

CHAPTER III : AIR FORCE

Procurement

3.1 Avoidable expenditure on procurement of spares

Delay in exercising option clause led to an avoidable expenditure of ₹ 4.29 crore in the procurement of spares.

Air HQ placed two supply orders on two Russian vendors in October and November 2006 for procurement of 170 and 10 items of '1' level spares at a cost of USD 10,029,978 and USD 4,965,896 respectively for setting up of 2nd line servicing of rotables/aggregates of Su-30 MKI at No. 2 Wing. Details of the two contracts along with the terms of agreement for the option clause are given in the table below:

Sl. No.	Vendor	Date of order/contract	Number of items	Value	Option clause conditions
1.	Joint Stock Company "Aviation Holding Company" "SUKHOI"	11 October 2006	170	USD 10,029,978	The buyer (i.e. the Indian Air Force (IAF)) had the right to place a separate order on the seller till the expiry of warranty period for the equipment at the same prices provided that the delivery of the equipment ordered under the option clause was before 31 March 2007. In case, delivery was after 31 March 2007, the cost would be escalated through the application of a mutually agreed escalation formula.
2.	Federal State Unitary Enterprise "Production Association Ural optical and Mechanical Plant"	20 November 2006	10	USD 4,965,896	The placement of the additional / separate order should be on or before 31 March 2007. Beyond this date, the cost would be calculated as per the existing pricing philosophy prevailing at the time.

¹ '1' Level= 2nd line servicing at Wing level (i.e. Intermediate level)

In August 2007, IAF initiated another proposal for the procurement of the same items for No.15 Wing. Air Officer-in-Charge Maintenance (AOM) accorded 'In Principle Approval' in August 2007 for procurement of these spares under the option clause after allowing escalation for the year 2007 at the rate of four *per cent* as per the agreed price escalation philosophy between M/s Rosoboronexport (ROE), Russia and the Indian Government. However, Ministry/Air HQ failed to exercise the option clause till 31 December 2007, the dates up to which escalation of 2007 was valid. In January 2008, both the vendors confirmed their readiness to supply these items at the rates of 2008. In May 2008, the Competent Financial Authority accorded approval for Acceptance of Necessity (AON) at 2008 price level. However, the Ministry in October 2008 placed supply order for 163 spares at a cost of USD 11,131,293 (₹ 47.86 crore) at 2009 price level on Joint Stock Company "Aviation Holding Company" Sukhoi and 10 spares in November 2008 at a cost of USD 5,371,482 (₹ 23.10 crore) at 2008 price level on Federal State Unitary Enterprise "Production Association Ural optical and Mechanical plant".

Thus, the spares which could have been procured under option clause in 2007 at a total cost of US\$ 15,506,110, were actually procured at a cost of US\$16,502,775 resulting in an avoidable expenditure of US \$996,665 (₹ 4.29 crore)² on procurement of 173 spares.

Accepting the facts, Ministry stated in April 2011 that procurement of the spares under the option clause of the existing contracts, which was valid till March 2007, was not feasible as the requirement for spares for No.15 Wing was calculated only in August 2007 and it would not have been advantageous to procure the equipment before setting up the facilities. Ministry's reply is not acceptable as Audit has worked out the avoidable expenditure due to non exercising of option clause by December 2007, when quantity vetting was approved by AOM by August 2007 and the requirement was urgent. Thus, failure in placement of supply order by December 2007 resulted in an avoidable expenditure of ₹ 4.29 crore. Besides, due to delay in procurement of spares infrastructure established at No.15 Wing also remained idle for want of spares for considerable time.

² 1 US\$ = ₹ 43

3.2 Unfruitful expenditure on procurement of flare cartridges

Expenditure of ₹ 3.09 crore incurred on procurement of flares was rendered wasteful due to expiry of flare cartridges.

In March 1996, Ministry of Defence (Ministry) concluded a contract for supply of CMDS³ to be used on the MiG 21 Bison aircraft upgradation project. The contract, *inter alia*, included supply of 20,000 IR flares expendables (flares) at a cost of USD 700,000 (₹ 3.16 crore)⁴ with a delivery schedule of May 1997. The requirement of the flare cartridges was projected and procurement was made in consonance with upgradation of 125 MiG Bison aircraft scheduled to commence from 1998 and be completed by September 2001. Further, there was additional requirement on account of two other aircraft fleets, i.e. MiG 23 and MiG 27, on which the CMDS system was also to be installed. Given this requirement and upgradation schedule and keeping in view the limited shelf-life of seven years of the flares, it was planned to utilise the entire stock against the CMDS projects of all three fighter fleets⁵ by 2002. As the upgradation project was progressing slow due to delay in indigenous development of certain avionics systems coupled with the delay in flight testing, the delivery was staggered in August 1999 till July 2002, to synchronise the deliveries of flare cartridges so as to meet the operational requirement of upgraded Bison aircraft inducted in the field units. The firm completed the entire supply of flares in three lots of 240, 120 and 19,640 in February 1997, September 1999 and July 2002 respectively.

Audit examination revealed that out of 20,000 flares, only 390 flares⁶ were utilised while 70 were rendered unserviceable in November 2007. The remaining 19,540 flares costing ₹ 3.09 crore exhausted their shelf life of seven years (i.e. up to 2009) in store. Air Storage Park (ASP) in their reply stated (June 2010) that the reasons for non-issue of the item was non-availability of release order though stock position of the item was regularly being forwarded to IAF on a quarterly basis.

³ Counter Measure Dispensing System (CMDS) is an airborne defensive system which protects the aircraft against radar guided and infra red seeking and ground launched anti aircraft missiles.

⁴ 1 USD = ₹ 45.13

⁵ 321 aircraft (125 MiG 21, 48 MiG 23 and 148 MiG 27)

⁶ Out of 390, 60 flares were supplied directly to Russia and were used during Design and Development phase, 300 flares were used for trials and remaining 30 were issued to defence establishment between 2004 and 2007.

Ministry, in February 2011, stated that the holding of flares in the stores was necessary due to prevailing security scenario. It further added that as Ops requirement did not arise till 2009, the item was not released but kept in the stock. On the other side, in contradiction of Ministry's reply, Air HQ accepted in January 2011 that 19,540 flares were demolished after shelf life expiry due to delay in upgradation project. It further added that wasteful expenditure due to life expiry of flares can be avoided by granting life extension for gainful utilisation of available stock. As regards Air HQ contention that the flares could not be utilised due to delay in upgradation, Air HQ argument was not convincing as the delivery of the upgraded aircraft was done in a phased manner beginning from 1998-99 and completed in 2007-08. By 2004-05, nearly 80 *per cent* of the upgraded aircraft *i.e* 96 out of 125 had been received after upgradation and these flares could be issued to operating units up to 2009. Ministry's reply is also silent on how the training requirement of MiG Bison met by holding of all flares in the stock. Besides, Ministry in their reply also stated that keeping in view the audit observation and to improve management of such expendable store, Air HQ reviewed the existing system and issued necessary instructions(January 2011) to Commands/ED/ASP for intimation of expiry of stores well in time.

However, the fact remains that the expenditure of ₹ 3.09 crore was rendered unfruitful due to life expiry of flare cartridges before being put up to use in operating squadrons.

Contract Management

3.3 Extra expenditure on procurement of Main Rotor Blade due to non-availing of contractual provisions

Failure to exercise repeat order clause resulted in an extra expenditure of ₹ 1.14 crore on procurement of 15 Main Rotor Blade.

In April 2007, Air HQ concluded a contract with M/s KS Avia Lavia for procurement of 30 sets of Main Rotor Blade(MRB) for Mi17 Helicopter @ USD 98,100 (₹ 44.15 lakh)⁷ per set. The contract *inter alia*, contained "option" as well as "repeat" order clause. Under these clauses, the buyer had the right to place separate order on the seller up to 50 *per cent* of the original quantity within the currency of the contract and 50 *per cent* of the original

⁷ 1 USD= ₹ 45

quantity within 12 months from the date of receiving the last lot under option and repeat order clauses respectively. As per the terms of the contract, the supplier was to complete the supply by October 2007 and the same was supplied within the time frame i.e. by 28 September 2007. Thus, the order under option and repeat option clause could be placed up to October 2007 and September 2008 respectively.

Headquarters Maintenance Command raised an urgent indent in July 2007 for procurement of 35 sets of MRB. In August 2007, Air HQ decided to procure 15 sets under option clause of the contract of April 2007. However, Air HQ issued an addendum to contract *ibid* in November 2007 for procurement of 15 sets only @ USD 98,100 (₹ 44.07 lakh)⁸ per MRB under option clause after a delay of three months. For remaining 20 sets, Air HQ issued RFP in January 2008 and a contract was concluded with M/s Aviazapchast for procurement of 20 sets @ Euro 86,507 (₹ 51.65 lakh)⁹ per set. Thus, 15 MRB which could be procured at a cost of USD 1,471,500 (₹ 6.61 crore) under repeat order clause were procured at a cost of Euro 1,297,605 (₹ 7.75 crore) in August 2008. This resulted in an avoidable expenditure of ₹ 1.14 crore.

Air HQ stated, in April 2010, that both the 'option clause' as well as 'repeat order' cannot be exercised as per provision of Defence Procurement Manual (DPM) 2006. It further added that under the power of AOM as CFA, only 15 sets could be more procured. Ministry also, in February 2011, stated that a maximum of 15 MRBs could have been procured against the option or repeat clause irrespective of the fact whether option clause or repeat clause or both were used as per provision of DPM-2006. On the other side, Air HQ accepted that applicability of Repeat order could have been exercised only after the completion of supplies of previous order and this would have been possible only after 31 July 2008 (i.e. as per addendum issued in November 2007).

The reply is not acceptable since DPM-2006 did not expressly forbid exercise of repeat and an option clause simultaneously nor prohibited enforcement of existing legally binding contracts. Neither did the contract specify that exercise of the option clause nor the repeat clause were mutually exclusive. Therefore, invoking of contractual conditions which ensured that expenditure of public moneys is not *prima facie* more than the occasion demanded was both possible as well as necessary. The Ministry's contention that order under repeat order clause could have been placed after 31 July 2008 is factually incorrect as the repeat order clause could have been utilised anytime up to

⁸ 1 USD = ₹ 44.92

⁹ 1 Euro = ₹ 59.70

28 September 2008. Further, audit noticed that in July 2007 itself M/s Avia Lavia had offered to supply 30 additional sets (for option and repeat clauses) at existing rate of USD 98,100 per unit, if order was placed by 25 July 2007 and advance was released. While making the offer, the firm also stated possibility of increase in prices of MRB in near future. Regarding procurement of only 15 sets under AOM power, Air HQ could have approached next higher CFA to avail benefit of repeat order clause, for which sufficient time was available.

Thus, failure to exercise repeat order and option clause led to extra expenditure of ₹ 1.14 crore.

3.4 Avoidable loss on fabrication of refuellers

An investment of ₹ 1.65 crore incurred in 2005 on procurement of 24 chassis remained idle for the last five years due to delay in fabrication of refuellers. Due to non invoking of option clause, an avoidable expenditure of ₹ 28.35 lakh was incurred on procurement of seven refuellers and Government was also denied its forfeiture claim of ₹ 28.79 lakh.

Indian Air Force acquired 55 Ashok Leyland chassis at a cost of ₹ 3.78 crore during February-March 2005. These chassis were to serve as a base for fabrication of refuellers of 11 Kilo Litres (KL) capacity. In September 2005, Air HQ placed two supply orders on M/s Skytech and M/s Standard Casting for supply and fabrication of 28 and 27 refuellers respectively @ ₹ 11.75 lakh per refueller. M/s Standard Casting supplied the refuellers during August 2006 and May 2008. However, the supply order placed on M/s Skytech was cancelled in January 2008 as the firm could not supply the ordered quantity inspite of repeated extension of delivery period. Hence, Air HQ floated an open tender in April 2009 for fabrication of 24 refuellers and placed a supply order on M/s Standard Casting in February 2010 @ ₹ 15.80 lakh per refueller. Audit scrutiny of the case revealed the following:-

- (i) Air HQ issued a Limited Tender Enquiry to five firms in March 2004 for fabrication of refuellers. The technical bids of all five firms were found acceptable. On opening of commercial bids, M/s Skytech emerged as L-1. At the time of finalisation of the supply order, Principal Director (Purchase) remarked on the lack of capability of M/s Skytech in fabricating refuellers within a period of 20 months if

the entire order of 55 refuellers is placed on them as the firm had not fabricated any refuellers in the last five years and stated that Air Force would, thus, remain without 11KL refuellers for the next 3 - 4 years if a order was placed on the firm. Thus, though Director General Aeronautical Quality Assurance (DGAQA) had cleared the firm's capabilities, in view of the capacity constraints of the firm, it was decided to split orders between L-1 (M/s Skytech) and L-2 (M/s Standard Casting) subject to the condition that L-2 accepts the rate of L-1.

- (ii) As per supply order placed on M/s Skytech, the firm was required to submit a pilot sample within four months i.e. January 2006 and to complete the supply within eleven months from the date of issue of Bulk Production Clearance. However, firm failed to submit the pilot sample by the stipulated date. In January and in February 2006, when the firm was issued a reminder, the firm explained its inability to supply the prototype due to financial constraints. Despite repeated extension of delivery period, the firm did not supply the pilot sample ultimately.
- (iii) The supply order placed on M/s Skytech in September 2005 *inter alia* also provided for depositing of Performance Bank Guarantee (PBG) by the supplier @ 10 *per cent* of the total cost of the order i.e ₹ 32 lakh. In February 2006, the firm requested for allowing them to submit PBG for a value of ₹ 2 lakh due to heavy financial burden. Citing an amendment issued to DPM-2005 in January 2006, Air HQ relaxed the terms and conditions and allowed M/s Sktytech to deposit PBG of 5 *per cent* even though this was in deviation of the already placed supply order. The firm deposited the PBG amounting to ₹ 16.45 lakh in March 2007. This led to financially accommodating the firm. Air HQ justified the relaxation on the ground that Defence Procurement Manual (DPM) 2005, in vogue on that date stipulated that only 5 *per cent* is payable by the supplier. The contention of Air HQ in the instant case points to the selective application of DPM-2005 by Air HQ to the benefit of the contractor. For instance, with regard to the option clause, Air HQ did not include 50 *per cent* of the total quantity in the supply order of September 2005 on the ground that the proposal was processed prior to issuance of DPM 2005.

- (iv) Ultimately in January 2008, supply order was cancelled as the firm could not supply the refuellers or even the pilot sample which was to be supplied by January 2006. On cancellation of the supply order, the Internal Financial Adviser advised in July 2008 for forfeiture of the entire amount of PBG amounting to ₹ 16.45 lakh. However, based on the contractor's request, Air HQ finally forfeited only 25 per cent (₹ 4.11 lakh) amount on the ground that firm was executing another contract. The action financially accommodated the firm was in addition to the reduced PBG deposited by the supplier.
- (v) The supply order placed in September 2005 on M/s Standard Casting, *inter alia* contained option clause to the effect that the purchaser reserved the right to place an order on the firm for additional quantity up to 25 per cent of the ordered quantity at the same rates, terms and conditions during the currency of the contract i.e. till supply of entire order was completed. The supply order placed on M/s Standard Casting was under execution at the time of canceling the order of M/s Skytech and Air HQ could have placed the order for seven refuellers (i.e. 25 per cent of the ordered quantity) under option clause. However, Air HQ failed to exercise the option clause and placed another supply order after following open tender route on the firm in February 2010. This resulted in an extra expenditure of ₹ 28.35 lakh on procurement of seven refuellers.

Justifying the non availing of option clause, Ministry stated, in January 2011, that the supply of seven refuellers under option clause was not sought to avail economy of scale by merging the failed supply order quantities with future requirement of 38 refuellers. The reply is not tenable as audit noticed that Air HQ, citing urgent necessity (November 2008) pursued the case for the 24 refuellers separately and de-linked the same from the indent for 38 refuellers, In January 2009, it was decided to cancel the indent for 38 refuellers and process the case for only 24 refuellers alone. Thus, by not availing of option clause extra expenditure was incurred. Additionally, the 24 chassis were lying unutilised since 2005.

Miscellaneous

3.5 Unauthorised sanction of works services violating Scales of Accommodation

Sanctioning and execution of unauthorised works in five cases resulted in an irregular and avoidable expenditure of ₹ 4.84 crore.

Works Services in Defence Services are to be sanctioned and executed as per provisions contained in the Scales of Accommodation (SOA), Defence Services. Instances of violation of provisions were noticed in five cases and in all the five cases direction given by the Air Force Stations were irregular and needed approval of higher authorities before sanction. These are discussed below:

Case I

The SOA for Defence Services-1983 authorise a sports complex including a Gymnasium Class II for a station having a troop strength between 1,000 - 2,500. Based on the recommendation of a Board of Officers held in June 2006, Air HQ accorded an Administrative Approval in July 2007 for provision of an indoor sports complex comprising a Gymnasium Class II at AF Station Singharsi, Jharkhand at an estimated cost of ₹ 1.18 crore. Audit scrutiny revealed that the troop strength of Air Force Station, Singharsi was only 582. Thus, the construction of the Gymnasium was unauthorised.

On this being pointed out by Audit, Chief Engineer (CE), Shillong stated in December 2009 that these work services were sanctioned for 1050 personnel which included Military Engineer Services (MES), Kendriya Vidyalaya(KV) employees and their families. The reply of the CE is not acceptable as the troop strength does not constitute civilians of MES and KVs in terms of SOA.

Accepting the facts, Ministry stated in March 2011, that the work is not authorised as per SOA 1983 and HQ Eastern Air Command has been advised by Air HQ to initiate Statement of Case (SOC) for regularisation of the work as a special item of work Remedial action to avoid recurrence of such cases, including the need to fix responsibility for sanctioning the unauthorised work, would be taken by the Ministry when the regularisation SOC/proposal is submitted by Air HQ for approval of Ministry of Defence.

Case II

Based on the recommendation of Board of Officers held in July 2006, HQ Eastern Air Command (EAC) accepted the necessity and accorded Administrative Approval with the concurrence of Integrated Financial Advisor (IFA) in July 2007 for construction of an examination hall with the total plinth area of 1031.18 sq. metre (SM) area at Airmen Selection Centre (ASC), Barrackpore at an estimated cost of ₹1.71 crore.

Audit examination revealed that the SOA 1983 provides for provision of the maximum plinth area of 100 sq. metre for an examination hall. Hence, the sanction issued by HQ EAC with the concurrence of IFA for the excess area of 931.18 sq. metre was irregular. Audit noticed excess provision of 931.18 sq metre for an examination hall would lead to an extra expenditure of ₹ 1.54 crore. On this being pointed out by audit, Air Force authorities stated, in January 2010, that due to increase in the number of candidates it had become imperative to build a larger examination hall in the ASC so that the seating capacity could be increased. The Unit reply is not acceptable as it is in breach of the SOA.

Accepting the facts, Ministry stated in March 2011, that since the work is not authorised as per SOA 1983 and HQ EAC has been advised by Air HQ to initiate Statement of Case (SOC) for regularisation of the work as a special item of work. Remedial action to avoid recurrence of such cases, including the need to fix responsibility for sanctioning the unauthorised work, would be taken by the Ministry when the regularisation SOC/proposal is submitted by Air HQ for approval of Ministry of Defence.

Thus, by sanctioning the provision of examination hall in excess of the permissible area, an avoidable expenditure of ₹ 1.54 crore had to be borne by the exchequer.

Case III

Based on the recommendation of a Board of Officers held in June 2006, HQ South Western Air Command (SWAC) accepted the necessity and accorded Administrative Approval in December 2006 for provision of additional sports facilities (including viewers gallery, 400 meters running track etc.) at Air Force Station (AFS), Bhuj at an estimated cost of ₹ 0.63 crore. Commander Works Engineer (CWE) AF Station, Bhuj, in July 2007, concluded a contract

at a cost of ₹ 0.64 crore with M/s Bombay Novelty Stores, Kutch for execution of the works services.

As per SOA for Defence Services-1983, a sports stadium, alongwith Athletic Track, Changing room, Sports ground, Equipment stores, Toilet facility etc. is authorised for stations having a troop strength of 3,000 or more. The scales do not authorise a viewer's gallery to any unit. Since, the troop strength of Air Force Station Bhuj was only 2,496, as such the construction of facilities along with viewer's gallery was unauthorised.

Air Force authorities stated, in October 2009, that in the name of Viewers Gallery only a raised platform was constructed to cater for Instructors /Coaches. The scales, however, do not authorise these works also.

Accepting the facts, Ministry stated, in March 2011, that since the work is not authorised as per SOA 1983 and HQ SWAC has been advised by Air HQ to initiate Statement of Case (SOC) for regularisation of the work as a special item of work. Remedial action to avoid recurrence of such cases, including the need to fix responsibility for sanctioning the unauthorised work, would be taken by the Ministry when the regularisation SOC/proposal is submitted by Air HQ for approval of Ministry of Defence.

Thus, by sanctioning unauthorised works, an avoidable expenditure of ₹ 0.64 crore had to be borne by the exchequer.

Case IV (a)

Reappropriation is the use of a group of buildings, a building or a portion thereof, for any purpose other than for which it was constructed. Reappropriation can be temporary or permanent and may be intended either for an authorised or for a special purpose. Defence Works Procedure 2007 *inter alia*, stipulates that reappropriation involving increase in scales or introducing a new practice requires the sanction of the Government of India.

Audit noticed that the Indian Air Force sanctioned ₹ 1.47 crore at two Air Force Stations, in violation of these orders for the creation of assets of permanent nature, which were not authorised as per Scales of Accommodation (Scales) for Defence Services-1983, in temporarily reappropriated hangars. Incidentally, both stations already possessed sports facilities as per the scales and the reappropriations were over and above that authorised. The details are discussed below:

Air Force Station, Bamrauli has eight hangars, which were constructed in 1958, as special use type property for parking of aircraft. Of these, one hangar had not been in use for the intended purpose for a long period. The Station Commander in August 2008 issued a reappropriation sanction for use of the hangar for indoor sports activities for a period of one year without entailing any alteration or cost.

Despite this condition a Board of Officers (June 2008) recommended works services costing ₹ 1.20 crore at the hangar for creating International Level sports facilities. Based on the recommendations of the Board, AOC-in-C HQ Central Air Command IAF, in January 2009, accepted the necessity and accorded administrative approval for works services at a cost of ₹ 1.20 crore. The Administrative Approval, *inter alia*, also included provision of special items of works worth ₹ 46.80 lakh. The work has since been completed.

Audit noted that the Air Force Station is not authorised International level sports facilities as per the Scales. Thus, even though these works services involved increase in scales/introduction of a new practice, HQ Central Air Command, IAF did not project the case to Government in violation of the Defence Works Procedure. On being pointed out by Audit, Chief Administrative Officer, Air Force Station, in July 2010, stated that the case for permanent reappropriation is now being initiated.

Accepting the facts, Ministry stated in May 2011 that the work is not authorised as per SOA 1983, HQ CAC has been advised by Air HQ to initiate Statement of Case (SOC) for regularisation of the work as a special item of work. Remedial action to avoid recurrence of such cases, including the need to fix responsibility for sanctioning the unauthorised work would be taken up by the Ministry when the regularisation SOC/proposal is submitted by Air HQ for approval of Ministry of Defence.

Case IV (b)

A hangar at Air Force Station Adampur was constructed in 1952 as special use property for parking of aircraft. The hangar was in use till February 1997. Thereafter, the hangar was being utilised for mass gatherings/welfare meetings of the personnel. The Station Commander in March 2009, accorded sanction for reappropriation of the hangar entailing no additions/alterations for a period of three years for use as an Indoor Basketball and Badminton Court. However, HQ Western Air Command IAF in March 2009 sanctioned ₹ 0.28 crore for provisioning of a Combi Synthetic Court for the Indoor Basketball

and Badminton Court. The Combi Synthetic Court is not an authorised item of work and its sanction introduced a new practice which resulted in an irregular expenditure of ₹ 0.28 crore.

Accepting the facts, Ministry stated in May 2011 that the work is not authorised and Air HQ has been advised to initiate Statement of Case (SOC) for regularisation of the work. Remedial action to avoid recurrence of such cases, including the need to fix responsibility for sanctioning the unauthorised work would be taken up by the Ministry when the regularisation SOC/proposal is submitted by Air HQ for approval of Ministry of Defence.

3.6 Recovery/Adjustment at the instance of Audit

Recovery/saving to the tune of ₹ 31.56 crore were effected at the instance of Audit.

During the course of audit, lapses on the part of Defence Accounts Department/AFCAO were noticed at the time of releasing the payment against financial regulations and contractual conditions. Acting upon the advice of audit, the auditee initiated necessary action resulting in the recovery of ₹ 31.56 crore to the exchequer in three cases. Each case is discussed below:-

Case I: Recovery of unadjusted advance from HAL

Air HQ, in June 2007, placed a firm task on Hindustan Aeronautic Limited, Nasik Division {HAL(ND)} for MiG 21 Bis upgrade rotatable repair for the financial year 2007-08 at an estimated cost of ₹ 54.48 crore. HAL (ND) was entitled to draw ₹ 35.41 crore as first stage payment. Accordingly, in July 2007, AO (DAD) HAL (ND) released the amount to HAL (ND). Subsequently, in September 2008, AO (DAD) HAL (ND) released another advance totalling ₹ 44.19 crore to HAL (ND) against the firm task for the year 2008-09.

Government orders clearly state that in case of shortfall in deliveries as against the task for the year, the stage payment drawn would be adjusted against the first stage payment for firm tasks/ other dues of the subsequent year. Audit, however, noted that the second advance payment of ₹ 44.19 crore was made in September 2008 even though a sum of ₹ 29.52 crore out of the advance payment of ₹ 35.41 crore made to HAL (ND) in July 2007 remained

outstanding. Thus, the payment of the second advance without adjusting the unspent amount of first advance was irregular.

On this being pointed out in Audit, in July 2009, AO (DAD) HAL (ND) recovered the unadjusted advance totalling ₹ 29.52 crore in September 2009 from HAL (ND). Additionally, the delay in adjustment of advance led to non-recovery of interest on overpayment to HAL worth ₹ 2.36 crore to IAF on the amount blocked with HAL (ND).

The matter was referred to the Ministry in August 2010; their reply was awaited as of July 2011.

Case II: Recovery of liquidated damages from HAL

The Ministry of Defence (Ministry) concluded a contract at a cost of ₹ 20.95 crore with Hindustan Aeronautics Limited (HAL), in March 2005, for development and supply of five Avionics Part Task Trainers (APTT) for the MiG Bis upgrade project. The APTT were to be delivered between March 2005 and March 2007.

HAL was paid an initial advance of ₹ 3.14 crore in March 2005 and a second advance of ₹ 8.38 crore in October 2005. The delivery of APTTs was, however, completed between October and December 2008. The Ministry, in February 2009 issued an amendment to the contract for extending the delivery date with levy of Liquidated Damages (LD). Consequent upon delivery and commissioning of APTT, Deputy Controller of Defence Accounts (Defence Accounts Department) HAL in February 2009 released the balance payment, after deduction of LD on the 3rd and 4th stage payments, amounting to ₹ 8.95 crore to HAL.

Audit scrutiny revealed that DCDA (DAD) HAL failed to levy LD on the 1st and 2nd stage payments made to HAL. On this being pointed out by Audit in August 2009, DCDA (DAD) HAL recovered the amount of ₹ 0.58 crore from HAL in December 2009.

Ministry accepted the facts in February 2011.

Case III: Irregular payment of allowances

As per extant orders, Compensatory City Allowance (CCA)/Composite Hill Compensatory Allowance (HCA) and Special Compensatory Allowance like Field Area Allowance are mutually exclusive. At places where all these

allowances are admissible, an employee is allowed to draw only one of these allowance which is more beneficial to him.

In July 1995, Ministry of Defence issued orders which, *inter alia*, provided the details of newly defined Field Areas (FA) and Modified Field Areas (MFA). Indian Air Force (IAF) personnel serving in FA/MFA were eligible for the grant of Compensatory Field Area Allowance (CFAA) and Compensatory Modified Field Area Allowance (CMFAA). In December 2001, Ministry also granted CFAA/CMFAA to Armed Forces Officers, Personnel Below Officer Rank (PBOR) and Non-Combatants Enrolled (NCs(E)) deployed/mobilized in “Operation Prakaram”.

During the audit of Air Force Central Accounts Office (AFCAO), it was, however, noticed that the payment of CCA/HCA and other Special Compensatory Allowance i.e. CFAA/CMFAA had been made concurrently to IAF personnel deployed/mobilized on “Operation Prakaram” in disregard of extant orders. This resulted in an irregular payment of ₹ 98.57 lakh on account of CCA and HCA during 2001-04 with reference to the IRLAs¹⁰ checked by audit.

On this being pointed out in Audit, AFCAO requested Air HQ in March 2008 for issuing direction for auto debit of the overpayment in the Individual Running Ledger Accounts (IRLAs). Air HQ directed the AFCAO in September 2010 to recover the overpayment made under intimation to Audit. Air HQ also directed AFCAO to incorporate suitable checks and balances on this count in the software and report compliance to them.

Accepting the facts, Ministry stated in November 2010 that a sum of ₹ 1.46 crore had been recovered from the affected air warrior’s IRLA’s by AFCAO in the month of November 2010.

¹⁰ IRLAs - Individual Running Ledger Account