to procure

them for this project. Thus, neither ARDE instantly acted on the user's suggestion in December 2004 to short-close the project nor it finally completed the Technology Demonstration Project leading to wasteful expenditure of Rs 1.06 crore.

CHAPTER VII : ORDNANCE FACTORY ORGANISATION

7.1 Performance of Ordnance Factory Organization

7.1.1 Introduction

The Ordnance Factory Board (OFB) functions under the administrative control of the Department of Defence Production of the Ministry of Defence and is headed by the Director General, Ordnance Factories.

There are 39 factories divided into five products based Operating Groups as given below:

Sl. No.	Name of Group	Number of Factory
(i)	Ammunition & Explosives	10 Factories
(ii)	Weapons, Vehicles and Equipment	10 Factories
(iii)	Materials and Components	9 Factories
(iv)	Armoured Vehicles	5 Factories
(v)	Ordnance Equipment (Clothing & General Stores)	5 Factories

On a functional basis, the factories are also classified into following Groups:

Sl. No.	Group	Number of factories
i)	Metallurgical	6 Factories
ii)	Engineering	18 Factories
iii)	Filling	5 Factories
iv)	Chemical	4 Factories
v)	Equipment and clothing	6 Factories

Ministry of Defence accorded sanction in November 2001 for setting up of a new propellant factory at Rajgir in Nalanda District of Bihar for manufacture of two lakh Bi-modular charge system (BMCS) per annum for 155 mm Ammunition at a total cost of Rs 941.13 crore. The work on the project is under progress and Rs 430.55 crore has been spent as of September 2008.

In October 2007, Ministry of Defence accorded sanction for setting up of another Ordnance Factory at Korwa in Sultanpur District of Uttar Pradesh for manufacture of 45,000 Carbines per annum at an estimated cost of Rs 408.01 crore. The time schedule for completion of the project is 36 months from the date of issue of sanction.

The work on the project is under progress and Rs 3.35 crore has been spent as of September 2008.

7.1.2 Core activity

The core activity of OFB is production and supply of arms and ammunition, armoured vehicles, ordnance stores etc., required for Armed Forces, Para-Military Forces, Civil Police, Other Govt. Departments and also for Civil Indentors. Based on their indents, OFB fixes targets for production of the required items at the Ordnance Factories.

The product range in these Ordnance Factories covers sophisticated Anti Tank Guns, Anti-Aircraft Guns, Field Guns, Mortars, Small Arms, Sporting Arms, including their Ammunitions, Bombs, Rockets, Projectiles, Grenades, Mines, Demolition Charges, Depth Charge, Pyrotechnic Stores, Transport Vehicles, Optical and Fire Control instruments, Bridges, Assault Boats, Clothing and Leather Items, Parachutes etc.

At present, 966 principal items are produced in these 39 Ordnance Factories, which cover nearly 85 *per cent* of the total cost of production. There were 1.07 lakh employees in the organisation as of April 2008.

7.1.3 Analysis of the Performance of OFB

Revenue Expenditure

The expenditure under revenue head during 2003-04 to 2007-08 was given as in the table below:

(Rupees in crore)

Year	Total expenditure incurred by ordnance factories	Receipts against products supplied to Armed Forces	Other receipts and recoveries ¹²	Total receipts	Net expenditure of ordnance factories
1	2	3	4	5	6
2003-04	6661.56	5698.14	1289.18	6987.32	(-) 325.76
2004-05	6389.89	5330.35	1264.63	6594.98	(-) 205.09
2005-06	6847.13	5701.31	1537.81	7239.12	(-) 391.99
2006-07	6191.89	5147.77	1384.52	6532.29	(-) 340.40
2007-08	7125.63	5850.65	1464.12	7314.77	(-) 189.14

The total receipts and expenditure during 2007-2008 had increased by 11.98 *per cent* and 15.08 *per cent* respectively as compared to the previous year.

Cost of production

The following table indicates the group-wise/element-wise expenditure incurred during the year to arrive at the cost of production for 2007-08 and the percentages of various elements to the cost of production:

¹² Other receipts and recoveries includes receipt on account of transfer of RR funds, sale of surplus/obsolete stores, issues to MHA including Police, Central and State Governments, Civil trade including Public Sector Undertaking, export and other miscellaneous receipts.

(Rupees in crore)

Sl. No	Group of factories	Cost of production	Direct Store and percentage to cost of production	Value added and percentage to cost of production (3-4)	Direct Labour and percentage to cost of production	Overhead charges		
						Fixed Overhead and percentage to cost of production	Variable Overhead and percentage to cost of production	Total Over heads & percentage to cost of production (7+8)
1	2	3	4	5	6	7	8	9
1	Material & Components	1417.35	698.41 (49.28)	718.94 (50.72)	130.33 (9.20)	337.07 (23.78)	251.54 (17.75)	588.61 (41.53)
2	Weapons, Vehicles and Equipment	2512.26	1490.32 (59.32)	1021.94 (40.68)	189.94 (7.56)	544.71 (21.68)	287.29 (11.44)	832.00 (33.12)
3	Ammunition and Explosive	3149.68	2379.61 (75.55)	770.07 (24.45)	138.11 (4.38)	415.16 (13.18)	216.80 (6.88)	631.96 (20.06)
4	Armoured Vehicles	1682.75	1194.03 (70.96)	488.72 (29.04)	74.25 (4.41)	265.39 (15.77)	149.08 (8.86)	414.47 (24.63)
5	Ordnance Equipment	550.57	263.53 (47.86)	287.04 (52.14)	110.70 (20.11)	122.80 (22.30)	53.54 (9.72)	176.34 (32.03)
	Total	9312.61	6025.90 (64.71)	3286.71 (35.29)	643.33 (6.91)	1685.13 (18.10)	958.25 (10.29)	2643.38 (28.38)

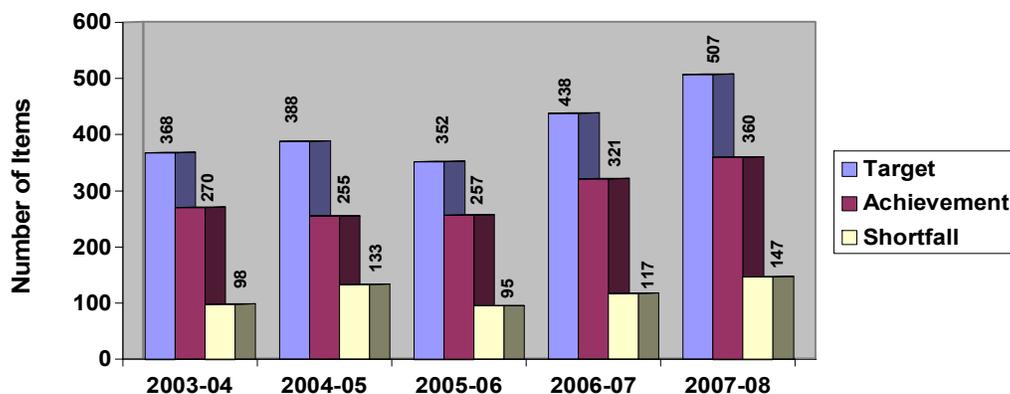
During 2007-08, Ammunition & Explosives group of factories registered the highest cost of production of Rs.3149.68 crore amongst all the five group of factories with material, labour and overheads at 75.55 per cent, 4.38 per cent and 20.06 per cent respectively while Ordnance Equipment Group of factories registered the lowest cost of production of Rs.550.57 crore with material, labour and overheads at 47.86 per cent, 20.11 per cent and 32.03 per cent respectively. The average overhead charges of OFB were 28.38 per cent. While the Material and Component Group registered the highest overheads at 41.53 per cent, the Ammunition and Explosives Group registered the lowest overheads at 20.06 per cent.

Production programme

The production programme for ammunition, weapons and vehicles, materials and components and armoured vehicles was fixed for one year, while four yearly production programme was fixed for equipment items. However, there was a shortfall to an extent of nearly 29 per cent in meeting such targets. The details of demands, targets fixed and shortfall in achievement of the targets during the last five years are shown in the table below:

Year	Number of items for which demands existed	Number of items for which target fixed	Number of items manufactured as per target	Number of items for which target were not achieved	Percentage of shortfall
2003-04	462	368	270	98	26.63
2004-05	388	388	255	133	34.28
2005-06	352	352	257	95	26.99
2006-07	552	438	321	117	26.71
2007-08	628	507	360	147	28.99

Shortfall in production



Issue to users (Indentors)

The indentor-wise value of issues during the last five years was as under:

(Rupees in crore)

Name of Indentors	2003-04	2004-05	2005-06	2006-07	2007-08
Army	5121.04	4854.73	5187.25	4535.43	5252.15
Navy	66.84	79.87	147.49	130.76	119.39
Air Force	229.59	180.96	203.44	208.09	239.53
MES, Research and Development (Other Defence Department)	95.25	93.26	106.15	143.08	145.63
Total Defence	5512.72	5208.83	5644.33	5017.36	5756.70
Civil Trade and Export	972.24	977.75	1247.35	1179.98	1181.11
Total issues	6484.96	6186.58	6891.68	6197.34	6937.81

Total value of issues during 2007-08 has increased by 11.95 per cent over the previous year while issues to Navy have decreased by 8.70 per cent during 2007-08 in comparison to the previous year. Civil Trades and Exports have been increased marginally by 0.10 per cent during 2007-08 in comparison to the previous year.

Civil Trade

The ordnance factories undertook civil trade since July 1986 for optimal utilization of spare capacities and to lessen dependence on budgetary support. The turn-over from civil trade other than supplies to the Ministry of Home Affairs and State Police Departments during 2003-04 to 2007-08 was as under:

(Rupees in crore)

Year	Number of factories involved	Target	Achievement	Percentage of achievement
2003-04	34	278.30	278.71	100.15
2004-05	37	250.00	248.78	99.51
2005-06	33	266.00	312.17	117.36
2006-07	33	279.16	298.56	106.95
2007-08	32	335.01	359.56	107.33

As on 31 March 2008 a total amount of Rs 6.74 crore was outstanding for recovery from Public Sector Undertakings and Govt. Departments under the head Civil Trade. Concerted efforts are to be made for early realization of the outstanding dues.

Export

The following table shows the achievement with reference to target in export from 2003-2004 to 2007-2008:

(Rupees in crore)

Year	Factories involved	Target	Achievement	Shortfall (-) / Excess (+)	Percentage of shortfall / achievement w.r.t. target
2003-04	16	90.50	103.00	12.50	13.81
2004-05	17	115.00	58.00	(-) 57.00	(-) 49.57
2005-06	11	15.00	14.66	(-) 0.34	(-) 2.27
2006-07	13	25.00	15.12	(-) 9.88	(-) 39.52
2007-08	10	30.00	27.44	(-) 2.56	(-) 8.53

The export performance of OFB in 2007-08 has registered a shortfall of 8.53 *per cent* with reference to target. OFB stated that certain orders could not be executed due to unavailability of vessels carrying hazardous cargo and hence the shortfall. As on 31 March 2008, amount due to be realized was Rs 48.86 lakh.

Inventory Management

Stock holding

The level of store-in-hand inventory holding by a factory at any time in respect of imported stores as well as indigenous items, will depend upon the criticality of the items in maintaining the continuity of production, lead time required to procure the item, availability of alternate capacity verified and established sources, availability of storage space etc. The optimum level of store- in- hand inventory for any item may be fixed by the General Managers in such a way that overall assessed inventory holding for the factory should not normally exceed the maximum level as indicated below :

Sl. No.	Group of Factories	Overall stores in hand inventory level (maximum)
1.	Armoured Vehicles	6 months
2.	Ordnance Equipment Factories	3 months
3.	Others	4 months

Armoured Vehicle Group of Factories (HVF Avadi and Engine Factory Avadi) were holding inventory beyond the authorized limits for one to four months, Ordnance Equipment Factories (OCF, Shajahanpur and OEF, Hazaratpur) were holding inventory for one month in excess of the authorized limit and other Group of Factories were holding inventory beyond the authorized limits for one to five months as on 31 March 2008.

Status of inventory holding

The position of total inventory holdings during 2003-04 to 2007-08 was as under:

(Rupees in crore)

Sl. No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	Percentage of increase (+) /decrease (-) during 2007-08 in comparison to previous year
1.	Working stock						
a.	Active	1524.88	1670.52	1649.99	1734.00	2160.00	24.57
b.	Non-moving	196.46	219.84	253.55	256.00	333.00	30.08
c.	Slow moving	215.01	217.43	241.48	194.00	211.00	8.76
	Total Working Stock	1936.35	2107.79	2145.02	2184.00	2704.00	23.81
2	Waste & Obsolete	15.94	11.94	10.43	14.00	14.00	0
3.	Surplus/ Scrap	47.16	48.61	57.88	80.00	81.00	1.25
4.	Maintenance stores	93.20	95.58	73.28	87.00	79.00	-9.20
	Total	2092.65	2263.92	2286.61	2365.00	2878.00	21.69
5.	Average holdings in terms of number of days' consumption	127	147	151	169	160	-5.33
6.	Percentage of total slow-moving and non-moving stock to total working stock	21.25	20.75	23.08	20.60	20.12	

Average holding in terms of months' consumption has decreased by 5.33 *per cent* during 2007-08 in comparison to 2006-07. Non-moving stock has increased by 30.08 *per cent* and slow-moving stock has increased during 2007-08 by 8.76 *per cent* in comparison to 2006-07. Maintenance stores have marginally decreased during 2007-08 by 9.20 *per cent* in comparison to 2006-07. This huge accumulation of waste and obsolete and surplus/scrap stores are required to be disposed off.

Finished Stock Holding

Position of Finished stock holding (completed articles and components) during the last five years was as under:

(Rupees in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
Holding of Finished articles	132.66	90.20	121.06	125.11	79
Total cost of production	8253.05	8331.74	8811.59	7957.53	9312.61
Holding of finished stock in terms of number of days issue	6	4	5	5	3
Holding in terms of percentage of total cost of production	1.61	1.08	1.37	1.57	0.85
Finished component holding	429.45	520.36	437.92	465.45	617
Holding of finished components in terms of number of days consumption	63	54	46	52	44

The value of Finished Stock holding as on 31 March 2008 decreased by 36.86 *per cent* and the Finished Component holding increased by 32.56 *per cent*.

Work- in- progress

The General Manager of an Ordnance Factory authorizes a production shop to manufacture an item in the given quantity by issue of a warrant whose normal life is six months. Unfinished item pertaining to different warrants lying at the shop floor constituted the work-in-progress. The position of the work-in-progress during the last five years was as under:

(Rupees in crore)

As on 31 March	Value of work-in-progress
2004	1479.29
2005	1637.66
2006	1270.68
2007	1179.31
2008	1265.00

The total value of work-in-progress as on 31 March 2008 increased by 7.27 per cent as compared to the previous year. As on 31.03.2008 total 31972 warrants were outstanding, of which 22793 warrants pertain to the year 2007-08 and balance 9179 warrants pertain to the years 1993-94 to 2006-07. Necessary action needs to be taken by OFB for closure of the warrants outstanding for more than six months as authorized.

7.1.4 Losses written off

The table below depicts losses written off under the sanction by competent financial authorities:

(Rupees in lakh)

Sl. No	Particulars	2003-04	2004-05	2005-06	2006-07	2007-08
1	Overpayment of pay & allowances and claims abandoned	32.07	0.00	0.15	1.21	0.00
2	Losses due to theft, fraud or neglect	-	1.38	2.81	0.55	29.11
3	Losses due to deficiencies in actual balance not caused by theft, fraud or neglect	1.38	0.00	0.00	4.65	0.00
4	Losses in transit	2.40	1.57	6.51	0.00	0.16
5	Other causes (e.g. conditioning of stores not caused by defective storage, stores scrapped due to obsolescence, etc.)	48.59	7.98	5.98	0.34	19.58
6	Defective storage loss	0.04	0.00	0.00	0.45	0.00
7	Manufacturing Losses	643.24	522.82	1984.21	883.70	333.90
	Total	727.72	533.75	1999.66	890.90	382.75

As of March 2008, 176 cases of losses amounting to Rs.77.43 crore were awaiting regularization by the Ministry of Defence. Action needs to be taken for speedy regularization of these old loss statements.

7.1.5 Man power

The employees of the Ordnance Factory Organisation are classified as (i) "Officers" of senior supervisory level, (ii) "Non-Gazetted" (NGO) or "Non-Industrial" (NIEs) employees who are of junior supervisory level and the clerical establishment and (iii) "Industrial Employees" (IEs), who are engaged in the production and maintenance operations. The number of employees of various categories during the last five years is given in the table below:

(In number)

Category of employees	2003-04	2004-05	2005-06	2006-07	2007-08
Officers	4000	4187	3866	3877	4036
Percentage of officers to total manpower	3.27	3.51	3.31	3.47	3.77
NGO/NIEs	35247	35105	35517	33783	32359
Percentage of NGOs/NIEs to total manpower	28.84	29.43	30.38	30.20	30.22
IEs	82965	80000	77528	74181	70666
Percentage of IEs to total manpower	67.89	67.06	66.31	66.33	66.01
Total	122212	119292	116911	111841	107061

Ordnance Factory Organisation manpower registered an overall decline by 12.40 per cent during last five years.

7.1.6 Capacity utilization

The table below indicates the extent to which the capacity had been utilized in terms of machine hours during the last five years.

(Capacity utilization in terms of Machine Hours)

(Unit in lakh hours)

Year	Machine hours available	Machine hours utilized	Percentage of Capacity utilization
2003-04	1734	1311	75.60
2004-05	1754	1303	74.29
2005-06	1763	1392	78.96
2006-07	1472	1120	76.08
2007-08	1351	1147	84.90

Though the Machine hours available have reduced, the Machine hours utilized during 2007-08 increased as compared to previous year.

7.1.7 Analysis of Cost of Production

Overhead Charges

The details of overheads in relation to the cost of production in respect of various ordnance factories from 2003-2004 to 2007-2008 are shown below:

(Rupees in crore)

Division	Year	Fixed overhead Charges	Variable overhead Charges	Total overhead Charges (3+4)	Cost of Production	Percentage of overhead to Cost of Production	Average Percentage of overhead to Cost of Production
1	2	3	4	5	6	7	8
Materials and Components	2003-04	285.62	260.34	545.96	1060.01	51.50	46.47
	2004-05	276.49	244.60	521.09	1100.66	47.34	
	2005-06	288.67	238.20	526.87	1148.08	45.89	
	2006-07	321.86	226.91	548.77	1191.23	46.07	
	2007-08	337.07	251.54	588.61	1417.35	41.53	
Weapons, Vehicles and Equipment	2003-04	447.03	286.14	733.17	2182.43	33.59	34.30
	2004-05	465.81	292.20	758.01	2232.62	33.95	
	2005-06	540.49	308.58	849.07	2588.77	32.80	
	2006-07	506.76	264.21	770.97	2027.79	38.02	
	2007-08	544.71	287.29	832.00	2512.26	33.12	
Ammunitions and Explosives	2003-04	365.82	209.74	575.56	2798.03	20.57	21.41
	2004-05	358.50	208.05	566.55	2483.93	22.81	
	2005-06	376.95	210.29	587.24	2611.83	22.48	
	2006-07	396.81	181.58	578.39	2736.10	21.14	
	2007-08	415.16	216.80	631.96	3149.68	20.06	
Armoured Vehicles	2003-04	212.71	92.76	305.47	1567.13	19.49	21.74
	2004-05	228.42	106.88	335.30	1844.57	18.18	
	2005-06	247.35	122.81	370.16	1830.41	20.22	
	2006-07	271.88	100.36	372.24	1422.57	26.17	
	2007-08	265.39	149.08	414.47	1682.75	24.63	
Ordnance Equipment Factories	2003-04	96.33	57.07	153.40	645.45	23.77	27.98
	2004-05	108.08	66.66	174.74	669.96	26.08	
	2005-06	118.11	61.84	179.95	632.50	28.45	
	2006-07	117.21	54.31	171.52	579.84	29.58	
	2007-08	122.79	53.54	176.33	550.57	32.03	
Grand total- Ordnance Factories as a whole	2003-04	1407.52	906.05	2313.57	8253.05	28.03	28.78
	2004-05	1437.30	918.39	2355.69	8331.74	28.27	
	2005-06	1571.57	941.72	2513.29	8811.59	28.52	
	2006-07	1614.52	827.38	2441.90	7957.53	30.69	
	2007-08	1685.12	958.25	2643.37	9312.61	28.38	

It would be seen from the table above that the percentage of overheads to the cost of production was more in respect of factories classified under Material and Component Division where overheads formed 41 to 51 *per cent* of the cost of production. The overhead charges as percentage of cost of production increased in respect of Ordnance Equipment division but declined in other divisions during last five years.

Manpower

The details of direct labour, indirect labour, total wages, supervision charges, ratio of supervision charges to total wages and the ratio of supervision charges to direct labour in respect of various ordnance factories (division-wise) as well as for ordnance factories as a whole during the last five years from 2003-04 to 2007-08 are shown below:

(Rupees in crore)

Division	Year	Direct Labour	Indirect Labour	Total wages (3+4)	Super- vision charges	Ratio of Super- vision charges to total wages	Average Ratio of Super- vision charges to total wages	Ratio of Super- vision charges to direct labour	Average Ratio of Super- vision charges to direct labour
1	2	3	4	5	6	7	8	9	10
Materials and Components	2003-04	100.32	143.51	243.83	117.15	0.48:1	0.55:1	1.17:1	1.22:1
	2004-05	106.42	134.13	240.55	126.29	0.52:1		1.18:1	
	2005-06	108.42	128.90	237.32	130.74	0.55:1		1.20:1	
	2006-07	105.56	116.94	222.50	136.66	0.61:1		1.29:1	
	2007-08	115.66	125.18	240.84	143.59	0.60:1		1.24:1	
Weapons, Vehicles and Equipment	2003-04	168.75	218.19	386.94	202.76	0.52:1	0.57:1	1.20:1	1.21:1
	2004-05	175.80	227.91	403.71	220.64	0.54:1		1.25:1	
	2005-06	207.10	204.01	411.11	229.55	0.55:1		1.10:1	
	2006-07	176.97	179.19	356.20	221.63	0.62:1		1.25:1	
	2007-08	187.88	184.72	372.60	235.52	0.63:1		1.25:1	
Ammunition and Explosives	2003-04	156.67	170.54	327.21	208.87	0.64:1	0.71:1	1.33:1	1.51:1
	2004-05	134.93	188.00	322.93	217.90	0.67:1		1.61:1	
	2005-06	139.43	177.65	317.08	228.20	0.71:1		1.63:1	
	2006-07	152.50	153.56	306.06	233.04	0.76:1		1.52:1	
	2007-08	167.85	155.86	323.71	245.81	0.76:1		1.46:1	
Armoured Vehicles	2003-04	47.23	57.57	104.80	81.35	0.78:1	0.74:1	1.72:1	1.50:1
	2004-05	58.62	62.72	121.34	84.88	0.70:1		1.45:1	
	2005-06	63.38	67.00	130.38	94.94	0.72:1		1.49:1	
	2006-07	63.88	60.14	124.02	95.84	0.77:1		1.50:1	
	2007-08	72.80	62.70	135.50	98.22	0.72:1		1.35:1	
Ordnance Equipment Factories	2003-04	95.84	57.58	153.42	44.17	0.29:1	0.29:1	0.46:1	0.44:1
	2004-05	115.32	69.18	184.50	43.76	0.24:1		0.38:1	
	2005-06	115.24	64.41	179.65	52.56	0.29:1		0.45:1	
	2006-07	112.61	53.81	166.42	50.96	0.30:1		0.45:1	
	2007-08	111.20	54.25	165.45	53.50	0.32:1		0.48:1	
Grand total- Ordnance Factories as a whole	2003-04	568.81	647.39	1216.20	654.30	0.54:1	0.58:1	1.15:1	1.18:1
	2004-05	591.09	681.94	1273.03	693.47	0.54:1		1.17:1	
	2005-06	633.57	641.95	1275.52	736.00	0.57:1		1.17:1	
	2006-07	611.53	563.64	1175.17	738.13	0.62:1		1.20:1	
	2007-08	655.39	582.71	1238.10	776.64	0.63:1		1.19:1	

The supervision charges as ratio of total wages increased marginally in Weapons, Vehicles and Equipment and Ordnance Equipment Factories during 2007-08.

NOTE: The figures incorporated in this paragraph are mainly based on the figures of the Consolidated Annual Accounts of Ordnance Factories in India finalised by Principal Controller of Accounts (Fys.), Kolkata for the year 2007-08, documents maintained by Ordnance Factory Board, Kolkata and information supplied by Ordnance Factory Board, Kolkata.

Planning

7.2 Extra expenditure due to delay in finalisation of an offer

Heavy Vehicles Factory Avadi, in placing an order for T-90 tanks product support items, put an additional liability of Rs 2.78 crore on the State due to failure to decide on the commercial offer within the validity period and subsequent acceptance of abnormal rates quoted by the collaborator.

In order to avoid delay in processing/clearance of various procurement activities and facilitate faster decision-making, the Ministry of Defence (Ministry) in 2005 fixed a time limit of 12 weeks (including one week for preparation and dispatch of supply order) for finalizing the commercial offer for procurement of stores and machinery.

Heavy Vehicles Factory (HVF) required 14 items to indigenously manufacture T-90 tanks, for which they received a commercial offer from the collaborator in September 2006 with a validity period up to 31 December 2006. HVF approached Armoured Vehicle Head Quarter (AVHQ) in October 2006 for sanction to provision it at a total cost of USD 81.22 lakh. AVHQ in November 2006 and December 2006 directed the HVF to examine and furnish detailed item-wise justification of the price quoted by the collaborator since many of the items were common to T-72 tanks, earlier manufactured in the factory.

AVHQ, after receiving the inputs from HVF, in January 2007 referred the matter to Ordnance Factory Board (OFB) for approval to procure the items at a reduced cost of USD 79.59 lakh due to reduction in ordered quantity of two items, and OFB approved it in February 2007. Meanwhile, although HVF requested the collaborator to extend the validity of their commercial offer up to February 2007, the latter did not respond. Resultantly, in November 2007, the order was placed at an enhanced cost of USD 86.39 lakh after obtaining revised offer from the collaborator in June 2007. The increase in the revised offer was phenomenal in one item, which accounted for more than nine fold increase from USD 229.19 per unit to USD 2260 per unit. In the case of another item, the unit rate went up from USD 7292.15 to USD 11,200. Despite such steep rise in the unit cost within less than one year, the collaborator was not requested to reduce the rates.

Thus, failure of HVF and AVHQ to (i) decide on the commercial offer within its validity period, and (ii) adhere to the time frame fixed by the Ministry, coupled with the acceptance of the exorbitant rates offered by the collaborator cumulatively contributed to an avoidable additional liability of USD 6.80 lakh equivalent to Rs 2.78 crore.

AVHQ stated (March 2008) that time taken to firm up the commercial offer of September 2006 was reasonable considering the fact that an in-depth study had to be made by the Technical Committee to assess the price reasonability due to the complexity of the items being procured for the first time and resultantly placing order in November 2007 (based on the collaborators revised offer) was reasonable considering the total outgo in terms of Indian

currency. OFB stated in July 2008 that (i) the Ministry's guideline fixing 12 weeks time limit is not sacrosanct and it varies from case to case and (ii) the revised commercial offer of June 2007 was accepted since the collaborator refused to maintain the price offered in September 2006 and the factory had no other option for meeting the production requirement. OFB added that to avoid occurrence of similar instances they had delegated financial powers to Senior General Manager of the factory and Additional Director General AV for finalizing the cases with the collaborator without further referring the case to them and the Ministry.

Though Audit appreciates the remedial measures taken by OFB, the justification put forth by the AVHQ and OFB in support of the delay in processing the case and acceptance of revised offer is not convincing. The contention that the time frame of 12 weeks was not sacrosanct is unacceptable since the Ministry had fixed the time frame for its compliance by all subordinate authorities. The validity period of three months for firming up the commercial offer had been mutually agreed upon between Ministry of Defence and the collaborator in September 2005 and it was incumbent upon HVF/AVHQ/OFB to process the case within the agreed time frame rather than delaying the processing in anticipation of extension of validity of offer by the collaborator.

The failure of the factory/AVHQ to adhere to the time schedule prescribed by the Ministry and to firm up the purchase order within the validity of the bid resulted in avoidable extra liability of Rs 2.78 crore.

The matter was referred to the Ministry of Defence in April 2008; their reply was awaited as of February 2009.

Manufacture

7.3 Injudicious manufacture of an instrument

Opto Electronics Factory irregularly manufactured 53 numbers of an instrument for their fitment on T-72 tanks despite receiving instruction from the Army for discontinuing fitment of these instruments on the tanks owing to unsatisfactory performance. The injudicious decision of the factory resulted in wasteful expenditure of Rs 54.66 lakh on manufacture of these instruments, which were lying un-issued in the factory for the last six years.

A night sight instrument TPN¹³ is manufactured at Opto Electronic Factory Dehradun (OLF) for fitment on T-72 tanks by Heavy Vehicles Factory (HVF) Avadi.

As the TPNs fitted on the T-72 tanks were found non-functional and were providing unacceptable operational ranges, Army HQ in January 2002

¹³ Russian name for the night sight instrument

apprised OLF of their decision to dispense with the fitment of TPN on T-72 tanks and to replace those already fitted on the tanks, with a new system.

Disregarding the Army HQ decision of January 2002, OLF manufactured 25 TPNs costing Rs 54.66 lakh against a warrant issued in September 2002 and merged them in November 2002 with their stock, raising the stock level to 33 inclusive of eight TPNs manufactured during 2001.

OLF stated in January 2008 that though the TPNs were manufactured in anticipation of inter factory demand from the HVF, these could not be utilized due to discontinuation of their use by the Army. Ordnance Factory Board (OFB) stated that no material warrant was issued after January 2002 and only the material available in the shop against warrants issued before January 2002 corresponding to HVF's demand of March 1996 and November 1998 was utilized. OFB also added that the factory had received an indent in March 2006 for some components/spares of TPN from Central Ordnance Depot and also received an enquiry from Army Base Workshop in May 2008 for eight TPNs

The contentions of OLF and OFB are not acceptable as the decision to manufacture an item should be dependent on the user demand and not on the availability of raw materials alone. As regards the enquiry by Army for eight TPNs, neither the spares/components nor any complete instrument had been issued as of July 2008 from the surplus stock.

Thus, manufacture of 25 TPNs by OLF despite receiving a clear instruction from the user to stop integration of TPN with the tanks and without any covering demand was injudicious and in violation of the OFB's Procedure Manual. The possibility of gainful utilization of TPN as spares by the Army was remote in view of Army's decision of January 2002 and also due to the fact that the factory held surplus spares in their stock to cater to the uncertain needs of the Army.

The matter was referred to the Ministry of Defence in April 2008; their reply was awaited as of February 2009.

Procurement of Stores and Machinery

Stores

7.4 Failure to exercise option clause

Failure of Heavy Vehicles Factory Avadi to exercise option clause during the currency of their existing order foreclosed the possibility of overhauling 37 stabiliser units of T-72 tanks at an economical cost, resulting in an extra expenditure of Rs 28.29 lakh.

Heavy Vehicles Factory Avadi (HVF) placed an order on M/s Bharat Electronics Limited Chennai (BEL) in April 2006 for overhaul of 149

stabiliser units of T-72 tanks at a unit cost of Rs 16.80 lakh, to be executed by July 2008. The order contained an “option clause” to enable the HVF for enhancing the quantity on order by 37 stabilizer units at the same rate and the same terms and conditions.

During the currency of the order, HVF in August 2006 felt the need to overhaul another 150 stabiliser units and sought fresh quotation from BEL in August 2006. On receipt of their quotation, HVF placed another order on BEL in February 2007 for overhaul of 105 stabiliser units at a unit cost of Rs 17.50 lakh.

Failure of the factory in getting at least 37 stabiliser units overhauled at a lower rate against its order of April 2006 under “option clause” resulted in avoidable extra expenditure of Rs 28.29 lakh (inclusive of taxes).

Armoured Vehicles Headquarters Avadi stated in February 2008 that no mention regarding availability of option clause in the order of April 2006 had been made in the brief of the case submitted by HVF while taking approval for procurement based on tender enquiry of August 2006.

Both Ordnance Factory Board (July 2008) and Ministry of Defence (October 2008) defended the action of HVF by stating that the factory had inadvertently included the “option clause” in their order of April 2006, though it had not been sanctioned by OFB. OFB/Ministry added that the factory could not have exercised the option unless the total value of the order, inclusive of the additional quantity envisaged to be procured under the “option clause”, had been sanctioned by OFB. Reply of OFB is not acceptable as inclusion of “option clause” in the supply order is also permitted under the Procurement Manual for Ordnance Factories. Further, after having the “option clause” included in the previous supply order, OFB should have explored the feasibility of invoking the “option clause” available in the supply order to economise and save an expenditure of Rs 28.29 lakh. By not doing so, HVF/OFB foreclosed the possibility of effecting savings and got the work done at an extra cost of Rs 28.29 lakh, which was avoidable.

7.5 Irregularities in procurement of Aluminum plates

Procurement of Aluminum alloy plates of 5 mm thickness by Ordnance Equipment Factory Kanpur by incorporating an additional condition, which was not laid down in the technical specifications, resulted in an avoidable extra expenditure of Rs 1.50 crore.

Ordnance Equipment Factory Kanpur (factory) procures Aluminum alloy plate of various sizes from trade, to manufacture buckles of various sizes for use in belts supplied to the Armed Forces. Till December 2003, the factory had been procuring Aluminum alloy plates of 5 mm thickness from trade firms with the condition that the plates should conform to the Indian Standard specification IS: 737-1974 (superseded by IS: 737-1986). With effect from January 2004, the factory put an added condition that it should have “bright smooth finish free from waviness and scratches”. With this condition, the factory procured

27,775 Kgs of the item at a total cost of Rs 1.47 crore from M/s Anurag Trading Company Kanpur against three orders placed between March 2004 and October 2004.

In November 2004, the factory issued a Global Tender Enquiry for procurement of 20,000 Kg of the item with the condition that it should have “bright smooth finish free from waviness and scratches”. M/s Hindalco, Lucknow was the lowest tenderer with the quoted all inclusive rate of Rs 214.40 per Kg. However, the factory rejected their offer on the ground that they had offered to supply the item “free from waviness and scratches but with dull surface”. The factory cited non-payment of Earnest Money Deposit by Hindalco as another reason for rejection of the offer. The Group HQ of the Ordnance Equipment Factories approved the recommendations of the factory. The factory, thereafter, placed two orders in April 2005 on M/s Anurag Trading Company Kanpur and M/s Power Tools and Industrial Corporation Kanpur which had quoted identical unit rate of Rs 530.40, which was 147 per cent higher than the rate quoted by L1 firm (Hindalco). Against these orders, the factory accepted 10,418.70 Kg supplied by Anurag Trading Company and 9334 Kg supplied by Power Tools and Industrial Corporation between June 2005 and November 2005 at a total cost of Rs 1.05 crore.

The insistence on the condition that “the item should be free from waviness and surface should be shining” was not only arbitrary but also unjust since the same was not laid down in IS: 737-1986. Addition of such a condition and acceptance of exorbitant rates resulted in an extra expenditure of Rs 1.50 crore in procurement of 47,527.70 Kgs at a total cost of Rs 2.52 crore, when compared to the rate of Rs 214.40 per Kg quoted by Hindalco.

Audit observed that the factory subsequently placed an order on Hindalco in January 2006 for purchase of 2500 Kg of the item at a unit cost of Rs 244.94, by omitting the condition of “bright smooth finish”.

In July 2008, replying to Audit, Ordnance Factory Board (OFB) defended the factory by stating that the offer of Hindalco had to be rejected in the earlier tender since they did not pay Earnest Money Deposit (EMD) and offered the item “free from waviness but not shining”. This contention of the OFB is not acceptable since the pattern of rates quoted by M/s Anurag Trading Company Kanpur and M/s Power Tools and Industrial Corporation Kanpur indicated that there was a cartel formation which should have been broken especially when there was huge price difference between the L1 firm (which was rejected) and L2 firms, on which orders were placed. Further, the factory should have considered waiving the condition of payment of EMD of Rs 85,760 as permissible under rules in respect of suppliers registered with sister factories/DGS&D, since Hindalco had mentioned in their quote that they were registered suppliers of DGS&D.

OFB added that the factory used to procure the item as per the IS standards as mentioned in the specification framed by Defence Material and Stores Research and Development Establishment (DMSRDE) of Defence Research and Development Organisation, with a “note” that material would be bright and smooth finish. In order to meet quality, the factory had decided to purchase the item with bright and smooth finish, without wave and scratches.

Audit, however, observed that according to DMSRDE, brightness and shining were not essential, because the final product would be black anodized. Evidently, the factory's decision to insert the "note" requiring the material to be bright and smooth was arbitrary.

The acceptance of the exorbitant rate of Rs 530.40 per Kg offered by traders, in preference to a much lower rate of Rs 214.40 per Kg offered by a manufacturer, points to the factory's scant regard for economy in spending as the accepted rate was nearly 2.5 times higher than the lowest offer. As the intention of the factory in issue of the global tender was to get competitive rates, acceptance of the quotes which were exorbitant, without ascertaining their reasonableness, even after realizing that the items were available at substantially lower rates, was irregular and against the spirit of the General Financial Rules.

The matter was referred to the Ministry of Defence in July 2008; their reply was awaited as of February 2009.

7.6 Avoidable import of components

Import of components of fuse of ammunition by Ordnance Factory Khamaria at higher rate despite its successful indigenisation and production was avoidable and resulted in additional burden of Rs 46.67 lakh on Defence exchequer besides losing valuable foreign exchange.

Ordnance Factory Khamaria (OFK) requires safety lock assembly and spiral, which are components used in the assembly of fuse of 30mm ammunition. Owing to non-indigenisation, the factory was importing these components up to 2001-02. The successful indigenisation was completed in June 2003 when the OFK procured 90,000 numbers each of safety lock assembly and spiral from M/s VXL Technologies Limited, Faridabad at a unit cost of Rs 31 and Rs 6 (exclusive of excise duties and Central Sales Tax) respectively between January 2003 and June 2003 against its order of October 2002 duly accepted in inspection.

OFK also placed orders on M/s VXL Technologies Limited, Faridabad and M/s Hyderabad Precision Manufacturing Company Limited, Hyderabad in June 2003 for procurement of 1,60,024 numbers each of safety lock assembly and spiral at unit cost of Rs 37.40 and Rs 6.40 (inclusive of duties and taxes) respectively and the entire ordered quantity supplied to the factory between August 2003 and December 2003 was duly accepted and taken on charge. OFK also exercised option clause against its orders of June 2003 in November 2003- December 2003 and procured 40,006 numbers each of safety lock assembly and spiral from these two firms at the same terms and conditions between January 2004 and March 2004. OFK, therefore, met its production requirement for the year 2003-04 (1,95,000 numbers of 30mm ammunition) with the components received from indigenous sources against its orders of October 2002 and June 2003 (2,90,030 each of safety lock assembly and spiral).

Despite successful indigenous development of safety lock assembly and spiral, the OFK placed two import orders on a foreign firm in November 2003 to meet the production requirement for the year 2003-04 and procured 274860 numbers each of safety lock assembly and spiral at an unit cost of Rs 50.60 and Rs 10.18 respectively, which were taken on charge by the factory in January 2005 although the items were received in March 2004.

The import of components of a fuse of ammunition at higher rate at a total cost of Rs 1.67 crore despite successful indigenisation and production was not only avoidable but also resulted in additional expenditure of Rs 46.67 lakh.

Both OFK (May 2005) and Ordnance Factory Board (September 2008) stated that the import order was necessitated since the indigenous firm (M/s VXL Technologies Limited) was not an established supplier. Further, performance of these two critical items as components of fuse was not ascertained in filled proof despite its clearance in spin test and other static tests. A deliberate decision was therefore taken to import 40 per cent of the estimated requirement from Original Equipment Manufacturer to avoid any probable hold up in production during 2003-04. OFB added that the target of the ammunition for 2003-04 was achieved in 2004-05 (August 2004) even though they were actually accounted for during 2003-04. The contention of the factory and OFB is not acceptable since (i) the indigenised sources had already been developed as is evident from the fact that the factory had accepted in inspection these critical items received from Indian suppliers against its order of October 2002 and June 2003 before placement of import order in November 2003 and (ii) placement of orders on indigenous firms for 2,90,030 numbers each of safety lock assembly and spiral was sufficient to meet the production requirement of 1,95,000 ammunition during 2003-04. Further, the justification given for import of safety lock assembly and spiral to avoid production hold up during 2003-04 was also not convincing since the import order was placed in November 2003 and the related expectation to utilise the imported components during 2003-04 itself after due clearance in spin tests and other static tests besides filled proof, was unrealistic. Further, the fact that the imported components were actually utilized in 2004-05 only supports Audit's assertion regarding avoidable imports of November 2003.

The matter was referred to the Ministry of Defence in June 2008; their reply was awaited as of February 2009.

7.7 Non-incorporation of risk purchase clause leading to extra expenditure

Failure of Metal and Steel Factory Ishapore to incorporate risk purchase clause in the purchase orders for procurement of Ferro Molybdenum foreclosed the possibility of recovering an extra expenditure of Rs 76.86 lakh from defaulting firms.

Metal and Steel Factory, Ishapore (MSF) placed two orders in November 2002 and June 2003 on M/s Lalwani Industries Limited Kolkata (Firm A) and

M/s Rama Ferro Alloys and Finance Private Limited, Kolkata (Firm B) for supply of 10000 Kgs and 9000 Kg of Ferro Molybdenum at a unit cost of Rs 387.44 and Rs 504.60 by December 2002 and July 2003 respectively. MSF received only 10125 Kg Ferro Molybdenum (6500 Kgs from firm A and 3625 Kg from firm B) within the stipulated delivery period and both the firms cumulatively failed to supply 8875 Kg even within the extended delivery period of June 2004 (Firm A) and March 2004 (Firm B).

Even though both the firms failed to honour their commitment to supply balance quantity on order, MSF could not enforce 'Risk Purchase' against them in the absence of such a clause in the supply order. Their default resulted in MSF resorting to immediate purchase of 9000 Kg from M/s Electro Ferro Alloys Private Limited Ahmedabad at a higher unit cost of Rs 1324.41 in July 2004. The failure to incorporate risk purchase clause in their orders of November 2002 and June 2003 was violative of Ordnance Factory Board's standing instruction contained in Material Management guidelines. As a result, MSF had to procure Ferro Molybdenum at a higher cost involving an extra expenditure of Rs 76.86 lakh. It also foreclosed the possibility of recovering an extra expenditure of Rs 76.86 lakh from both the defaulting firms.

MSF stated (April 2008) that placement of their order of July 2004, which was not a risk procurement at higher cost, cannot be termed as loss as the item was procured at competitive rate in tune with the then prevailing international market rates. The contention of MSF is not acceptable since procurement of 8875 Kg Ferro Molybdenum could have been made under risk purchase, had MSF included such a clause in the supply orders placed on Firms A and B as required under the OFB's guidelines.

OFB in September 2008 justified the action of MSF by stating that a penalty clause subject to a maximum of 5 per cent instead of risk purchase clause was made in the supply orders of November 2002 and June 2003 since inclusion of risk purchase clause would have involved unsavory litigation, unpredictable delays and also failing to attract sellers' interest in buyers like Ordnance factory organisation. OFB further added that the extra expenditure involved as a result of procuring the item at a higher rate by MSF owing to failure of the defaulting firms to supply the ferro molybdenum was only Rs 6.40 lakh as against Rs 76.86 lakh worked out by Audit. The contention of OFB was not tenable since (i) MSF failed to incorporate the risk purchase clause in their orders of November 2002 and June 2003 in violation of OFB's hand book of material management manual, which ultimately foreclosed the possibility of recovering extra expenditure of Rs 76.86 lakh from the defaulting firms (ii) inclusion of 5 *per cent* penalty clause would not in any way neutralize the extra expenditure of Rs 76.86 lakh, and (iii) the extra expenditure of Rs 6.40 lakh had been worked out by OFB taking into account the unit cost of Ferro Molybdenum against its orders of August 2003 and November 2003, which was irrelevant since the purchases against these orders were made by the factory before the expiry of the extended delivery period.

The matter was referred to the Ministry of Defence in July 2008; their reply was awaited as of February 2009.

Machinery

7.8 Suspected fraud in reimbursement of Customs Duty to a supplier

A private firm got “reimbursement” of Customs Duty of Rs 31.20 lakh from Ordnance Equipment Factory Kanpur for supply of imported machines, by producing documents, suspected to be forged to claim the re-imburement. Audit examination revealed that the firm did not pay Customs Duty for the import.

Ordnance Equipment Factory Kanpur (OEF) placed an order on M/s Anurag Trading Company Kanpur in December 2007 for procurement of two hydraulic shaving machines of Aletti Giovanni and Figli, Italy along with spares at a total cost of Rs 1.53 crore, which included Customs Duty element reimbursable on submission of original customs duty certificate amongst others by the firm.

According to records available at OEF, the factory received the machine and prepared a contractor’s bill for Rs 1.24 crore (80 *per cent* payment) on 31 March 2008. OEF paid Rs 0.27 crore (20 *per cent* payment) to the supplier in August 2008 after successful installation and commissioning of the machine in July 2008.

Audit examination of the case revealed the following serious irregularities:

(i) Though the firm claimed and received Rs 31.20 lakh as Customs Duty from OEF by submitting bill of entry and challan evidencing its payment to the Government in March 2008, the Commissioner of Customs New Delhi informed Audit that the importer did not pay any Customs Duty as exemption certificate issued over the signature of General Manager, OEF was produced by the firm. The firm is thus suspected to have committed a fraud by submitting forged documents, viz. Challan and bill of entry;

(ii) In terms of the supply order, the contractor shall be advanced 80 *per cent* of the contracted amount only after receipt and initial inspection of the machines in good condition at the factory premises. The bill of entry submitted to the factory by the firm was dated 31 March 2008, whereas the Customs records showed the same as 11 April 2008. In the light of this, the factory could not have in any way received and inspected the machines on 31 March 2008. Viewed in this context, OEF preparing a contractor’s bill to facilitate payment of 80 *per cent* of the contracted amount to the firm on 31 March 2008 was irregular;

(iii) The Customs Duty exemption certificate purportedly issued by the General Manager on 15 March 2008 raised doubt as the order of December 2007 did not contain any clause for issue of such exemption certificate. Having issued the Customs Duty Exemption Certificate on 15 March, 2008,

reimbursement of customs duty of Rs 31.20 lakh to the firm was unwarranted; and

(iv) The total value of the imported machines and spares as reflected in the bill of entry (dated 31 March 2008) produced by the firm to the factory was Rs 1.23 crore whereas in the records of Customs, viz bill of entry (dated 11 April 2008), the value of the imported machines and spares had been shown as Rs 1.02 crore. Thus, the firm appeared to have manipulated the bill of entry to obtain undue benefit from the State.

Thus, M/s Anurag Trading Company Kanpur suspected to have forged bill of entry and challan of import duty and received Rs 31.20 lakh as Customs Duty from the factory despite not paying any duty to the Government.

Audit recommended to the Ministry of Defence/Ordnance Factory Board to constitute a Board of Enquiry to go into the matter and take suitable measures against the defaulting firm and to recover the element of overpayment from them with penalty.

During discussion of the case by Audit with the representatives of the Ministry of Defence/ Ordnance Factory Board in October 2008, the Member (Finance) of the Ordnance Factory Board appreciated the role of Audit in highlighting the case and stated that Customs Duty paid to M/s Anurag Trading Company Limited Kanpur had been recovered by OEF after being pointed out in Audit and that a Board of Enquiry had been constituted to go into the details of the case.

In October 2008, OEF confirmed the receipt of a sum of Rs 31.29 lakh as refund by the supplier. Subsequently, in November 2008, OEF informed Audit that they did not issue any Customs Duty Exemption Certificate to the supplier, indicating that the Customs Duty Exemption Certificate based on which the supplier had obtained exemption was forged. OEF did not comment on the action taken or contemplated against the supplier for the suspected forgery of documents. The involvement of the factory's personnel cannot be ruled out since the factory's letterhead and rubber seal affixed on the Customs Duty Exemption Certificate supposedly forged by the supplier looked like a genuine document due to which the Customs authorities had granted the exemption. Another indicator of the potential involvement of the factory personnel is the preparation of material inward slip on 31 March 2008 to facilitate the payment to the supplier, though as per the Customs' records, the imported equipment had reached Inland Container Depot at New Delhi only in April 2008. Urgent action is therefore essential to investigate the whole issue and to take adequate system improvements, besides punitive action against the delinquent (s) to stop recurrence of such irregularities.

Ministry/OFB should also get other cases of import investigated immediately to provide an assurance that similar fraudulent reimbursements have not been claimed in other procurements in this factory and also other factories under the Board

The matter was referred to the Ministry in September 2008; their reply was awaited as of February 2009.

Miscellaneous

7.9 Avoidable payment of fixed charges for electricity

Failure of Ordnance Cable Factory Chandigarh to reduce the connected load for electricity based on actual consumption pattern resulted in avoidable payment of Rs 46.44 lakh.

Ordnance Cable Factory Chandigarh entered into an agreement with the Chandigarh Electricity Department for supply of 2576 KVA electricity at connected load of 3650 KW. The Chandigarh Electricity Department started levying fixed charges on contracted connected load at the rate of Rs 60 per KW per month with effect from August 2005 in addition to electricity charges on units of electricity consumed.

Audit observed (March 2007) that though the load never exceeded 1452 KVA (1336 KW), the factory applied (October 2004) for enhancement of connected load from 3650 KW to 4650 KW. The factory even remitted a security deposit of Rs 4.68 lakh to the Electricity Department for enhancement in the connected load. The factory later withdrew their request for enhanced connected load and sought refund of the security deposit of Rs 4.68 lakh from the Electricity Department in February 2007. The Electricity Department refunded the security deposit to the factory in April 2007 after deduction of 10 per cent process fee.

Analysis of relevant documents revealed that peak load pattern showed a downward trend from 1336 KW (1452 KVA) in April 2005 to 1002 KW (1089 KVA) in February 2008. In September 2007, it was as low as 270 KW (294 KVA) as against the contracted load of 3650 KW. Despite consumption of electricity varying between 37.64 percent and 7.50 percent of the contracted connected load, no action was taken by the factory till November 2008 to take up the matter with the Electricity Department for reduction of contracted connected load appropriate to the past consumption pattern. Rather, the factory allowed the Chandigarh Electricity Department to levy fixed charge on the maximum contracted load of 3650 KW though the load achieved was far below the contracted level. As a result, the factory made an avoidable payment of fixed charges amounting to Rs 46.44 lakh for the period from August 2005 to July 2008 towards unutilized connected load.

Both the factory and Ordnance Factory Board (OFB) maintained that the maximum load achieved would always be less than the connected load since at any point of time, each and every machine, boiler, furnace, air conditioner, fan, cooler, lights and other electrical appliance installed in the factory was not required to be switched on and that the maximum load achieved by the factory was worked out by the electricity department by tracking the connected load

by physical verification and hence reduction of load sanctioned was not possible. OFB also added (November 2008) that the factory had appointed a board of officers to review the connected load and the report would be submitted shortly. The contention of factory/OFB was not tenable since the actual consumption of electricity was abnormally lower than the contracted load fixed in the agreement of 1963. Audit recommends that the review of the contracted load of 1963 may be taken up and completed immediately based on the current needs and equipment installed in the factory to optimise on contracted load and avoid unnecessary extra payments on account of electricity.

The matter was referred to the Ministry of Defence in July 2008; their reply was awaited as of February 2009.

7.10 Non/under recovery of fixed electricity charges

Four Ordnance Factories based in Uttar Pradesh either failed to recover fixed charges on the consumption of electricity or under recovered the charges resulting in non/under recovery of fixed charges cumulatively amounting to about Rs 3.19 crore.

The Uttar Pradesh Power Corporation Limited introduced in December 2004 a revised schedule of recovery of electricity charges from its consumers. It included a fixed charge of Rs 50 per KW of contracted load per month and variable electricity charge linked to the units of electricity consumed.

According to the standing instruction of May 1993 issued by the Ministry of Defence, the Ordnance Factories (OF) are to recover domestic electricity charges from the residents of OF estates at the same rates at which the private domestic consumers of peripheral areas pay to the local electricity supply authorities. The private domestic consumers normally pay electricity charges consisting of a fixed charge determined on the basis of contracted load and the variable based on actual consumption at the applicable rates. However, two ordnance factories based in the State of Uttar Pradesh recovered only part of the fixed charges, while two other factories did not recover any fixed charges from the residents of the factory estates, resulting in non recovery of fixed charges of about Rs 3.19 crore up to September 2008.

Ordnance Factory Muradnagar stated in January 2008 that fixed charges were not levied owing to non-installation of separate meters by the electric company. However, the Ordnance Factory Muradnagar started recovering fixed charges at the rates fixed by the power corporation from the residents of OF estates with effect from July 2008, at the instance of Audit. But no action was taken to recover the arrears for the period from December 2004 to June 2008.

Ordnance Equipment Factory Kanpur stated in September 2007 that the recovery of fixed charges based on the contracted demand would have

generated profit to the factory. The contention is not tenable since the actual electricity and fixed charges paid by the factory towards domestic consumption to the electricity company were always more than the amount recovered from the residents of OF Estates.

Ordnance Clothing Factory Shahjahanpur stated in March 2008 that by taking energy efficiency measures in the quarters, they have achieved uniform load of 1 KW. The contention of the factory is irrelevant to the point in question as fixed charges were to be recovered from the residents of their estate at the rate applicable against the sanctioned load, which exceeded 1KW in respect of all types of quarters.

The response of Ordnance Factory Kanpur to the Audit observation was awaited as of November 2008.

Audit, therefore, recommends that Ordnance Factory Board/Ministry of Defence may direct not only the Ordnance Factories based in Uttar Pradesh but also other Ordnance Factories across the country to recover appropriate electricity charges including fixed charges at the authorised connected load. Action is also required to recover the arrears of fixed charges from the residents of OF estates in UP for the period from December 2004.

The matter was referred to the Ministry of Defence in August 2008; their reply was awaited as of February 2009.

7.11 Recoveries and savings at the instance of Audit

Based on Audit observations, seven ordnance factories recovered Rs 58.35 lakh from private and public authorities. One ordnance factory also achieved a saving of Rs 9 lakh per annum approximately by accepting Audit's suggestion for using cheaper raw water for arboriculture instead of costly potable water.

At the instance of Audit, seven ordnance factories recovered Rs 58.35 lakh on account of hire charges for use of Government transport for transporting the wards of the employees, interest on security deposit with the electricity companies, recovery of electricity duty from the residents of the factory's estates and discount on petrol, oil and lubricants as per the details given below: -

Sl No	Units/formations	Nature of irregularity	Period	Amount recovered (Rs in lakh)
1	Ordnance Factory Medak	The factory failed to recover hire charges for the use of Government transport by school going wards of the factory's employees.	January 2005 to June 2006	5.52

SI No	Units/formations	Nature of irregularity	Period	Amount recovered (Rs in lakh)
2	Field Gun Factory Kanpur and Ordnance Parachute Factory Kanpur	The factories failed to obtain interest on security deposit with the Kanpur Electric Supply Corporation.	April 2000 to March 2008 (FGK) and April 1998 to March 2007 (OPF)	32.70
3	Ordnance Factory Dehradun	Electricity Duty paid to electricity company was not recovered from the employees residing in the estate of the factory.	December 2003 to February 2007	6.97
4	Ordnance Factory Bhandara, Varangaon and Chanda	Failure of the factories to avail of discount from the oil companies for petrol oil and lubricants.	April 2005 to March 2007	13.16

Similarly, Vehicles Factory Jabalpur achieved a saving of Rs 9 lakh per annum approximately by accepting a suggestion of Audit for use of cheaper raw water instead of costly potable water for arboriculture.

The matter was referred to the Ministry of Defence in August 2008; their reply was awaited as of February 2009.

New Delhi
Dated:

2009

(GAUTAM GUHA)
Director General of Audit
Defence Services

Countersigned

New Delhi
Dated:

2009

(VINOD RAI)
Comptroller and Auditor General of India