

OVERVIEW

The total expenditure of the Defence Services during 2007 – 08 was Rs 95,094 crore. Of this, the Air Force and Navy spent Rs 24,050 crore and Rs 16,052 crore respectively. The combined expenditure of the two services accounts for 42 *per cent* of the total expenditure on the Defence Services. A significant portion of the expenditure of the Air Force and Navy is capital in nature, constituting almost 56 *per cent* of their expenditure.

Some of the major findings arising from test audit of transactions of the Air Force, the Navy, Coast Guard and associated units of the Defence Research and Development Organisation and Military Engineering Services included in the Report, are discussed below:

I Inadequate assessment and management of risks associated with acquisition of an aircraft carrier.

The objective of inducting an aircraft carrier in time to fill the gap in IN has not been achieved. The cost of acquisition has more than doubled to USD 1.82 billion (Rs 7,207 crore) in four years. At best, IN would be acquiring, belatedly, a second hand ship with a limited life span by paying significantly more than what it would have paid for a new ship.

(Paragraph 2.1)

II Undue favour to vendor in acquisition of submarines

Despite Indian Navy's depleting force level, Ministry took nine years to conclude a contract for the construction of six submarines. The inordinate delay led to enormous increase in the project cost to the extent of Rs 2,838 crore. The procurement procedure lacked transparency and the submarine design had not proven its efficacy in any other navy worldwide. Technical evaluation conducted for the 'Y' class submarine including the missile to be fitted on-board was not comprehensive and was biased in favour of the vendor. Contractual provisions have resulted in undue financial advantage to the vendor to the minimum extent of Euro 58.20 million (Rs 349 crore) besides other unquantifiable benefits.

(Paragraph 2.2)

III Denial of Offset benefits of Rs 2,711 crore in acquisition of an aircraft

In placing the order for the acquisition of 40 aircraft 'M' costing Rs 9,036.84 crore, Ministry/ IAF failed to go in for the offset clause as stipulated in the DPP¹. This led to the denial of corresponding benefit, amounting to Rs 2,711 crore, to Indian defence industry. The objective of urgent acquisition has also not been achieved.

(Paragraph 2.7)

IV Delay in payment of UN Death/Disability compensation

Although more than five decades have elapsed since the first deployment of troops under UN Peace Keeping Missions, Ministry is yet to frame a policy on the mechanism to monitor the initiation and the settlement of the claims of the deceased/disabled soldiers deployed for the missions. Ministry delayed disbursement of the compensation amount to personnel / family members of the deceased.

(Paragraph 2.10)

V Procurement of defective missiles and excess missile launchers

42 of the 300 air-to-air 'X' type missiles acquired by IAF at a cost of Rs 76 crore became unserviceable during the warranty period. Further, 165 missiles remained unserviceable for significant periods. Though the shelf life of all the missiles would expire by June 2010 and despite having a stock of 440 missile launchers, the Air HQ procured 145 additional launchers between August 2006 and March 2008 rendering the expenditure of Rs 66.86 crore on their procurement largely infructuous.

(Paragraph 3.2)

VI Inordinate delay in installation of a radar on an aircraft

Five radars imported at a cost of Rs 24.88 crore could not be installed for more than three to five years after their acquisition. In the process the radars have not only lost 50 *per cent* of their life but also remained unavailable for operational purpose.

(Paragraph 4.1)

¹ Defence Procurement Procedure

VII Improper implementation of radar fitment policy

Navy procured six radar 'R' for its modern stealth frigates and landing ship tankers under construction at a cost of Rs 18.85 crore, even though performance of the radar had been sub-optimal and its phasing out was under active consideration.

(Paragraph 4.5)

VIII Integrated Logistic Management System (Air)

The ILMS (Air) application was implemented in August 2001 to enhance the efficiency of air stores logistics organisation with regard to inventory provisioning, procurement, warehousing and distribution. The Navy needs to use ILMS optimally for effective and cost efficient managerial decisions.

(Paragraph 4.6)

IX Failure to have unsuitable equipment replaced promptly

The Navy failed to persuade a foreign firm to replace unsuitable items supplied. As a result, the expenditure of Rs 3.85 crore on their import was yet to yield any operational benefit to the Navy.

(Paragraph 4.7)

X Tardy progress in development of a radar

Despite almost a decade in developmental effort and spending Rs 27.88 crore, DRDO has been unable to provide a radar as per the requirements of Navy. It closed the original project and initiated another 'Staff Project' with the same goals and new funding. Resultantly, the main aim of providing maritime radar for helicopter 'A' remains unfulfilled.

(Paragraph 6.1)