

## 1.1 Profile of the audited entities

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

- Ministry of Defence (MoD)
- Defence Accounts Department dealing with IAF
- Military Engineer Services (MES) dealing with IAF
- Defence Research and Development Organisation (DRDO) and its laboratories dedicated primarily to IAF
- Hindustan Aeronautics Limited (HAL)

**Indian Air Force** was founded in October 1932. Its mission is defined by the Air Force Act of 1950 in the aerial battle space as: “Defence of India and every part thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilisation”.

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

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

**Military Engineer Services (MES)** provides engineering support to the Services including IAF. It is one of the largest Government construction

agencies with annual budget of approximately ₹9,000 crore. Engineer-in-Chief is the head of the MES.

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

**Hindustan Aeronautics Limited (HAL)**, a *Navratna* company under the Ministry of Defence, is engaged in design, development, manufacture, upgrade, repair and overhaul of aircraft, helicopters, aero-engines, avionics and navigation system equipment and marine & industrial gas turbine engines for both military and civil applications. The management of HAL is vested in the Board of Directors headed by a Chairman and Managing Director assisted by Functional Directors (four), Government Directors (two) and Independent Directors (seven).

## **1.2 Authority for audit**

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

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

## **1.3 Audit methodology and procedure**

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

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

## **1.4 Defence budget**

The budgetary allocations for Defence Services are contained under six Demands for Grants of MoD *i.e.* Demand No. 22 to 27 and approval of the Parliament is taken for Gross expenditure provision under these Demands for Grants. Out of these Demands, five Demands (Demand No. 22 to 26) cater to the requirement of Revenue expenditure which includes pay and allowances, stores, transportation and revenue works, *etc.*, while the sixth Demand (Demand No. 27) *viz.* Capital Outlay on Defence Services, caters to requirement of the expenditure incurred on acquisition of new aircraft and aero-engines, weapons and ammunition, modernisation of services, replacement of obsolete stores, construction work, and acquiring durable assets for all Services.

Revenue expenditure of Air Force was met from 'Grant No. 24 Defence Services-Air Force' and Capital expenditure from 'Grant no 27, Capital Outlay on Defence Services, Sub-major Head 03-Air Force'.

The share of IAF in Defence expenditure for the last five years were as under -

**Table 1.1 -Details of Defence expenditure and portion of IAF in actual expenditure**

(₹ in crore)

Year	Budget Provision	Actual Defence Expenditure	Actual expenditure on IAF	Portion of IAF in total Defence Expenditure (in percentage)
2010-11	1,56,127	1,58,723	38,782	24
2011-12	1,78,891	1,75,898	46,134	26
2012-13	1,98,526	1,87,469	51,118	27
2013-14	2,17,649	2,09,789	58,745	28
2014-15	2,54,000	2,37,394	55,481	23

Source: Year-wise Appropriation Accounts of Defence Services

The IAF expenditure which was ₹58,745 crore during 2013-14 decreased to ₹55,481 crore in 2014-15. Thus, while the total defence expenditure increased by 13 per cent, the share of IAF in total defence expenditure decreased by 5 per cent from previous year 2013-14.

## 1.5 Budget and expenditure of Indian Air Force

The summarised position of Appropriation and Expenditure during 2010-11 to 2014-15 in respect of the Air Force is reflected in the table below:

Table 1.2: Appropriation and Expenditure of IAF

(₹ in crore)

Description		Year				
		2010-11	2011-12	2012-13	2013-14	2014-15
Final Grant	Capital	23,565	28,305	32,735	38,679	26,536
	Revenue	15,805	16,757	18,329	19,983	23,186
	<b>Total</b>	<b>39,370</b>	<b>45,062</b>	<b>51,064</b>	<b>58,662</b>	<b>49,722</b>
Actual Expenditure of IAF	Capital (per cent)	23,603 (60.86)	28,812 (62.45)	32,980 (64.52)	38,585 (65.68)	32,796 (59.11)
	Revenue (per cent)	15,179 (39.14)	17,322 (37.55)	18,138 (35.48)	20,160 (34.32)	22,685 (40.89)
	<b>Total</b>	<b>38,782</b>	<b>46,134</b>	<b>51,118</b>	<b>58,745</b>	<b>55,481</b>
Excess (+) / Savings (-)	Capital	(+) 38	(+) 507	(+) 245	(-) 94	(+) 6260
	Revenue	(-) 626	(+) 565	(-) 191	(+) 177	(-) 501
	<b>Total</b>	<b>(-) 588</b>	<b>(+) 1072</b>	<b>(+) 54</b>	<b>(+) 83</b>	<b>(+) 5759</b>

Source: Year-wise Appropriation Accounts of Defence Services

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

### 1.5.1 Capital expenditure

As depicted in Table 1.2, IAF has been spending 60 to 65 per cent of its total expenditure on Capital. The Capital expenditure of IAF was mainly incurred on acquisition of new aircraft and modernisation or up-gradation of the existing fleet. The distribution of expenditure over the different categories of Capital expenditure for the last five years (2010-11 to 2014-15) for IAF is depicted in the table below:

Table 1.3: Details of components of Capital expenditure of IAF

(₹ in crore)

Head	2010-11	2011-12	2012-13	2013-14	2014-15
Aircraft/Aero engine (per cent)	16,094 (68.11)	20,274 (70.37)	23,573 (71.48)	29,069 (75.40)	22,558 (68.78)
Heavy & medium vehicles	26	73	81	59	33
Other equipment (per cent)	6,039 (25.58)	6,788 (23.56)	7,399 (22.43)	7,761 (20.11)	8,219 (25.06)
Special Projects	230	521	587	348	343
Construction work (per cent)	1,158 (4.91)	1,153 (4.00)	1,318 (3.99)	1,304 (3.38)	1,637 (4.99)
Land	56	3	22	44	6
<b>Total</b>	<b>23,603</b>	<b>28,812</b>	<b>32,980</b>	<b>38,585</b>	<b>32,796</b>

Source : Year-wise Appropriation Accounts of Defence Services

Capital expenditure on acquisitions in respect of aircraft / aero engine was significant and ranged between 68.11 and 75.40 per cent of the total Capital expenditure; that for 'Other equipment' ranged between 20.11 and 25.58 per cent and on construction work 3.38 to 4.99 per cent of total Capital expenditure of IAF. A minor portion was being spent on vehicles, special projects and land.

A further analysis of Capital expenditure vis-à-vis source of procurement for last three years is given below:

Table 1.4: Analysis of Capital expenditure of IAF

(₹ in crore)

FY	Indigenous			Import (per cent)	Works	Total
	PSUs (per cent)	Trade (per cent)	Total Indigenous (per cent)			
2012-13	9033 (27.39)	2799 (8.49)	11832 (35.88)	19221 (58.28)	1927 (5.84)	32,980
2013-14	15370 (39.83)	591 (1.53)	15961 (41.36)	20928 (54.24)	1696 (4.4)	38,585
2014-15	15114 (46.08)	1040 (3.17)	16154 (49.25)	14656 (44.69)	1988 (6.06)	32,796

Source: Information furnished by Directorate of Financial Planning, Air HQ

Total indigenous capital expenditure showed an increasing trend, which was mainly attributable to capital expenditure booked in respect of PSUs which had increased by 67 per cent during 2012-13 to 2014-15.

### 1.5.2 Revenue expenditure

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

Table 1.5: Details of components of Revenue expenditure of IAF

(₹ in crore)

Head	Year				
	2010-11	2011-12	2012-13	2013-14	2014-15
Pay and allowances (Minor Head-101,102 and 104)	6,856 (45%)	7,532 (44%)	8,378 (46%)	9,464 (47%)	10,533 (46%)
Stores and special projects (Minor Head - 110, 200)	5,775 (38%)	6,931 (40%)	7,038 (39%)	7,779 (39%)	8813 (39%)
Works (Minor Head -111)	1,692 (11%)	1,800 (10%)	1,775 (10%)	1,912 (9%)	2,124 (9%)
Transport (Minor Head -105)	620 (4%)	763 (4%)	611 (3%)	661 (3%)	761 (3%)
Others (Minor Head - 800)	236 (2%)	296 (2%)	336 (2%)	344 (2%)	455 (2%)
<b>Total</b>	<b>15,179</b>	<b>17,322</b>	<b>18,138</b>	<b>20,160</b>	<b>22,685</b>

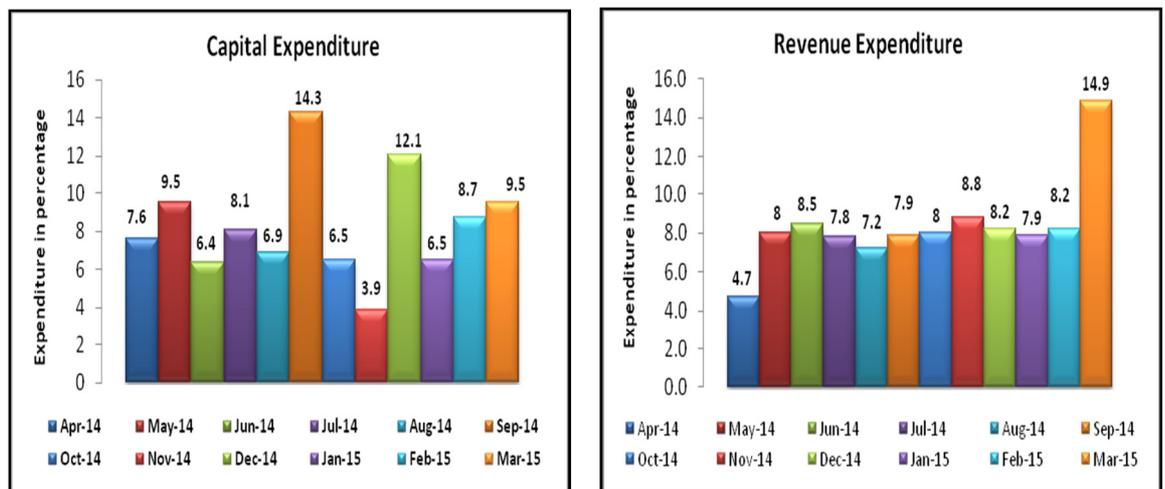
Source: Year-wise Appropriation Accounts of Defence Services

Revenue expenditure of IAF increased from ₹15,179 crore in 2010-11 to ₹22,685 crore in 2014-15 i.e. by 49 per cent during last five years. Pay and Allowances accounted for about 44 to 47 per cent, Stores and special projects for 38 to 40 per cent, Works for nine to 11 per cent, Transport for three to four per cent and remaining two per cent for ‘Others’ category of total revenue expenditure of IAF.

### 1.5.3 Flow of Expenditure of IAF during the year

Flow of capital and Revenue expenditure during 2014-15 is depicted below:

Figure 1.1: Flow of expenditure of IAF during 2014-15



Source: Information furnished by MoD Finance (Budget)

The Revenue expenditure of IAF was 14.9 per cent and 31 per cent of total annual revenue expenditure, for March 2015 and the last quarter of the year respectively, whereas for Capital expenditure it was 9.5 per cent and 24.7 per cent for March 2015 and last quarter respectively. These year end expenditures were within permissible limits of 15 per cent and 33 per cent, as prescribed by the Ministry of Finance.

### 1.5.4 Revenue Receipts of Indian Air Force

The receipts represent recoveries on account of stores issued on payment, rent of buildings and furniture, sale proceeds of lands, buildings, etc., declared

surplus, credit for services rendered to other government departments and other miscellaneous receipt.

The details of receipts pertaining to the Indian Air Force during the five years are given in the table below:

**Table 1.6: Revenue Receipts of IAF**

(₹ in crore)

Description	Year				
	2010-11	2011-12	2012-13	2013-14	2014-15
Receipts from works	58	64	75	80	88
Receipts from services and supplies	106	108	90	104	149
Stores	127	37	67	45	19
Other receipts	337	340	377	838	473
<b>Total Receipts and Recoveries</b>	<b>628</b>	<b>549</b>	<b>609</b>	<b>1067</b>	<b>729</b>

Source: Information furnished by MoD Finance (Budget)

A significant portion (53.6 to 78.5 per cent) of revenue receipts of IAF were classified under 'Other receipts'.

## 1.6 Response to Audit

### 1.6.1 Response of MoD to Draft Audit Paragraphs

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

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

Despite the instructions of the Ministry of Finance, MoD's replies to four paragraphs out of 12 paragraphs included in this Report were not received. Thus, the response of the Ministry could not be included in respect of these paragraphs.

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

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

**Table 1.7: Status of ATN**

(As on 31<sup>st</sup> March 2016)

<b>Status of ATNs</b>	<b>IAF</b>
Audit Paragraphs/Report on which ATNs have not been submitted by the Ministry even for the first time	12
Audit Paragraphs/Report on which revised ATNs were awaited	21

### **1.7 Recoveries at the instance of audit**

An amount of ₹11.20 crore was recovered after having been pointed out by Audit. The three cases are discussed as under:

**A.** Recovery of unadjusted advance and interest from HAL (₹771.41 lakh): An order for the depot level maintenance of unmanned aerial vehicle (UAV) systems was placed by Indian Air Force (IAF) on Hindustan Aeronautics Limited (HAL) in December 2002. The work involved three different divisions of HAL at Hyderabad, Kanpur and Korwa.

Although the advance amount was to be paid to three different divisions of HAL as per payment terms and conditions, Controller of Defence Accounts (CDA), RK Puram, New Delhi paid (January 2003) entire first stage advance of ₹912.13 lakhs to HAL, Hyderabad Division. An amendment to the order was issued (January 2008) after a gap of six years changing the payment authority for subsequent payments. This amendment stipulated that further payments will be made by Accounts Officer, Defence Accounts Department [AO (DAD)] attached to respective HAL Divisions.

During audit of AO (DAD) HAL Hyderabad, it was observed (September 2009) that the advance paid had been adjusted to the extent of ₹623.26 lakh in respect of two divisions *i.e.* HAL Hyderabad (₹356.36 lakh) and HAL Kanpur (₹266.90 lakh) only. Audit also pointed out the pending recovery (₹288.87 lakhs) in respect of HAL Korwa as the work was neither short closed nor carried over to the next year.

Audit also pursued (February 2014) with CDA, RK Puram, New Delhi / Principal Controller of Defence Accounts (PCDA), Bengaluru / Air HQ for recovery of interest on unadjusted advance of ₹288.87 lakhs since January 2003 without any tangible benefit to IAF.

In response, PCDA, Bengaluru replied (April 2014) that the AO (DAD) concerned was not aware of the outstanding payment, although the balance amount of ₹288.87 lakh was recovered (February 2010) from HAL.

In May 2015 PCDA, Bengaluru, intimated Audit about recovery of ₹482.52 lakh through respective AO (DAD) as interest on unadjusted advance.

Thus, recovery of ₹288.8 lakh of advance and ₹482.52 lakh as interest on unadjusted advance was made at the instance of Audit.

**B.** Recovery of Liquidated Damages (LD) for delayed supply of Mirage 2000 spares (₹9.09 lakh): Air HQ placed (December 2007) a supply order on M/s Thales System Aeroportes, France towards supply of four lines of spares for Mirage 2000 aircraft at a total cost of Euro 2380478 (₹14.10 crore) and these spares were to be supplied with a lead time of six to eighteen months from the date of advance payment.

As per the condition of supply order, 15 *per cent* advance amounting to Euro 357071.70 was released (March 2008) by Air HQ thereby requiring the delivery of four lines of spares between September 2008 and September 2009.

However, after the delivery of three lines of spares, vendor requested Air HQ for further extension of Letter of Credit (LC) till 20 February 2010 for supply of remaining one line of spare (PU1-Cofferet Traitement). Ministry of Defence (MoD) approved (February 2010) extension of LC with conditions that LC extension charges to be borne by the supplier and LD as per terms of supply order.

Audit observed (April 2011) that vendor had supplied (December 2009) balance one line of spare and claimed the final amount of Euro 913296.95 and which was released (March 2010) by the Bank without deducting LD amount of Euro 10745 for delay in delivery.

In response to audit observation, Air HQ stated (August 2011) that there was anomaly in recovery of LD and case had been taken up with PCDA and Bank authorities for its recovery and Audit would be informed accordingly.

Air HQ further informed (September 2015) Audit that foreign firm had remitted an amount of Euro 10740 (₹9.09 lakh) on account of LD.

**C.** Recovery of rent and allied charges from Air Force (AF) Schools (₹339.15 lakh): Government of India, Ministry of Defence, in February 1993 regularised Unit Run Schools opened on defence land from 1955 to 1993. These schools were exempted from payment of rent and allied charges from the date of opening till regularisation. In December 1998, Air HQ instructed all Commands that the Ministry had agreed for one-time waiver of rent and allied charges till 1993. It further stated that the Ministry had decided that Air Force Schools should also pay the charges for the defence buildings as it was being done by Unit run schools of Army and Navy.

Scrutiny of unit revenue records at Air Force Station, Pune (March 2013) and HQTC unit (August 2012) revealed that Air Force School, Pune and Air Force School, Hebbal were neither paying any rent and allied charges nor deposited outstanding rent and allied charges from January 1994 onwards despite instructions to do so.

A Board of Officers (BOO) assessed and recommended in December 2014 to remit rent and allied charges and ₹28.71 lakh was remitted (February and September 2015) by AF School, Pune. Regarding Air Force School, Hebbal a BOO assessed and recommended in August 2015 to recover rent for the defence buildings occupied by Air Force School, Hebbal and water and electricity charges covering the period 1994 to March 2015. An amount of ₹306.45 lakh was remitted by Air Force School, Hebbal in October 2015 to the Government account. In addition, the school will continue to pay ₹13.47 lakh annually as rent in addition to water and electricity charges at actuals.

The Ministry in their reply (March and April 2016) accepted the facts.