

**Press release**

**C&AG's Audit Report No. 9 of 2018 on Defence Services, Navy & Coast Guard tabled in Parliament today.**

Comptroller and Auditor General of India's Audit Report No. 9 of 2018 on Defence Services, Navy & Coast Guard has been tabled in Parliament.

**About the Report**

The total expenditure of the Defence Services, excluding Defence Pensions, during the year 2016-17 was ₹2,30,933 crore. Of this, the Indian Navy spent ₹37,466 crore while Coast Guard spent ₹4,242 crore, which constituted approximately 16 per cent and two per cent respectively of the total Defence Expenditure.

Major findings arising from the test audit of transactions of the Indian Navy and the Indian Coast Guard included in the Report are given below.

**I Induction and exploitation of 'A', a Long Range Maritime Reconnaissance Anti-Submarine Warfare aircraft**

The Ministry while evaluating the bids for conclusion of contract for the acquisition of 'AA' Long Range Maritime Reconnaissance Anti-Submarine Warfare (LRMRASW) aircraft enhanced the financial bid of M/s EADS CASA, Spain to cater for 20 years product support cost while ignoring this element in respect of M/s Boeing, USA. The contract was concluded with M/s Boeing, USA in January 2009 at MUSD 2,137.54. At a later date, M/s Boeing, USA offered the product support under a separate negotiable contract and consequently the deduced ranking of M/s Boeing, USA as L-1 turned out to be incorrect.

The Ministry concluded (January 2009) an Offset contract for MUSD 641.26 (₹3,127.43crore) (being 30 per cent of the main contract value) with M/s Boeing, USA. The Offset obligations of MUSD 641.26, to be fulfilled within seven years (August 2016), had not been fulfilled till date. M/s Boeing, USA had claimed Offset credits on mere placement of purchase orders defeating the very purpose of Offset obligations.

The critical role equipment offered by M/s Boeing, USA were not fully meeting the needs of the Indian Navy. Owing to capability limitations of radars installed onboard, the aircraft is not able to achieve the envisaged coverage area requirements. The NSQRs had envisaged the procurement of torpedoes and 'X' Bombs as the ammunition for Anti-Submarine Warfare (ASW). However, the contract for procurement of 'X' Bombs had not yet been concluded. Reasons for non-procurement of 'X' Bombs (September 2017) were yet to be intimated by Indian Navy. Thus, in the absence of 'X' Bombs, the ASW capability of the aircraft could only be partially fulfilled. One of the primary roles of 'A' aircraft is Anti-Submarine Warfare performed by the acoustic system on board 'A' in association with sonobuoys, which not only provides capability to detect and track submarines accurately but also helps in garnering volumes of acoustic data. The procurement (March 2017) of low range sonobuoys ('P', 'Q' and 'R') for meeting the requirement of Indian Navy for three years, instead of one year's requirement projected by INS 'L' coupled with non-procurement of advanced version sonobuoys with longer range, as recommended by INTEG, adversely impacted ASW surveillance capability of the 'A' fleet, in view of the range limitations of 'P', 'Q' sonobuoys.

There were delays in construction of infrastructure facilities for 'A' squadron. Lack of monitoring by the Apex Steering Committee as per the prescribed periodicity impacted the implementation of the Offset obligations by M/s Boeing, USA, timely procurement of ammunition and receipt of fully functional sensors.

*(Paragraph 2.1)*

## **II Training of officers in Indian Navy**

Each officer trainee of the Indian Navy undergoes training depending upon the scheme of his or her entry and the branch allocated to the trainee. Indian Navy has 29 training schools/ establishments, imparting training to officers. The efficacy and productivity of the Indian Naval training organisation has a direct bearing on combat readiness and operational effectiveness of Naval platforms/ Systems and is a crucial enabler to achieve the desired results in combat. The delay in completion of Naval Academy Project, Ezhimala and non-availability of training aids/ equipment for new induction platforms have adverse impact on the training being imparted to officers of Indian Navy. No facility exists for training crew on the aspects of Damage Control (DC) and Fire Fighting (FF) of a submarine. Limited practical training is imparted through attachment to the Indian Navy's DC and FF facilities, which is based on ships layout. The mechanism for feedback management and training evaluation is weak. The results of internal assessments of Training Establishments and Weighted Input Output Analysis have brought out various deficiencies in the training imparted.

*(Paragraph 2.2)*

### **III Procurement and utilisation of steel for the refits of Naval ships at Eastern Naval Command**

SNM class of Minesweepers based at ENC, Visakhapatnam are built by using non-magnetic U3 steel and their renewals are carried out during refits by Naval Dockyard (V). Non-adoption of scientific approach for working out the requirements coupled with non-consideration of stock position led to excess procurements of U3 steel plates valuing ₹86 crore, the utilisation of which looks remote. Preservation of U3 steel plates was not being done as per the approved procedures. There were lapses in accounting procedures being followed at the Naval Dockyard, Visakhapatnam.

*(Paragraph 2.3)*

### **IV Extra expenditure in procurement of Boost Gas Turbines**

Boost Gas Turbines (BGT) comprises of the main propulsion plant of ships and is employed onboard for high speed evolutions. IHQ MoD (Navy) floated (April 2011) a Request for Proposal (RFP) containing both Option and Repeat Order clauses to the original equipment manufacturer (OEM) M/s Zorya Mashproekt, Ukraine for procurement of eight BGTs. Indian Navy failed to negotiate the inclusion of Option/Repeat Order clause in the contract (October 2013) for the procurement of eight BGTs despite availability of these clauses in the RFP. This resulted in extra expenditure of ₹7.04 crore in subsequent procurement of four BGTs in March 2015, as the benefits of price advantage accruable under these clauses could not be gained.

*(Paragraph 2.5)*

### **V Deficient contract management in procurement of Naval spares**

IHQ MoD (Navy)} concluded 11 contracts worth ₹80.80 crore with M/s Rosoboronservice (India) Ltd, Mumbai {M/s ROS (I) Mumbai}, for procurement of spares of various systems for deliveries between August 2011 and June 2014. The contracts, *inter alia*, made it mandatory on the firm to submit a Performance Guarantee by way of Bank Guarantee (PBGs), within 30 days of receipt of the confirmed order. The PBGs were required to be valid up to 60 days beyond the warranty period. The total value of PBGs to be lodged by the firm in respect of these contracts was to the tune of ₹8.08 crore (*i.e.*, @ 10 per cent of the contract value). M/s ROS (I) expressed (January 2014) their inability to honour these 11 contracts, owing to major fluctuations in foreign exchange (FE) rates since year 2012-13, coupled with the fact that these contracts did not have any provision of exchange rate variation (ERV).

Subsequently, competent financial authority (CFA) approved short closure of these contracts. ERV clause was not included in the contract with M/s ROS (I), being a non- defence public sector undertaking (DPSU) Indian firm and the payment was to

be made in Indian currency. The Firm had lodged PBG in respect of only one contract (₹1.59 crore), which has also expired. Thus, deficient contract management resulted in non-recovery of ₹8.08 crore from M/s Rosoboronservice (India) Ltd, Mumbai for defaulting on 11 contracts.

*(Paragraph 2.6)*

## **VI Inordinate delay in completion of Sewage Treatment Plant**

Integrated Headquarters Ministry of Defence (Navy) sanctioned (October 2009) the “Provision of Central Sewage Scheme at Karanja” at ₹13.40 crore to be completed within 156 weeks from the date of release of work. The infrastructure work, contracted in December 2010 was to be completed by 23 June 2012 and the work relating to STP, contracted in July 2013, was to be completed by 25 January 2015.

Audit noticed that 85 *per cent* of work amounting to ₹4.93 crore was completed (April 2013) against the infrastructure contract (December 2010) and the balance work was kept suspended pending completion of work for the STP. Further, the progress of work relating to STP was only 44.5 *per cent* (July 2017). Lack of synchronisation in execution of infrastructure work for the STP resulted in idling of an investment of ₹4.39 crores for the last four years.

*(Paragraph 2.7)*

## **VII Unnecessary procurement of Air Conditioning and Refrigeration Plants**

Material Organisation, Visakhapatnam placed (March 2015) a purchase order (PO) for air conditioning (AC) and refrigeration plants for Indian Naval Ship (INS) Mahish at ₹3.18 crore. IHQ MoD (Navy) had directed HQ ANC on 5 March 2015 to maintain the status quo as INS Mahish was scheduled for Essential Repair and Dry Dock (ERDD) by 1 July 2016, which was to be followed by its decommissioning. However, HQ ANC communicated the decision to MO (V) only on 1 April 2015 i.e., after placement of PO on 30 March 2015. MO (V) also did not take any action to cancel the PO.

Resultantly procurement of equipment worth ₹3.18 crore, received in June 2015, was rendered infructuous as the ship (*i.e* INS Mahish) for which the plants were required, was decommissioned in November 2016.

*(Paragraph 2.8)*

## **VIII Creation of infrastructural facilities in Indian Coast Guard**

Coast Guard Development Plan (CGDP) 2012-17 envisaged setting-up of two Coast Guard Air Stations (CGAS) and seven Coast Guard Air Enclaves (CGAE), for effectively carrying out operations. At the end of plan period, despite Government sanction, ICG could not commission these Air Units even after a lapse of 51 to 95 months from the date of sanction. Failure to establish the CGAS and CGAEs is indicative of the fact that necessary ground realities and local constraints had not been taken into account by the ICG while deciding to set up the CGAS and CGAEs at these stations. Inadequacy of berthing facilities and jetties is a cause of concern, as Coast Guard is dependent on various Port Trusts for these assets. The shortages ranged from 27.80 to 76.50 *per cent* in terms of available length of jetties. Consequently, Ships had to remain on anchorage on many occasions and ICG was constrained to reduce/rebase/shift the vessels and provide the required surveillance cover from other stations. At Mumbai, parking of Air Cushion Vehicles (ACVs) in sunlight led to premature degradation. ACVs meant for basing at Puducherry were actually operated from Mandapam. Making good the deficiencies of the berthing facilities to synchronise with the basing of the ships as per the basing plan of CGHQ, has not been done effectively.

*(Paragraph 3.1)*