

## CHAPTER III : ARMY

### 3.1 Management of Defence owned Railway Wagons / Coaches

**In audit of management of Defence owned Railway Wagons/Coaches, various deficiencies were noticed such as excess scaling of 17 AC Coaches/Military Langars (₹50 crore), loss of interest on advance payment (₹23.87 crore), excess payment due to non- uniformity in cost calculation of Military Special Trains (₹30.44 crore), non monitoring of Additional Rail Facilities (ARF) projects and non adjustment of ₹ 356 crore paid to Railway on account of ARF projects. Despite these deficiencies there is no mechanism in Army HQ to check commercial exploitation of Defence owned Railway Wagons/Coaches by the Railways.**

#### 3.1.1 Introduction

Railway wagons and coaches were introduced in Army in 1972 to carry personnel and weapons for operational mobilisation in war time and training, field firing & exercises during peace time.

To execute operational move during war time, trains are planned as per Operational Rail Move Plan (ORMP) to enable formations to reach intended area of operations at the earliest.

During peace time, trains are run every month to execute permanent moves of Indian Army units, for training, field firing and exercise purposes.

Movement of goods/stores and personnel through railway wagons and coaches both during war and peace time is a challenging task since it has a direct bearing on the operational requirement.

Specialized railway wagons called Critical Rolling Stock (CRS) are owned by Defence to carry different types of weapons and equipment as indicated below:

- ▶ Military Bogie Well Type (MBWT) - for carrying Tanks and specialised Signals equipment.
- ▶ Bogie Open Military (BOM)-for carrying Infantry Combat Vehicle (ICV), Self-propelled guns, tractors, *etc.*
- ▶ Bogie Railway Special (BRS)- for movement of Tank transport trailer.

- ▶ Bogie Flat Arjun Transportation (BFAT) - specially designed for movement of T-90 and MBT Arjun Tanks.

Besides, different types of coaches are also owned by Defence for facilitating movement of Defence Personnel.

### **3.1.2 Excess scaling of coaches**

Government of India, Ministry of Defence, in June 2014, approved scaling of Defence owned railway coaches as 55 numbers of AC 2 Tier, 203 AC 3 Tier and 59 Military Langar Coaches. Railways undertakes the task of Periodic Over Hauling (POH) of defence owned coaches/wagons through affiliated Railway workshops. MoD while approving the scale of coaches/langar had taken into account 34 additional coaches for requirement of periodic overhauling (POH)/maintenance undertaken by Railways based on average time of two to three months for overhauling of one coach. We however, noticed that average time taken by Railways for POH of one coach was only 27 days. In this regard a query was made and in reply the same calculation done at the time of scaling was provided. Further, when we specifically asked to indicate the time period involved in inward and outward transit, Additional Director General (Strategic Movement) (ADG (SM)) stated (February 2017) that no record in this regard is maintained. In the absence of such record, while calculating the requirement for scaling, the time required for POH taken as two to three months lacks justification. As such keeping in view the inward and outward time line for transit the total time provided is on higher side, which can be reckoned to one to one and half months. This led to excess scaling of 17 AC coaches/ Langars for POH, which were procured at a total cost of ₹ 50.50 crore and was avoidable.

### **3.1.3 Capital Procurement of Wagons and Coaches**

In Army, procurement of all equipment valuing ₹15 lakh each or more with a life of seven years or more is called capital procurement. Capital procurements are made as per the provisions contained in the Defence Procurement Procedure (DPP). All capital procurements are processed in two stages *viz.* pre-contract management and post contract management.

Capital procurement is initiated by the user's directorate in Army HQ with formulation of Qualitative Requirements and seeking Acceptance of Necessity (AON) of Defence Acquisition Council (DAC)/Defence Procurement Board (DPB) of the Ministry. Once approved by the Ministry, the same are processed in stages by Acquisition Wing in the Ministry and Weapon and Equipment (WE) Directorate in Army HQ till conclusion of the contract.

Post conclusion of the contract, execution of the same, including payment of advances and other payments, delivery, installation, commissioning, etc. is to be carried out as per terms and conditions indicated in the contract.

### 3.1.3.1 Delay in conclusion of contracts

During the period covered in audit i.e. 2011-12 to 2015-16, total five capital contracts valuing ₹1048.06 crore were concluded for procurement of Critical Rolling Stock (CRS) and Coaches. The details of all contracts with their present supply position are shown in **Table-16** below:

**Table 16: Details of contracts concluded with their present supply position**

Sl. No	Details of CRS/Coaches	Contract/ Indent date	Vendor	Qty	Cost (₹ in crore)	PDC	Supply Position as on 31.08.16
1.	CRS-Bogie Open Military (BOM) (	30.9.14	M/s Modern Industries	445	169.94	March 2016	445
2.	CRS-Military Bogie Well Type (MBWT)	30.9.14	M/s Texmaco Rail & Engineering Ltd	974	387.04	September 2016	912
3.	AC 2 Tier Coaches (Inter Ministry proc)	12.2.15	Integral Coach Factory (ICF) Chennai	40	249.64	2015-16=20 2016-17=20	30
4.	Military Langer Coaches (Inter Ministry proc)			32		2015-16=16 2016-17=16	Nil
5.	AC 3 Tier Coaches (Inter Ministry proc)	12.2.15	RCF (Rail Coach Factory) Kapurthala	90	241.44	2015-16=30 2016-17=30 2017-18=30	Nil
<b>Total (in ₹)</b>					<b>1048.06</b>		

Procurement of CRS and Coaches were made based on scaling approved in October 2011 and June 2014 respectively. We noticed instances of delay in pre-contract stages of procurement of the CRS and Coaches with reference to stipulated timelines in DPP.

Against the envisaged time of 48 to 60 weeks in multi vendor situation (without trial), the procurement took 208 weeks in case of wagons and 135 weeks in case of coaches respectively. As per DPP, Request for Proposal (RFP) should be issued within 08 weeks and contract should be signed within 48 to 60 weeks of AON, however, it took 63 weeks and 208 weeks respectively in case of CRS and 113 weeks and 135 weeks respectively in case of Coaches.

Further, in case of BRS, AON was accorded in October 2010, despite approval of Competent Financial Authority (CFA) post finalisation of CNC, contract was yet (August 2016) to be concluded. In reply to an audit query seeking the

reasons as to why contract for procurement of BRS was not concluded, Army HQ stated (August 2016) that, the case file is under progress with MoD. The reply, however, did not indicate the exact reasons for not signing the contract despite lapse of more than three years of CFA approval.

### ***3.1.3.2 Irregularity in advance payment in procurement of Rail Coaches and Military Langar***

Ministry accorded AoN in February 2014 for procurement of 40 AC-2, 90 AC-3 Tier coaches and 32 Military Langar (ML) under Buy (Indian) Category through Inter-Ministerial route. Indents were to be placed on Railway Board and payment modalities as per terms mutually agreed between Ministry of Defence and Railways post AON.

As advised by the Railway Board, Ministry of Defence placed (February 2015) two indents directly on Production Units of Railways viz. Rail Coach Factory, Kapurthala (RCF) for 90 AC-3 Tier Coaches and Integral Coach Factory Chennai (ICF) for 40 AC-2 Tier Coaches and 32 Military Langar.

As per Indent placed on RCF, 30 AC 3 Tier coaches each were to be delivered in 2015-16, 2016-17 and 2017-18 and 100 *per cent* advance for manufacturing of coaches for respective year was to be made.

As per Indent on ICF, delivery of 20 AC 2 Tier and 16 Military Langer was to be made in 2015-16 and 20 AC 2 Tier and 16 Military Langer was to be made in 2016-17 against 100 *per cent* advance payment.

We found that in case of RCF, advance payment was to be made against supply of respective financial year whereas in case of ICF, provision for 100 *per cent* advance payment for all coaches was made in the indent. Audit scrutiny revealed that ICF in their commercial bid had quoted for advance payment for manufacture of respective year. Despite this, provision for complete advance payment was made in the indent and the payment of ₹249.64 crore was made within a month of indent i.e. in March 2015. Thus advance payment amounting to ₹124.82 crore pertaining to manufacture of the period 2016-2017 was irregular.

Further, despite payment of ₹ 325.52 crore (including ₹ 75.88 crore to RCF) to both the Railway Production Units in March 2015, no supplies except 30 numbers of AC 2 Tier coaches were made till August 2016. As a result, Army HQ not only suffered by delay in receipt of coaches/Langers but also had a loss of ₹ 23.87 crore on account of interest on irregular advance.

In reply to an audit query (August 2016) regarding why two different yardsticks were applied in payment terms, Army HQ stated (August 2016) that,

payment terms were made based on the requirements forwarded by respective Production Units. The reply is not correct as ICF Chennai in their bid did not seek advance payment for the entire supply. Further, 100 *per cent* advance payment for the entire supply is also violation of DPP provision.

Above matter was referred to Railway audit in September 2016 for examination at ICF Chennai and in their reply (January 2017) Railway audit stated that ICF wanted advance payment in two instalments only whereas the Ministry of Defence had paid the entire amount in one instalment and ICF had kept advance payments received in the suspense head of account subject to adjustments.

### 3.1.4 Excess/Irregular payments to Railways

**3.1.4.1 Infringement Charges-** Every railway zone fixes its standard movement dimensions for a consignment depending upon bridges and stations enroute. A consignment, which exceeds the standard movement dimensions is termed Over Dimensional Consignment (ODC). Depending upon height, width, clearance from the top, *etc.* of the consignment, ODC is classified in to A, B & C and accordingly Infringement charges<sup>11</sup> towards ODC are levied by Railway authorities.

We noticed that Railways levied infringement charges for 28 wagons of a Military Special train having 23 Open Wagons and five Bogie Covered Wagons (BCN) which were admitted by the Movement Control Office (MCO), Allahabad in May 2016. As infringement charges should not be applicable to BCN wagons, payment of infringement charges ₹ 3.80 lakh for five BCN wagons was made in excess. In reply (November 2016) ADG (SM) stated that the actual amount is calculated as per Railway Board letter, circulars and distance calculated in automated manner by Centre for Railway Information System (CRIS). Reply is not convincing as infringement charges should not be levied on a covered wagon and the ADG(SM) should have pointed out this fact to Railways.

**3.1.4.2 Overpayment of Additional Surcharge -** As per Railway Board Rate circular No. 32 of 2014 additional surcharge should be levied @ 20 *per cent* on actually used/supplied Railway owned wagons to Defence. We noticed that Railways Charged additional surcharge on Defence owned wagons also. This had resulted in overpayment of ₹ 33.49 lakh to Railways. In reply (November 2016) ADG (SM) accepted the overpayment and forwarded the case to Railways for consideration.

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<sup>11</sup>The rate for the year 2016-17, 2015-16 & 2014-15 of Infringement (ODC) charges applicable were ODC "A"-₹50, ₹45 & ₹40 Per Km, ODC-"B"- ₹75, ₹65 & ₹60 Per km and ODC -"C"-₹380, ₹340 & ₹310 Per Km respectively.

**3.1.4.3 Overpayment of Passenger Fare Tax** - As per Railway Board Rate Circular 32 of 2014, Passenger Fare Tax is not applicable for Military Special Trains, However it was noticed that the same have been charged by North Central Railway and Northern Railway resulting in overpayment of ₹7.66 lakh. In reply (November 2016) ADG (SM) agreed with the audit contention and accepted the issue of variable charging of prices by different zonal railways and different implementation of orders/circulars.

**3.1.4.4 Irregular payment of Service Tax**-Defence or Military equipment is exempted from service tax vide Government of India , Ministry of Railways, Railways Board, New Delhi circular No. 7 of 2015 dt. 08/04/2015. Service Tax were charged by Railways on Military equipment resulting in overpayment of ₹75.55 lakh. In reply (November 2016) ADG (SM) accepted the audit contention and stated that the issue was raised with the railways. It was also stated that while, the railway authorities of particular zone/ division apply rules, the army personnel can object but not over rule the railway authorities. Reply is not tenable because Government of India, Ministry of Finance in June 2012 exempted service tax on “Defence and Military equipment” Services by way of transportation in Rail, but due to failure of ADG (SM) the case was never taken up with the Ministry of Finance/Railway, resulting in avoidable payment of ₹75.55 lakh on account of service tax to Railways from June 2012.

**3.1.4.5 Excess payment of Siding and Shunting Charges**- Government of India, Ministry of Railway, Railway Board has fixed All India Engine Hour Cost (AIEHC) for siding and shunting charges w.e.f. 1<sup>st</sup> April 2006.

- We noticed in HQ MC Group, Secunderabad that siding charges were continuously being paid at old rates since April 2006, resulting in excess payment of ₹ 28.11 crore to South Central Railway. In reply (November 2016), ADG (SM) stated that the matter was taken up with Railways for recovery/adjustment of excess payment on old rates.
- We also noticed that Southern Railways had used Diesel Engine between Avadi and PTMS for shunting purposes, but charged partly for Electric Engine and partly for Diesel Engine, which had resulted in excess payment of ₹ 6.88 lakh. In reply (September 2016), Embarkation Hqrs Chennai accepted the audit contention and sought for clarification from the Hqrs Southern Railways, Chennai for actual shunting charges.

**3.1.4.6 Discrepancy in Distance**-We noticed at HQ MC Group, Jhansi that the distances charged for Military Special Train, were more than the actual distance covered, resulting in excess payment of ₹ 64.46 lakhs to Railways. In reply (November 2016), ADG (SM) accepted the overpayment and agreed to initiate action for recovery of mentioned Passenger Vans (VPs).

**3.1.4.7 Busy Season Charges and Development Charges-** We noticed at Embarkation HQ, Chennai that Busy Season charges, and Development Charges of ₹ 7.09 lakh levied on Military Special Trains by Southern Railway for all outgoing Passenger Vans (VPs). However, Busy Season Charges and Development Charges were nowhere laid down by the Railway Board for charging on Defence. In reply (November 2016) ADG (SM) accepted the audit point and agreed to initiate action for the recovery of overpayment.

**3.1.4.8 Over Payment due to discrepancy in calculation -** We noticed at Embarkation HQ, Chennai that in respect of a Military Special Trains (VP 487) move, excess charges of ₹ 33.43 lakh were charged owing to calculation errors. On pointing out the excess charging, Embarkation HQ intimated 152 MC Gp Firozpur & 169 MC/MF Det Pathankot to take up the matter with Railways. In reply (November 2016) ADG (SM) agreed to ascertain overcharging and initiate action for recovery of excess amount paid.

In reply (January 2017) to all the above eight cases, ADG (SM) stated that the matter is being taken up with Railways for reconciliation/adjustments.

**3.1.4.9** We also noticed instances of excess payments made to Railways against Railway Warrants and credit notes:

- In respect of Vouchers submitted by Northern Railway Zone an amount of ₹4.04 crore was adjusted in March 2015 by PCA (Fys), Kolkata against Bank Advice of November 2012 with NIL objection. On scrutiny of the above bill it was noticed that excess payment of ₹10.45 lakh on account of Infringement (ODC) charges had been made to the Railways. On pointing out by audit, the PCA (Fys), Kolkata agreed to take necessary action.
- Similarly, we noticed that Railways overcharged carriage bill of ₹53 lakh in Bank Advice of April 2015 of ₹6.64 crore against which no objection was raised by PCA (Fys) Kolkata. On raising the issue by audit, PCA (Fys) Kolkata agreed to recover an amount of ₹ 53 lakh from Railways.
- We pointed out excess payment to Railways on account of Passenger Fare Tax, Overflow charges and Additional Surcharge. PCA (Fys), Kolkata accepted excess payment of ₹24.57 lakh to Railways towards Passenger Fare Tax, Overflow charges and Additional Surcharge awaiting for refund from Railways.

CGDA stated (January 2017) that as pointed out by the Audit, the matter was referred to concerned Railway Zone to reconcile and intimate the applicability of these charges on Military Tariff.

#### **3.1.4.10 Non receipt of the proceeds of Condemnation of Wagons**

We noticed at MCO Jhansi, that credit to MoD for 291.33 MT Defence Scrap disposed off by Railways for ₹72.60 lakh was pending since August 2014. On raising the issue with MCO, it was replied that Railways agreed to give credit to Defence account which was awaited as of November 2016.

Further ADG (SM) stated (January 2017) that matter has been continuously pursued with the DRM Jhansi.

#### **3.1.5 Upkeep and maintenance of wagons and coaches**

As per the stabling plan the stock of CRS are to be kept at various locations for operational use. Stabling of this stock at various locations would be of no value, if the stock is not maintained in a fit state. For verification of track worthiness, CRSs are to be moved at least 100 to 200 Kms distance every three months. We noticed at three MCOs, one MC Group HQ and Embarkation HQ, that the CRS stock held since its receipt were lying without movement. In response to audit query it was replied that no specific movement of CRS were undertaken by the Railways to keep them track worthy but CRS were moved only when they were due for POH or for use in Military Special Trains. Non-movement of CRS would affect operational use of these wagons, even though maintenance charges were paid for the same. ADG (SM) replied (January 2017) that the regular movement of all rolling stock, though desirable, is not mandatory to ensure their track-worthiness. Reply is not acceptable as Army HQ, in 1990 issued a letter to all Zonal Railways indicating that every three month the stabled rolling stock should be moved at least 100 to 200 KMs distance for verification of its road worthiness under advice to the directorate in Army HQ and MCO but the same was not done.

#### **3.1.6 Commercial exploitation of Defence Wagons by Railways**

During scrutiny of documents at MCOs, we noticed instances of commercial exploitation of Defence owned Wagons by Railways without the knowledge of defence authorities. For instance two wagons lifted by Railways in April 2014 for periodical overhaul from Defence siding at Allahabad were extensively used by Railways for movement of oil tankers for two years. Similarly, the extensive use of 32 Defence wagons by Railways for commercial freight operation was reported from Jhansi for which no credit had been given to MoD.

These instances indicate that there is no mechanism with the Army to check such commercial exploitation of the Defence Wagons and Coaches by Railways for its operations. ADG (SM) replied (January 2017) that the misuse of Army's rolling stock was reported by MCOs across the country and all steps were taken by the Directorate suo-moto.

### **3.1.7 No physical verification of existing wagons and coaches by the Army**

The Indian Army owns a number of Wagons and coaches which are located in the Railway network of the country. No physical verification of the stock was conducted by the Army during last five years except in January 2016. The census carried out in the year 2016 indicated a deficiency of 428 Wagons and seven coaches valuing ₹ 170 crore. In reply (November 2016) to audit query, ADG (SM) stated that Army owned rolling stocks are temporarily untraceable. Reply is indicative of the possible use of their CRS stock by Railways for commercial purpose without due knowledge of Army.

Further, in January 2017 ADG (SM) clarified that it would be impossible for Army to regulate the CRS on daily basis as these are held in custody of Railways, yet physical verification being an enduring activity, is still continuing. The reply is not convincing because audit had highlighted the lack of periodical physical verification.

### **3.1.8 Delay in creation of Additional Rail Facilities (ARF)/Military Sidings**

Additional Rail Facilities (ARF)/Military Sidings are created for defence at various Railway stations on Defence/Railway land for handling military traffic during peace and war. These facilities though created out of defence fund remain on the charge of Railways. Necessity for creating an ARF is identified by Army with approval of ADG (SM). Once the project for creation of ARF is included in Army Major Works Programme, money is released for construction of the project to the Railways as a deposit work.

Audit noticed that out of 14 projects of ARF at various locations which were approved from 2004 to 2013 at a cost of ₹ 258.01 crore, none of them was completed as of November 2016. Out of 14, only three projects had been completed by 60 per cent, 70 per cent & 76 per cent and balance 11 projects were yet to be commenced. The cost overrun of eight projects was of ₹101.12 crore, which included two of the above three completed projects. In the balance six projects, the cost was to be revised and hence cost overrun was yet to be arrived at. Thus the delay in creation of the ARFs had resulted in cost escalation of the projects.

In reply (January 2017) ADG (SM) stated that delay in creation of ARF is a worrisome trend and is a result of differing priority of the Railways.

### **3.1.9 Non adjustment of MoD funds by Railways**

In 2003, a proposal for gauge conversion of Sakri Laukhabazar – Nirmali and Saharsa – Forbesganj as alternate route to north east states through Bharat – Nepal border, was initiated by the then Minister for Railways for development

under strategic consideration. In principle agreement to this proposal was accorded by the then Defence Minister and the project was to be practically funded by the Ministry of Defence amounting to ₹ 356.01 crore in five years. In February 2006, Ministry of Defence, backed out from funding this project as the project was not of a strategic importance and suggested to Railways to take up a project viz Rangiya-Murkongselek-Pasighat being the project having a strategic importance. Accordingly, Ministry of Defence (MoD) provided to Railways ₹ 356 crore between 2005-06 and 2009-10 on quid pro quo basis. Subsequently, in February 2009, the Rangiya – Murkongselek project was declared as a “National Project” and as such, the money provided by MoD of ₹356 crore was to be refunded / adjusted for carrying out some other ARF works.

In reply (January 2017) ADG (SM) stated that further details regarding execution of any quid-pro-quo work in lieu of Sakri Laukhabazar – Nirmali and Saharsa – Forbesganj are being ascertained from Ministry of Railways.

Thus the amount of ₹356 crore paid to Railways by MoD long back was neither refunded to MoD nor adjusted in other ARF projects.

### **3.1.10 Non Serviceability of Military Sidings**

During audit it was noticed that none of the three Defence Railway sidings at Allahabad were functional. The railway track network of COD Chheoki was completely worn out and declared unfit for movement since January 2015. The Military siding at OD Fort was last operated in April 2008. Similarly, Khusrobagh military siding was not being used due to the approach road leading to the Defence Railway sidings being unsuitable for movement of heavy vehicles and Guns. In spite of non-functioning of various Defence Railway sidings at Allahabad, annual maintenance charges of ₹31.58 lakh had been paid to the Railways for the period from 2011-12 to 2013-14.

In reply (January 2017) ADG (SM) stated that whether a siding is used or not the yearly interest and maintenance charges of a siding is due to Railways as long as the siding is serviceable. The reply is not accepted as the audit had pointed out about the unserviceability of railway sidings which was confirmed by ADG (SM) in February 2017 and hence the payment of ₹ 31.58 lakh made to Railways was irregular.

### **Conclusions**

- Due to excess scaling of AC coaches/Military Langars (ML) against Periodical Over Hauling (POH) requirement, procurement of 17 AC coaches/ML for ₹ 50 crore was avoidable.

(Para 3.1.2)

- Against the provision of advance payment of 15 percent in Defence Procurement Procedure (DPP), Army HQ made 100% advance payment of ₹325.52 crore in March 2015 to Integral Coach Factory (ICF) Chennai and Rail Coach Factory, Kapurthala for procurement of AC coaches and Militray Langars. Moreover both the production units could not deliver the coaches/Military Langars in stipulated time, which had resulted in loss of interest to the tune of ₹ 23.87 crore on advance paid.

(Para 3.1.3.2)

- Due to non-uniformity in cost calculation of Railway Charges for Military Special Trains at various MCOs, an excess/irregular payment of ₹30.44 crore had been made to the Railways on account of Infringement charges, Additional Surcharge, Passenger Fare Tax, Service Tax, Railways Siding and Shunting Charges, Busy Season/Development Charges etc.

(Para 3.1.4.1)

- Against Bank Advices of ₹49.59 crore from January 2016 to September 2016, bills of ₹ 39.64 crore were not received from six Railway Zones by the PCA (Fys), Kolkata as of September 2016. Further, due to lack of proper scrutiny of vouchers by PCA (Fys), an overpayment of ₹ 88.02 lakhs had been made to the Railways.

(Para 3.1.4.9)

- Army has no mechanism to check the commercial use of its Railway wagons/coaches by Railways. As a result 34 defence owned wagons were extensively used by the Railways for commercial use but no credit was given to MoD. This happened due to lack of regular physical verification of its wagons by the Army. When physical verification was done by the Army in 2016, a deficiency of 428 wagons and 7 coaches costing to ₹170 crore was found.

(Para 3.1.6 and 3.1.7)

- Out of 14 ARF projects approved from 2004 to 2013 at a cost of ₹258.01 crore, no project was completed as of November 2016. This had not only resulted in cost overrun of the projects by ₹ 101.12 crore but also had adversely affected the operational requirement of the Army.

(Para 3.1.8)

- An amount of ₹ 356 crore paid to the Railways by Ministry of Defence for construction of Additional Railway Facilities (ARF) which were subsequently declared national project in 2009, was neither refunded to

Ministry of Defence nor adjusted in other ARF Projects as of November 2016.

(Para 3.1.9)

- Annual maintenance charges of ₹ 31.58 lakh were paid to the Railways even for Non-functioning Military Railway Sidings at Allahabad

(Para 3.1.10)

### **Recommendations**

- ❖ Scaling of the wagons/coaches should be done as per actual requirement.
- ❖ Procurement process of wagons/coaches including payment of advance should be as per DPP provisions.
- ❖ Railway charges for Military Special Trains should be admitted as per orders of the Ministry of Railways and should be properly checked by the concerned MCOs as well as PCA (Fys) Kolkata. All such payments for the last 5 years may be reviewed by the PCA (Fys), Kolkata.
- ❖ Physical verification of wagons and coaches to be conducted annually/at regular intervals to check commercial use of the Defence owned Railway Wagons/Coaches by the Railways.
- ❖ Ministry of Defence/ADG (SM) should monitor the progress of the ARFs projects for its early completion and take immediate action for refund/adjustment of the amount paid to the Railways.
- ❖ In case of staggered delivery period spanning beyond a year, periodical quantum of supplies should be indicated clearly in the Indent to avoid paved lee-way to Production Units for supply according to their own convenience.

The matter was referred to the Ministry of Defence in December 2016; their reply was awaited (January 2017).

### 3.2 Ammunition Management in Army-Follow up Audit

**"For the contents of this paragraph/report, printed version of the relevant report may be referred to"**

### **3.3 Extra expenditure due to non-placement of order within validity of the offer**

**Non- acceptance of an offer within its validity led to procurement of 85259 Bicat Strip at an extra expenditure of ₹90.26 lakh, which was avoidable.**

Bicat strips are practice munitions comprising of safety fuse inserted with crackers at strategic intervals which simulate gun fire when ignited.

Army HQ floated request for proposal (RFP) for procurement of 85259 numbers of Bicat Strips to five firms in March 2013 wherein bids were to be valid till 02 November 2013. The lone bid submitted by M/s Ganesh Explosives Pvt. Ltd. Coimbatore was opened on 02 May 2013 with validity of the bid as prescribed in the RFP. Tender Evaluation Committee (TEC) in May 2013 decided for capacity verification of the firm and post-verification (December 2013) through Controllerate of Quality Assurance (CQA), Kirkee, Pune, the commercial bid was opened on 30 January 2014. Since the quoted price of ₹643.26 per item was much more than the benchmarked price of ₹226.33 arrived at by Commercial Negotiation Committee (CNC) in December 2013, the price was negotiated (February 2014) by CNC to ₹295.90 per unit. Meanwhile, validity of the offer was extended by the firm thrice from 02 November 2013 to 02 January 2014, 02 March 2014 and finally to 31 March 2014. The case forwarded to Integrated Financial Advisor (IFA), Army on 7 March, 2014 was concurred by him on 13 March 2014. No supply order was placed till validity of the offer which was 31 March 2014. Subsequently, Competent Financial Authority (CFA) accorded approval for re-tendering in June 2014 and procured 85,259 numbers of Bicat Strips at a unit price of ₹401.77 under supply orders placed in September 2015 on two different firms, other than the firm to whom supply order was not placed within its validity till 31 March 2014.

On being pointed out by Audit (May 2016), Army HQ stated (July 2016) that this did not result in any loss as the earlier bidder being new one, had reduced his price drastically and could have refused to supply even after placement of supply order.

The reply is an afterthought as negotiation with the lone bidder was carried out only after assessing his capability to supply the store and the negotiated price of ₹295.90 per unit despite drastic reduction as stated, was still higher than the benchmarked price of ₹226.33 per unit.

Thus, Army HQ failed to place the supply order on the firm with which negotiations were conducted within the validity period despite multiple

extensions of validity of offer by the firm. Subsequently procurement was made from another firm after re-tendering which resulted in avoidable extra expenditure of ₹90.26 lakh.

The matter was referred to the Ministry of Defence in September 2016; their reply was awaited (January 2017).

### **3.4 Loss due to non-recovery of rent and premium in respect of Mobile Towers installed in a military station.**

**13 mobile towers of private telephone companies were installed at Chandimandir Military Station without the requisite approval of the Ministry of Defence, leading to loss of ₹4.33 crore on account of non-recovery of rent and premium.**

Government of India, Ministry of Defence (GoI, MoD) decided in September 2008 that the Public Sector and Independent Infrastructure Providers (IP-I), who have been granted license by the Department of Telecommunications (DoT) to build, operate and maintain various services, such as Unified Access Services, Basic Services and Cellular Mobile Services *etc*, may be considered for allotment of Defence land on leasehold basis, to lay the Optical Fibre Cables and set up/construct shared communication towers on Defence land at Military Stations/Cantonments on certain terms and conditions including the following:-

- i. The land may be allotted at the commercial lease rent i.e. four times the residential rent, based on the current STR/market rate of the area with one time premium at 10 times the annual rent.
- ii. The Authority competent to grant the lease of land to communication operators would be the MoD or the authority to whom such powers may be delegated not below the General Officer Commanding -in- Chief (GOC-in-C) of the Command and its equivalent in other services.

The MoD in April 2012, clarified that it had not issued any order for delegation of these powers and the authority to grant leases of land to communication operators was with MoD only. In terms of the Regulations for Military Engineer Service (RMES), the Garrison Engineer (GE) is responsible for making demands for payment of all revenue and for taking steps for its prompt realisation.

During audit of GE Chandimandir (May 2016) and Station Headquarters Chandimandir (July 2016), Audit noticed (May & July 2016) that 13 mobile towers had been installed between March 2006 and June 2013 by the private

telephone companies at Chandimandir military station without sanction of the competent authority i.e. MoD. Further, though recoveries of electricity bills were being effected by the GE Chandimandir, no recovery towards rent/one time premium had been made for 13 Mobile towers thereby resulting into loss of rent of ₹1.56 crore and one time premium of ₹2.78 crore till July 2016.

In reply to an audit query, Defence Estates Office (DEO), Chandigarh intimated (June 2016) that no information/record regarding installation of Mobile/Telephone towers was held by that office. Station HQrs Chandimandir replied (July 2016) that no rent was being charged as no rent agreement was concluded with mobile company by them.

HQrs Western Command (WC) stated (December 2016) that the process of getting sanction from the MoD under the 2008 policy is a laborious process and a case taken up in 2008 for establishment of mobile towers at Chandimandir military station has still not seen the light of the day. Hence, a conscious decision was taken to provide temporary relief to troops purely as welfare measures. It was further intimated that no agreement was concluded except electricity charges being paid as per actual usage.

Thus, case reveals that 13 mobile towers have been installed at Chandimandir military station without approval of the competent Authority i.e. MoD. Further, no rent agreement was concluded in violation of the policy of September 2008 thereby causing a loss of rent of ₹1.56 crore and one time premium of ₹2.78 crore till July 2016.

The case was referred to the Ministry (October 2016), their reply was awaited (January 2017).

### **3.5 Wasteful expenditure on procurement of incompatible equipment**

**Outboard Motors (OBM) costing ₹1.26 crore, which were procured by invoking Army Commander Special Financial Powers to meet immediate requirement in Northern Command, could not be utilised. 46 out of 50 OBMs have been used for less than 10 hours in seven years. User units attributed low utilisation of the motors to lack of compatibility with the boats held and to absence of scope for training in the available terrain.**

To obviate non availability becoming a constraint in counter insurgency and internal security duties and to meet immediate operational requirements, special financial powers have been delegated to Army Commanders for incurring expenditure on procurement of equipment and stores to supplement the availability through central source. These powers can also be invoked for purchasing stores and equipment which have not been introduced in Army {Non Standard Pattern (NSP)} but which are perceived by Army Commanders

to be necessary for operational reasons in their command areas. The procurement of NSP items would however be only need based. It means that procurement of stores/ equipment for training, and flood relief operations *etc* was not authorised under the ACSFP.

Engineer units in Northern Command (NC) are authorised Outboard Motors (OBMs<sup>16</sup>). Against an authorisation of 100 OBMs, the units in NC had a deficiency of 48 OBMs of 30 horsepower (HP) in 2007. HQNC initiated a proposal in November 2007 for procurement of 50 OBMs of higher HP *viz* 90 to 100 HP, under the Army Commander's Special financial powers (ACSFP) on the plea that OBMs of 90 to 100 HP would be more effective in rivers in the NC theatre for carrying out training and in flood relief operations.

Notwithstanding the defined purpose of the delegation, HQ NC accepted the necessity and procured 50 OBMs at a total cost of ₹1.26 crore in March 2009 under the ACSFP. These OBMs were released in April 2009 to three Corps HQ (Corps 'A', 'B' and 'C') and Command Engineer Units including Combat Engineer Training Camp (CETC)<sup>17</sup> under the Northern Command. The OBMs were received by March 2010.

Audit examined the receipt and utilisation of these OBMs and observed that even before the actual receipt, Corps 'A' ordered (May 2009) the transfer of 12 out of its 15 allotted OBMs to the CETC. Similarly three OBMs released to the Command Engineer Unit were also transferred to the CETC in February 2013, as the Engineer unit could not utilise the same due to non-availability of power boats. These 15 OBMs along with the six released to the CETC were held (April 2016) with the training unit and none of these OBMs had been used for more than 10 hours ever since their procurement in 2009. In respect of the OBMs issued to other two Corps, Audit observed that the total hours run by each of them was also in single digits, except for four OBMs held by one Engineer unit under Corps 'C', where the usage was between 32 to 34 hours. Overall state of holding and utilisation of the 50 OBMs procured is summarised in the **Table-24** below:

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<sup>16</sup> OBM- A propulsion system for boats consisting of a self-contained unit that includes engine, gear box and propeller and can be easily removed for storage or repairs.

<sup>17</sup>CETC- Engineer Training unit meant to provide assistance to Engineer Regiments of North Command in terms of stores for Training, Flood Relief and CI Operations.

Table-24

Formation/ Unit	Number of OBMs released	Unit-wise sub allocation		Present state of holding		Total hours run ( April 2016)
		Unit	No	Unit	Since (As per Command Release Order)	
Corps 'A'	15	Corps HQ	10	CETC	April 2009	1.5 to 9.5 hrs
		Corps ER	03	Corps ER	April 2009	-
		Corps ER	02	CETC	Jan 2010	Less than 8 hours
Corps 'B'	09	Corps ER	09	Corps ER	April 2009	Not run – Equipment not found successful by the formation
Corps 'C'	12	Corps ER	03	Corps ER	April 2009	4 hrs
		Corps ER	05	Corps ER	April 2009	Not run
		Corps ER	04	Corps ER	April 2009	32 to 34 hrs
Command Engr. Unit	03	Command ER	03	CETC	Feb 2013	Less than 2 hrs
CETC	06	CETC	06	CETC	April 2009	Less than 10 hours
Engineer Park	05	EP	05	Engr. Park as reserve	April 2009	

It is evident from the above details that none of the 50 OBMs procured at a total cost of ₹1.26 crore, as an NSP item to meet immediate operational requirements, by invoking ACSFP were used by the Units in NC. The reasons for non-utilisation as stated by the holding units were:

- OBMs not found successful due to non-availability of power boats
- High power of the OBMs topple the boats held
- Non availability of compatible power boats for the OBM
- Absence of scope for training in the available terrain

Audit further observed (October 2016) that out of 21 OBMs held by CETC, six were already declared unserviceable (in July 2016) and deposited as salvage. Again, 39 OBMs had been issued on loan to other Commands from February 2015 to October 2016. Thus as of October 2016, the NC was holding only five OBMs in serviceable condition.

The insignificant utilization of OBMs since their receipt in March 2010 clearly indicates that (i) the requirement for procurement of the OBMs was not for immediate operational purposes and (ii) higher horsepower OBMs were procured disregarding their compatibility with the available boats. Thus, the special delegation of financial powers made on the Army Commander was injudiciously used, resulting in wasteful expenditure of ₹1.26 crore.

The matter was referred to the Ministry in October 2016; their reply was awaited (January 2017)

### **3.6 Unnecessary expenditure on cattle perimeter fencing**

**General Officer Commanding (GOC), Headquarters Delhi Area sanctioned jobs in piecemeal for construction of cattle perimeter fencing around Officers married accommodation in Delhi Cantonment although perimeter wall around complexes was already existing. This had resulted in unnecessary expenditure of ₹3.42 crore.**

Scales of Accommodation, Defence Services- 2009 stipulates that perimeter and boundary wall of 1.3 M high may be provided around living accommodation complex as considered necessary to prevent trespassing and occupation by unauthorized settlers. Further, Defence Works Procedure (DWP) 2007 prescribes that no project or work services will be split up to bring it within the powers of a CFA at a lower level.

Audit noticed (December 2015 & October 2016) that Head Quarters (HQ) Delhi Area accorded 21 administrative approvals (A/A) between November 2013 and December 2015 totalling ₹ 3.12 crore for provision of cattle perimeter fencing for officers married accommodation, which had perimeter/boundary wall. The amount of each A/A was kept below ₹ 15 lakh i.e. within the powers of HQ Delhi Area by way of splitting up the works in contravention of the provisions in DWP-2007. For execution of the jobs, 13 contracts were concluded by two Garrison Engineers (GEs) and one Commander Works Engineer (CWE) between December 2013 and June 2016. Out of 21 jobs, 15 were completed between March 2014 and July 2016 at a cost of ₹ 2.41 crore.

In reply to audit queries, the concerned GEs stated (August/September 2016) that no quarters/dwelling units were outside the existing perimeter wall of the objected area. Chief Engineer Delhi Zone (CEDZ) in July 2016, admitted that as per scales, fencing to a dwelling unit was not authorized wherever the perimeter wall exists, while stating that the case shall be taken up with the Ministry of Defence through proper channel for change in scales of accommodation and that no more work of this nature shall be undertaken till the scales are modified or the work would be sanctioned as a special item of work by the competent authority.

Audit, however, noticed (November 2016) that another two such works totalling to ₹0.30 crore had been sanctioned by HQ Delhi Area and as such in backdrop of the quoted responses of the Military Engineers Service, solicited justification for the sanctions from HQ Delhi Area.

HQ Delhi Area responded (December 2016) by referring to a similar audit observation of December 2015 which was settled in view of response of the

GE and stated that if audit authorities now have different interpretation then the same is noted for future compliance, wherein the work will be sanctioned as a special work.

The justification of HQ Delhi Area about settlement of the audit observation is not factually correct as the settlement was driven out of the GE's response that did not reveal the fact of existence of the perimeter/boundary wall around the married accommodation complexes/works questioned in the observation.

Thus, sanction/construction of cattle fencing around officer's married accommodation complex having the existing perimeter wall was unnecessary, resulting in sanction/expenditure of ₹ 3.42 crore for infructuous work. Further, sanctioning of such work as a special work would not make the work fruitful and would introduce a new practice thereby being violative of the codal provision.

The matter was referred to the Ministry in October 2016; their reply was awaited (January 2017).

### **3.7 Loss due to procurement of defective equipment**

**In procurement of 20 numbers of Photowrite Systems, Director General Military Intelligence had accepted separate Performance Bond and warranty bonds of each system by violating the contract provisions. Eleven systems became non-functional within 3 to 22 months of procurement resulting in loss of ₹ 21.28 crore. Despite poor performance of the firm during delivery and warranty period of the systems, warranty bonds were allowed to lapse without encashment.**

The Photowrite Systems are authorised to all the Imagery Interpretation Teams (IIT) at Army Command, Corps and Divisional Headquarters level. The equipment is used for generation of large format hard print from digital data of Satellites/Aerial Imageries for interpretation purpose. The Director General Military Intelligence (DGMI) is responsible for acquisition of the equipment.

A total of 20 Photowrite Systems had been procured by DGMI between 1996 and 2000 from M/s Speck Systems Limited (firm). After completion of in-service life of the equipment, DGMI, in February 2009, proposed to replace the existing 20 systems with Large Format Photowrite System to be procured as a repeat order from the firm. The proposal was approved by Defence Procurement Board in December 2009. DGMI in August 2010 concluded a contract with M/s Speck Systems Limited, Hyderabad (firm) for the supply of 20 equipment at a cost of ₹33.0 crore. The delivery schedule of the equipment

was in three phases *i.e.* 10 equipment by February 2011, 05 equipment by May 2011 and balance 05 by August 2011. Pre Dispatch Inspection (PDI), commissioning and Acceptance Test Procedure (ATP) of the equipment were to be completed within 12 months of the effective date of contract. Payments were to be made in stages *i.e.* 15 *per cent* in advance, 70 *per cent* on delivery of the equipment in batches and remaining 15 *per cent* on successful completion of ATP.

However, the firm failed to supply even a single equipment within delivery schedule. In view of lackadaisical attitude of the firm, DGMI had initiated the case for termination of the contract twice- first in March 2011 and subsequently in December 2012. However, on the advice of Principal Integrated Financial Advisor (PIFA-Army) on both occasions extension in the delivery period was granted culminating into effective extension of 24 months from the original delivery schedule.

PDI of all equipment was completed between May 2012 and August 2013. The installation/commissioning of 20 systems were carried out between June 2012 and May 2014 but ATP of 19 equipment was completed up to February 2014 and of balance one is yet (May 2016) to be completed. Payment of ₹38.68 crore (including taxes) had been made to the firm as of April 2014.

Audit scrutiny of the case revealed the following:-

- (a) As per Article 14 and 15 of the contract, warranty period of the system was 18 months from the date of acceptance or the date of installation and commissioning whichever is later. Against this, the firm had given a warranty bond in the form of BG equal to 5 *per cent* of the total value of the contract *i.e.* ₹ 1.65 crore with validity up to 3 months after the ATP and acceptance of consignment warranty period. Further, the warranty bond was subject to encashment by the buyer in case conditions regarding warranty and settlement of claims in the contract are not fulfilled by the firm.

We noticed that performance of the firm towards maintenance of the systems was unsatisfactory as ATP of one system was yet to be completed (May 2016) and as of December 2015, 10 systems had become non functional within 03 months to 22 months from their acceptance. Out of them seven systems, became non-functional during the warranty period for which no action had been taken by the firm to repair or replace them. Although, the warranty of non functional systems was to be extended, the firm did not extend the warranty period. We noticed that despite inaction on the part of the firm towards maintenance and warranty extension, encashment of BGs towards warranty bonds was

not initiated by DGMI and BGs against five systems amounting to ₹41.25 lakh were allowed to lapse.

- (b) As per the Article 4 of the contract, the firm was to give a Bank Guarantee (BG) equal to five *per cent* of the total value of the contract *i.e.* ₹1.65 crore towards performance bond with validity up to 90 days after the Acceptance Test Procedure (ATP) and acceptance of last consignment at site. However, deviating from the contractual provision, separate performance bonds of ₹8.25 lakh for each system were accepted from the firm and they were allowed to expire within 90 days of the ATP of the respective system. As a result, DGMI failed to take punitive action by means of recovery of performance BG which otherwise would not have been lapsed since ATP of one system is yet to be completed (May 2016). Thus, splitting the performance bond with different validity periods defeated the very purpose of taking performance BG from the supplier.
- (c) We further observed that Defence Procurement Manual (DPM), which contains guidelines for revenue procurement, stipulates performance BG amounting to 10 *per cent* of the contract value where as in Defence Procurement Procedure (DPP) for capital procurement the provision is for 5 *per cent* of total contract value. Provision for 5 *per cent* BG in capital procurement is not only insufficient to safeguard government interest but also indicate the incongruity in taking performance guarantee from the vendor in defence procurements.

It was noticed that Vice Chief of Army Staff (VCOAS) had ordered (March 2016) to fix accountability of the respective Project Officer/dealing Officer for lapse of the BGs and apprised CGDA office to initiate the disciplinary action regarding involvement/ improbity of PIFA in rendition of advise for extension in the delivery period. Though the firm was blacklisted by the Ministry in May 2016, response to audit query seeking status of inquiries against erring officers was awaited. (January 2017).

In light of the above case Audit recommendations are following:-

- Provision regarding quantum of the performance BG in DPP should be reviewed keeping in view the provision of DPM.
- Splitting of performance BG by the firm should not be allowed as it defeats the very purpose of securing interest of the government pertaining to the whole of procurement order.

- Court of Inquiry against the erring officers as ordered by VCOAS should be expedited so as to ascertain as to what went wrong and what lessons could be learnt for future.

The matter was referred to the Ministry in September 2016; their reply was awaited (January 2017).