

**CAG Compliance Audit Report on Defence Public Sector Undertakings –
Ministry of Defence tabled in Parliament.**

About the Report

This Report contains significant audit findings which arose from the audit of the Public Sector Undertakings under the Ministry of Defence (MoD), Government of India for the year ended 31 March 2016. Some of the important findings in the Audit Report are detailed in subsequent paragraphs:

Chapter II – Performance Audit on Construction and Delivery of Anti Submarine Warfare (ASW) Corvettes by Garden Reach Shipbuilders and Engineers Limited

MoD sanctioned ₹ 331.27 crore for augmentation of infrastructure facilities for construction of ASW Corvettes since as per the Cabinet Committee on Security (CCS) Note of March 2003, it was felt that the existing infrastructure was considered to be grossly inadequate. The modernisation was completed in 2013-14 as against the scheduled completion of July 2009 and thus, the work of modernisation of shipyard as well as construction of corvettes were undertaken simultaneously.

(Para 2.1.2.1)

At the time of issue of Letter of Intent (LoI), only a sketchy specification of the ship was made available to Garden Reach Shipbuilders and Engineers Limited (GRSE) and finalisation of system design as well as specification of equipment, weapon and sensor fit were to be undertaken by Directorate of Naval Design (DND). DND finalised the same only in the year 2006 and major modifications continued till 2008. This resulted in delays in preparation of General Requirements for Acceptance of Quality (GRAQ). DND's failure to freeze the design before issue of LoI and commencement of construction concurrently without appropriate monitoring and target timelines resulted in delay in construction of the Corvettes.

(Para 2.1.2.3)

GRSE completed the first ASW Corvette in 99 months and the second in 104 months. Though 105 months and 87 months were consumed in respect of the balance two ships upto December 2016, the percentage of completion was only 86 and 49 respectively. On a comparison of the activity-wise time consumed for construction of the remaining three corvettes with that of the first corvette, Audit observed that the time consumed was more than the first corvette. This was contrary to MoD prescribed benchmarks for performance parameters such as labour productivity, outsourcing, outfitting, procurement, etc. which assumed improvements over period from ship to ship and indicated that GRSE failed to derive the benefits of learning curve.

(Para 2.1.3.2)

Against the 18 weapons and sensors to be installed on ASW Corvettes, Audit observed that the two ASW Corvettes delivered were not fitted with X weapon and sensor systems. Thus, ASW Corvettes could not perform to its full potential as envisaged.

(Para 2.1.3.4)

Harbour Acceptance Trials (HATs) was still pending (December 2016) in respect of the second ASW Corvette (3018) for over a year. Non-completion of HAT for this system resulted in not demonstrating the effective computation of ASW fire control solutions.

(Para 2.1.3.5)

Sea Acceptance Test (SAT) is conducted to test vessel's speed, manoeuvrability, equipment and safety features. Audit observed that SAT on six weapons and sensors and all weapons and sensors were pending satisfactory completion in respect of first Corvette and second Corvette respectively. Thus, the effectiveness of the main feature of anti-submarine warfare was yet to be fully proved.

(Para 2.1.4.3)

Chapter III – Transaction Audit Observations

Licence Production and Supply of Hawk Mk 132 AJT aircraft by Hindustan Aeronautics Limited

Delay in delivery of aircraft to MoD due to delay in supply of technical documents, accessories & tooling by Original Equipment Manufacturer (OEM) and rectification of defective tools & jigs supplied resulted in delayed supply of Batch I aircraft. Not insisting for licence for manufacture of unlimited number of aircraft by MoD while negotiating for Batch I contract resulted in avoidable payment of licence fee for licenced manufacture of unlimited number of aircraft.

Hindustan Aeronautics Limited (HAL) also incurred expenditure of ₹ 107.05 crore on account of procurement of six additional engine kits in anticipation of order from MoD which remained infructuous. Though establishment of facilities for major servicing of airframe and engines was envisaged to be completed by March 2016 and March 2018 respectively, considering aircraft directly procured by MoD, HAL was yet to establish the facilities till date

(Para 3.1)

Bharat Electronics Limited

Injudicious decision of the company resulted in loss of ₹ 36.84 crore

Injudicious decision of Bharat Electronics Limited, to quote and enter into contract for establishment of Camp Area Network without considering the complexity of work involved and associated costs like Exchange Rate Variation, Warranty expenditure and impact of delay in supply, resulted in loss of ₹ 36.84 crore.

(Para 3.2)

Development of Bharani Mark II in L-Band without customer requirement resulted in expenditure of ₹ 11.45 crore being rendered futile

Bharat Electronics Limited (BEL) proceeded to develop three Dimensional (3D) L Band radar without clearly ascertaining the specific requirement of customer. Since customer was keen on S band 3D Aslesha radar modified for meeting the Bharani Mk II requirements, decision to go for development of L band radar resulted in avoidable expenditure of ₹ 11.45 crore.

(Para 3.3)