

**O/o Comptroller and Auditor General of India**  
**PRESS RELEASE**

New Delhi; 21.7.17

**CAG Performance Audit Report - Union Government (Defence), Navy and Coast Guard tabled in Parliament.**

**About the Report**

Total expenditure of the Defence Services during the year 2015-16 was ₹2,43,534 crore. Navy spent ₹35,196 crore while Coast Guard spent ₹3,034 crore which constituted 14.45 *per cent* and 1.25 *per cent* respectively of the total Defence Expenditure. While the major portion of the expenditure of the Navy was capital in nature (56.47 *per cent*), Coast Guard expenditure was equally distributed between Capital and Revenue Heads amounting to ₹1,517 crore for each.

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 Performance Audit on Inventory Management of Naval Stores, Equipment and Spare Parts in Indian Navy**

Material planning has many areas of responsibility, but the most significant ones are provisioning, inventory management and issue management. Good inventory management is vital to reduce inventory carrying cost. Integrated Logistics Management System, an on-line, data linked computer system supports the Navy's material planning.

The procurement quantity generated by the system based provisioning formula was on the higher side and was projecting quantities equivalent to three to six years' annual consumption requirements due to an algebraic anomaly in the existing formula. Inventory control mechanism in the Indian Navy is deficient to the extent that it was not following the ABC categorisation norms. This impacts the quality of review provisioning and assessment of maximum and minimum stock levels of inventory. Laid down timeline for processing of indents was not adhered to leading to cascading effect in procurement of stores. Items procured under Proprietary Article Certificate and Single Tender Enquiry were significantly more *vis a vis* items procured under Open Tender Enquiry and Rate Contracts, which led to reduced competition/monopolistic situation. Procurement of obsolete items worth ₹46.92 crore indicated lack of due diligence while making procurement decisions. Average demand compliance at Material Organisations was around 70 *per cent*. Inventory worth ₹7359.37 crore was held by Material Organisations above the Upper Stock Level resulting in avoidable liability of inventory carrying cost of ₹588.75 crore per annum with corresponding risk of deterioration and obsolescence of the stores held.

*(Chapter-II)*

**II Accidents of ships and submarines in Indian Navy**

The loss of a ship/submarine adversely affects the operational preparedness of the Navy, as acquisition of new ships/submarines involves procurement/ construction process of more than eight to ten years. It is, therefore, imperative that Navy maintains its assets free from accidents during peacetime evolutions. Between 2007-08 and 2015-16, Indian Navy ships and submarines were involved in 38 accidents, primarily attributable to fire/ explosion/ flooding. The Indian Navy since inception, had no institutionalised framework to deal with safety issues. A dedicated organisation for dealing with safety issues was setup by the Indian Navy only in 2014, however, it awaits Government's sanction.

(Paragraph 3.1)

### **III Functioning of Marine Gas Turbine Overhaul facility**

INS Eksila is overhauling the M3E Gas Turbines since 1991, but continued to encounter abnormal delays in completion of the overhaul of the Gas Turbines, *inter alia*, due to non-availability of spares and manpower. The facility required for overhaul of M-15 Gas Turbines was yet to be completed though the facility had been planned to be set up since 1986. Meanwhile, two out of twelve 1241 RE class ships, which employ the M-15 Gas Turbines, had been decommissioned by April 2016. Overhaul facility for M-36 Gas Turbines planned in 2008, has also been delayed for want of synchronisation between civil works and procurement of equipment. Consequently, Navy continued to depend on Original Equipment Manufacturer (OEM) for overhaul of Gas Turbines, incurring an expenditure of ₹317.77 crore. INS Eksila is grappling with inadequate availability of technical expertise, due to non-retention of manpower for long duration.

(Paragraph 3.2)

### **IV Operation and Maintenance of UH-3H helicopters**

The UH-3H fleet of helicopters, procured as an integral part of Landing Platform Deck, was unable to maintain the desired levels of serviceability in six out of seven years of its operations since commissioning despite reduction of the Unit Establishment of the squadron from four to three helicopters. In absence of clear targets, the deck based flying remained significantly low. Non-existence of dedicated depot level maintenance facilities and non-availability of spares adversely impacted the maintenance of the fleet. Further, Navy continues to be dependent on the foreign repair agency for maintenance, servicing and logistics issues due to lack of training of Naval personnel.

(Paragraph 3.3)

### **V Risky exploitation of Sindhughosh class submarines due to delay in installation of periscopes**

Delay of more than 34 months in according approval by the Ministry for amendment to contract for change in ownership of the seller and delivery period extension, required for supply of the periscopes, led to delay in delivery and installation of periscopes for Sindhughosh class submarines. This resulted in risky exploitation of submarines for 22 to 62 months till next refit.

(Paragraph 3.4)

### **VI Non-installation of a mandatory system compromising the flight safety of aircraft**

Non-availability of a critical flight safety equipment on board the Indian Navy's and Coast Guard's aircraft, has impacted their safe operation for the past 12 years. The situation would persist for another four years due to asynchronous timelines for delivery of the equipment and its installation on board the aircraft. Further, failure to take cognizance of de-induction of one of the aircraft fleet, resulted in excess procurement of equipment worth ₹5.58 crore.

(Paragraph 3.5)

**VII Fleet tankers rendered vulnerable due to delay in fructification of offset obligation**

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y of the defence systems onboard the fleet tankers, since their delivery in 2011, rendered them vulnerable to external threats. Further, non-linking of payment with the supply/installation of vital defence systems catered for under offset clauses of the contracts for two fleet tankers, resulted in premature payment of ₹26.73 crore to the foreign vendor.

*(Paragraph 3.6)*

**VIII Deficient small arms practice firing by Naval Officers in Delhi Area**

All Indian Navy personnel are required to have working knowledge of handling all types of small arms. It was noticed that the coverage of Naval officers in practise firing was meagre in Delhi Area creating concerns about their ability to handle small arms.

*(Paragraph 3.7)*

**IX Unwarranted procurement of aero-engines for a helicopter fleet**

Indian Navy, while placing the order for procurement of four aero-engines for two helicopters damaged in an accident, did not take into consideration one helicopter which was declared Beyond Economical Repairs before the conclusion of the contract and 16 aero-engines received post-overhaul. Although, these excess engines were absorbed in subsequent procurement of five helicopters, Beyond Economical Repairs declaration of another helicopter resulted in inventory holding of the aero-engines more than its authorisation and unproductive expenditure of ₹16.62 crore on the procurement of three excess aero-engines.

*(Paragraph 3.8)*

**X Irregular payment of ₹5.23 crore as Foreign Exchange Rate Variation to a shipyard**

Indian Coast Guard authorities made a payment of ₹5.23 crore to M/s Goa Shipyard Limited, Goa as Foreign Exchange Rate Variation due to misinterpretation of contractual provisions.

*(Paragraph 4.1)*