CHAPTER IV: NAVY

Procurement

4.1 Avoidable expenditure in procurement of spares for a helicopter

Abnormal delay in processing the case for procurement of spares for KA-31 helicopters coupled with failure of Navy to get the validity of the quote of a firm extended resulted in an avoidable expenditure of ₹ 10.71 crore.

Against a contract of August 1999 and supplementary agreement of February 2001, Indian Navy had procured nine KA-31 helicopters from Russia. Navy, during their exploitation, experienced that the spares procured with the helicopters were inadequate to meet the operational requirements. In July 2004, Integrated Headquarters Ministry of Defence (Navy) approached M/s Rosboronexport, Russia (ROE) to forward their commercial offer for 145 items of spares. In response to the enquiry, the firm, in May 2005, forwarded their commercial offer for 171 items of spares at a total cost of USD 19.38 million[1] (₹ 84.26 crore) with validity of offer up till 1 December 2005. After analysing the stocks available, repairables held, consumption pattern and the cost of the item(s), the professional directorate, Directorate of Naval Air Material (DNAM), in November 2005, finalised the requirement at 150 items of spares.

The commercial offer of ROE was utilised by DNAM to arrive at an estimated cost. Thereafter, DNAM, initiated the case for procurement of 150 items of spares at a cost of USD 12.55 million[2] (₹ 54.57 crore), for which Acceptance in Principle was accorded in November 2005. At this stage, despite knowing that signing the contract within the validity period of offer would be a challenging task, DNAM did not request the firm for extension of the validity of their commercial quote beyond December 2005 as no formal Request for

[1] 1 USD = ₹43.48
[2] 1 USD = ₹43.48

Proposal (RFP) could be issued to the vendor during receipt of offer in May 2005 and expiry of offer in December 2005 i.e seven months. Subsequently, the offer lapsed. The formal approval of Raksha Mantri was obtained on 27 March 2006 and the approval to issue RFP was accorded in June 2006 only and a formal RFP was floated to the firm in the same month.

Audit noticed delays at each stage of procurement till conclusion of contract which witnessed lapsing of two offers made in September 2006 and June 2007 with a validity of six months each from the opening of quotes, increase in rates by M/s ROE in each subsequent offers and delay in holding of CNC meetings due to administrative reasons. The procurement of spares from Russian Federation was to be undertaken by Integrated Headquarters Ministry of Defence (Navy) as per Defence Procurement Manual (DPM) 2005. The Ministry of Defence, however, in November 2005 promulgated standard clauses of contract for procurement on single vendor basis from M/s Rosoboronexport, Russia, whereby, a time period of three months was approved for the Russian agencies to respond to the RFP due to peculiarities of the Russian system. As per the DPM, a case of revenue procurement on single commercial bid is to be finalised within a timeframe of 19 - 22 weeks. Even after providing for due allowance for procurements ex-Russia, in terms of Ministry's guidelines of November 2005, this time frame works out 27 weeks. In this case, the time taken, however, was 144 weeks. Significant delays are indicated below:

EVENT	PRESCRIBED TIMELINE	ACTUAL TIME TAKEN
Time allowed for submission of offers	12 Weeks	13 weeks
Opening of Commercial offers, preparation of Comparative Statement of Tender, Technical Vetting, etc.	2 Weeks	11 weeks
Scheduling of Price Negotiation Committee (PNC), Brief for PNC, notice for PNC and PNC Meetings, PNC minutes and signature	7 Weeks	62 weeks
Internal Financial Advisor concurrence and competent financial authority Approval of Purchase Proposal	2 Weeks	4 weeks

Notwithstanding the DPM instructions and the guidelines of the Ministry of Defence on Russian procurements, the contract with ROE was ultimately concluded after more than 28 months of the Acceptance in Principle in March 2008. By this time, in the intervening period, the firm had increased its rates and against the originally quoted rate of USD 12.55 million for supply of 150 items, the contract was concluded at a total cost of USD 15 million (₹ 65.58 crore[3]) for the 150 items of spares. Inordinate delay at each stage of procurement led to an extra expenditure of USD 2.45 million (₹ 10.71 crore).

Accepting the facts, the Ministry stated, in February 2011, that :

- the procurement of spares from OEM's in Russian Federation is monopolistic and the spares are available only with them, therefore, the customer has very little scope for negotiations;
- the delay in procurement is attributed to the time taken in processing the case in Ministry of Defence (Finance) and in Ministry of Defence itself ; and
- the delay was also attributed to delayed submission of quote by ROE, transfer of Chairman of CNC, postponement of CNC meetings due to inability of ROE to depute representatives and increase in cost by the firm twice necessitating approval on each occasion at the level of Raksha Mantri.

The reply confirms the inordinate delay at stage of procurement which led to avoidable expenditure of ₹ 10.71 crore, besides delayed availability of spares to operating units in Navy.

4.2 Avoidable expenditure in procurement of Winch Reel Hydraulic

Lack of due diligence by Indian Navy in processing the case for procurement of Winch Reel Hydraulic led to an avoidable expenditure of ₹ 9.73 crore, besides which the procurement was also delayed.

The Directorate of Procurement (DPRO), Integrated Headquarters Ministry of Defence (Navy) in May 2005 issued a Request for Proposal (RFP) on limited tender basis to nine firms for three items[4] which, *inter alia*, included supply of

[3] USD = ₹ 43.72

[4] Three items: Crank shaft, Pump 3B-40/25-2-21/4(B)2 and Winch Reel Hydraulic

six Winch Reel Hydraulic to meet the ABER[5] requirement of six SNM class of ships based at Visakhapatnam. The Schedule of Requirement annexed to the RFP clearly specified the Part Number, equipment name, description of item and quantity required in respect of all the three items. Further, as per the RFP[6], in case the equipment offered was different, an interchangeability certificate was necessary. Offers not accompanied by such a certificate were liable to be rejected.

In response, three out of the nine firms submitted their commercial bids for all the items. One of the firms, M/s Rosoboronexport, Russia (M/s ROE) had quoted for two items exactly as per RFP but offered for a third item 'Ray of Counterweight' instead of 'Winch Reel Hydraulic'. The other two firms quoted for all three items exactly in accordance with the RFP. Even though M/s ROE did not offer for 'Winch Reel Hydraulic', the Procurement Directorate exhibited the offered item, i.e. 'Ray of Counterweight' as the tendered item in the comparative statement of tender. Comparative statement on Winch Reel Hydraulic as presented to the CNC[7], was as under:

Sl.No.	Name of the firm	Quoted Value(per unit)
1.	M/s Rosoboronexport, Russia	US$ 388.62
2.	M/s Ukrspetexport, Ukraine	US$ 35,154
3.	M/s Cenzin, Poland	US$ 82,100

Audit noticed that despite the difference in nomenclature and Part Number, the firm did not furnish an inter-changeability certificate along with their offer as required. Nevertheless, the firm was considered L-1 by the tender opening committee. Further, the Procurement Directorate approached the Professional Directorate in October 2005, more than a month after the bids had been opened, to obtain clarification on whether the quoted item was likely to be a substitute for the 'Winch Reel Hydraulic'. The Professional Directorate *i.e.* the Directorate of Naval Architecture held in October 2005 that the item

5 ABER: Anticipated Beyond Economical Repair

6 The provision to RFP, *inter alia,* stipulates that the manufacturer may enclose a statement of deviations/interchangeable exceptions *vis-a -vis* Schedule of Requirement (SOR) of the equipment with their offers and only those offers shall be evaluated which are found to be fulfilling all the eligibility and qualifying requirements, both technically and commercially

7 CNC = Contract Negotiating Committee

offered by M/s ROE was not likely to be a substitute for the Winch Reel Hydraulic. In the meantime, although Navy (Directorate of Procurement) approached M/s ROE three times[8] during October-November 2005 with a request to provide an interchangeability certificate, it made no attempt to get the offer of the other two firms re-validated. In spite of the numerous references, M/s ROE did not provide requisite certificate. Instead, the firm asked for (15 November 2005) additional clarification like Project number, Vessel number, construction year of ship and drawing number etc. of the required items. This information was provided to M/s ROE in January 2006. By this time, the offers of M/s Cenzin and M/s Ukrspetexport, Ukraine, who had correctly quoted for the part, expired on 7 and 8 November 2005 respectively. Clearly, as the offer of M/s ROE was not as per the RFP it should have been rejected *ab initio* and only valid offers should have been considered for acceptance.

In the meantime, the competent financial authority also approved re-tendering and an RFP was issued to ten firms in February 2006 with tender opening date as 30 March 2006. On 16 March 2006, M/s ROE again sought for certain additional information like operating instructions, technical description and technical drawings of Winch Reel. Even after issue of second RFP, these details were provided to the firm on 23 March 2006. Audit observed that this information was not sent to all listed vendors as per provision of DPM-2005, giving undue advantage to M/s ROE.

In response to the RFP issued in February 2006, two firms[9] submitted their quote and the quote of M/s Rosoboronservice (ROS), India Ltd., who quoted ₹ 5.13 crore per unit was found to be L-1. Considering the high prices and potential indigenisation of the item, the required quantity was reduced from six to two and, in October 2007, the Ministry concluded a contract with M/s ROS (India) for supply of two Winch Reel Hydraulic at a total cost of ₹ 9.75 crore plus taxes. The firm supplied the items in July 2009.

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[8] On 10 October 2005, 17 October 2005 and 7 November 2005

[9] Two firms - M/s Rosoboronservice (India) and M/s Rosoboronexport, Russia (ROE). M/s Rosoboronservice (India) is an independent vendor registered with the Indian Navy as an Indian firm. It is a joint venture between an Indian Company formerly M/s Kasny Marine Services, seven Russian firms and Rosoboronexport.

Accepting the facts, Ministry opined in December 2010 that the procurement was undertaken with utmost prudence and at a reasonable price. It added that the offer of M/s ROE was not rejected outright on the ground of non-furnishing of interchangeability certificate as the quoted price was minimal as compared to other bids. Ministry further stated that the firms responded to the RFP without ascertaining the actual technical requirement/details. Ministry also contended that the item was specialised and when full technical details were made available during second case of tender M/s Ukrspetexport did not respond. The reply of the Ministry is not acceptable since in response to the first RFP issued in May 2005, M/s ROE was accepted as L-1 even though it had quoted for an item 'Ray of Counterweight' instead of Winch Reel Hydraulic' as specified in the RFP. Incidentally, the quote of M/s Ukrspetsexport and M/s Cenzin was exactly in accordance with the schedule of requirement with M/s Cenzin even correctly identifying the original project number of the ship class.

Thus, lack of due diligence by the Tender Evaluation Committee at the initial stage in October 2005 led to delay in procurement and avoidable expenditure of ₹ 9.73 crore.

4.3 Extra expenditure in procurement of Gas Turbines

Non-clubbing of the requirement resulted in an extra expenditure of ₹ 2.49 crore in procurement of five numbers Gas Turbines.

Indian Navy operates various types/classes of ships. Five classes of Indian Naval ships are powered by Gas Turbines (GTs). Different types of GTs are fitted on various ships based on the requirement and role of the ship. Five SNF Class ships of Indian Navy are fitted with four DE59 type GTs each. DE59 GTs, either newly procured or overhauled is stocked at INS Eksila.

In order to meet the ABER[10] requirement of INS Rana, Material Organisation, Vizag [MO (V)], in December 2004, raised an indent for procurement of four DE59 type GTs on PAC[11] basis from M/s Zorya Mashproekt, Ukraine. Subsequently, in August 2005, [MO(V)] raised another indent for procurement of five DE 59 type GTs to meet the ABER requirements of two other ships,

[10] Anticipated Beyond Economic Repair
[11] Proprietary Article Certificate

namely, INS Ranjit and INS Rajput. After deciding to club these requirements (September 2005), Integrated Headquarters Ministry of Defence (Navy) submitted a consolidated case for procurement of nine DE59 type GTs to the Ministry of Defence in October 2005. However, within two months, in December 2005, the Directorate of Marine Engineering (DME) held that four DE59 type GTs must be procured at an early date to meet the refit schedule of INS Rana. Due to urgency and for faster procurement, the quantities were reduced from nine GTs to four GTs and concurrence of the CFA was obtained in March 2006. It was observed that there were delays and the contract for supply of four GTs for INS Rana could be concluded only after 15 months, in June 2007, with M/s Zorya Mashproekt Ukraine at a total cost of USD 6,450,000 (₹ 29.86 crore[12]). The firm completed the supplies in September 2007. Meanwhile, the urgent requirement of GTs for INS Rana was, in June 2005, met through the reserve stock of GTs held at INS Eksila.

DME in December 2006 confirmed the requirement to Integrated Headquarters Ministry of Defence (Navy) of additional five GTs for Medium Refit of INS Rajput scheduled to commence from February 2008. In May 2009, contract for procurement of five GTs for INS Rajput was concluded with M/s Zorya Mashproekt at a total cost of USD 8,600,000 (₹ 39.80 crore)[13]. The firm supplied the GTs in June 2009.

Since the requirement of GTs for INS Rana was met through the GTs held in stock, de-linking of the procurement of GTs for INS Rana from those for INS Ranjit and INS Rajput was not warranted. The separate conclusion of contract for five GTs in May 2009, resulted in an extra expenditure of USD 537,500 (₹ 2.49 crore[14]) due to the difference in unit cost of GTs *vis à vis* the procurement made in June 2007 (USD 107,500 per GT).

Thus in breaking up the procurement order of nine gas turbines by Indian Navy an extra expenditure of ₹ 2.49 crore incurred as the subsequent procurement was at a higher cost.

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

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12 Unit cost of USD 1,612,500 per GT
13 Unit cost of USD 1,720,00 per GT
14 1 USD = ₹ 46.29

Contract Management

4.4 Inordinate delay in installation of SPL Plotting Tables on submarines

Inordinate delay in installation of Plotting Tables onboard four submarines has resulted in a blockage of ₹ 6.05 crore for about four years. The plotting tables have since lost their warranty cover.

SPL Plotting Table is a navigation and tactical plotting system which can plot the ships own position as well as it can plot the data received from the unit sensors.

Indian Navy commissioned four SSK submarines between 1986 and 1994. In March 2004, Vice Chief of Naval Staff, approved upgradation of six equipments on board these submarines which, *inter alia,* included SPL Plotting Tables. In June 2006, Directorate of Procurement(DPRO) concluded a contract with M/s MSI – Defence Systems Ltd., England for supply of four SPL AIO Plotting Tables along with deliverables at a total cost of PDS 791,020 (₹ 6.37 crore[15]), inclusive of PDS 40,000 (₹ 0.32 crore) for STW[16], HATs[17] and SATs[18] for the four submarines with delivery schedule of October 2007. The firm supplied the equipment by September 2007 and the firm was paid PDS 751,020 (₹ 6.05 crore) for the supplies made.

Thereafter, the firm, in October 2007, requested Integrated Headquarters Ministry of Defence (Navy) to intimate the schedule for undertaking the STW/HATs/SATs for the Plotting Tables. The concerned directorate *i.e.* the Directorate of Submarines Acquisition (DSMAQ) gave a response only in April 2010 and informed the firm that all the pre-requisites for fitment and connectorisation of the Plotting Tables on board one of the submarines (Submarine 1) has been completed and requested the firm to depute a specialist in April 2010 for STW/HAT work on the submarine.

Audit noticed that the installation of the Plotting Tables was initially scheduled to be undertaken during the planned refits of the submarines 1 to 4 commencing from June 2006, September 2007, October 2007 and

15 Pound Sterling = ₹ 80.54
16 STW = Setting to Work
17 HAT = Harbour Acceptance Trials
18 SAT = Sea Acceptance Trials

September 2007 respectively. However, the changes to the refit schedules of the submarines resulted in a revised schedule for installation of Plotting Tables onboard the submarines. The details are tabulated below:

Sl No.	Submarine	Original Refit Schedule	Refit Status
1.	Submarine 1	MR-cum-MLU June 2006 – June 2008	MR[19]-cum-MLU[20] March 2007 – July 2010
2.	Submarine 2	MR-cum-MLU September 2007 – April 2010	MR-cum-MLU February 2008 – October 2011
3.	Submarine 3	NR-cum-Modernisation October 2007 – September 2008	MR-cum-Modernisation March 2010 – March 2011
4.	Submarine 4	SR September 2007 – January 2008	SR[21] March 2009 – June 2009 September 2010 – December 2010

Meanwhile, after receipt of SPL AIO Tables in September 2007, refits on two submarines (Submarine 1 & 4) were completed in 2009-2010. However, during STW/HATs of Plotting Table fitted onboard Submarine 1 held in July 2010, some modules were found defective. The deficiency was made good by utilising the modules of Submarine 2, thereby, affecting the operational capability of Submarine 2. The installation of Plotting Tables on other two submarines (Submarine 2 & 3) is in progress. The SATs for Submarine 1, 2 and 3 are now scheduled for May 2011. The Plotter has not been installed on Submarine 4 (till February 2011).

Thus, four SPL AIO Plotting Tables procured at a cost of PDS 751,020 (₹ 6.05 crore) in September 2007 could not be gainfully exploited so far (February 2011). As a consequence, these submarines were operating with the life expired Plotting Tables, thereby, affecting their operational capabilities.

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[19] MR – Medium Refit
[20] MLU – Mid Life Upgradation
[21] SR – Short Refit

The SPL Plotting Tables carried a warranty for 12 months from the date of delivery (12 September 2007) against defects arising from faulty materials or workmanship under proper use subject to fair wear and tear. Continued disuse meant that, these Plotting Tables lost their warranty cover on 11 September 2008 without these being utilised. The defects, if any, arising from faulty materials or workmanship in these Plotting Tables, also could not be ascertained.

Accepting the facts, the Ministry stated, in January 2011, that the Plotting Tables could not be commissioned onboard the submarines in the year 2008-09 due to delays in commencing / completion of the refits of the submarines. Ministry admitted that the submarines were operating with life expired Plotting Tables. Ministry also informed that discussions are in progress with the Original Equipment Manufacturer for extending the warranty of the systems on completion of SATs.

4.5 Avoidable expenditure on procurement of cables with incorrect specification

Procurement of cables with incorrect specification for the construction of warships led to an avoidable expenditure of ₹ 1.36 crore.

Ministry of Defence accorded a sanction in January 1998 for the acquisition of three indigenously designed Frigates of Project-17 for the Indian Navy (IN) through M/s Mazagon Dock Ltd. (MDL the Shipyard). As per procedure, the procurement of all yard materials, equipment and associated fittings as well as machinery are to be in terms of approved guidelines of Department of Defence Production. The Professional Directorates of Navy issue Statement of Technical Requirements (SOTRs) along with the names of vendors to the Production Directorates who in turn issue Ordering Instruction (OI) to the Shipyard to initiate the procurement action.

Based on specifications approved by Directorate of Quality Assurance (Naval) in April 2004, M/s MDL issued a technical specification for the procurement of Russian cables required for the construction of two ships for IN under Project-17. In May 2004, tenders were issued to six DQA(N)[22] approved

[22] Directorate of Quality Assurance

firms and M/s Radiant Cables Pvt Ltd. emerged L-1 in respect of 50 types of cables out of 107 types of cables tendered for. Consequent upon the approval of technical data and satisfactory completion of type testing in April 2005 by DQA (N), shipyard in July 2005 placed two purchase orders on the firm at a cost of ₹ 3.44 crore for the supply of 50 types of cables measuring 84,270 meters. The firm supplied cables between November 2005 and January 2006.

Audit scrutiny of the case revealed the following:-

Of the 84,270 meters of cables supplied by M/s Radiant Cables Pvt. Ltd., 34,920 meters of cables worth ₹ 1.44 crore was found to be not conforming to the specifications and were found unfit for use. As per specification, these cables were to have 'screen over individual cores and an overall screen' whereas, the cables supplied by the vendor as per Technical Parameters(TP) given in the purchase order were having 'common screen over all the cores followed by sheath and an overall screen' DQA (N), in July 2007, admitted that the specification of these cables were inadvertently defined by them and as a result, these cables were manufactured and inspected with 'screen overall the core' instead of 'screen over each core'. DQA (N) also admitted that these cables will not be suitable to meet the specific purpose and a fresh set of cables with correct specification is needed to meet the requirement. Though DQA requested shipyard to analyse the feasibility of utilising the wrongly supplied cables, the shipyard informed that these cables are not usable in any of ongoing and future warship at the shipyard. Thereafter the shipyard placed two more purchase orders for 33,420 meters of cables at a total cost of ₹ 1.36 crore on the firm for meeting their requirement.

In sum, a result of incorrect definition in the technical particulars prepared by DQA (N) for cables, Navy had to incur an avoidable expenditure of ₹ 1.36 crore on procurement of cables.

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

Miscellaneous

4.6 Tardy progress in execution of a Water Supply Scheme

Flawed planning by MES delayed the execution/commissioning of a Water Supply Scheme at Visakhapatnam for over seven years. Despite an expenditure of ₹ 4.53 crore, the objective of providing adequate and clean water to Defence Personnel has not been met due to a failure to coordinate with other entities on the project needs.

Military Engineer Services (MES) Regulation stipulates that when the necessity for a project has been accepted, a sitting board will be convened to draw up a detailed lay out plan and prepare an approximate estimate of the cost. If the proposed site encroaches or in any way affects the civil or railway department's roads, lands or interests, the sanctioning authority should obtain the consent of the authority concerned. In contravention of these provisions a Command HQ sanctioned a work without obtaining necessary consent from railway/civil authorities that led to severe delay in the progress of the project sanctioned in March 2004 as discussed below.

In August 2003, a Board of Officers (Board) recommended the construction of an under ground sump at Megadripeta Colony, Visakhapatnam to meet the technical requirement of transient storage for pumping of fresh water to Naval Base, Visakhapatnam as the existing pipelines were passing along open drains carrying waste effluents through submerged areas of stagnant drainage water and were thus vulnerable to contamination due to leakages/damages. It also recommended the re-routing of existing water pipelines for providing hygienic supply of water. Based on the recommendations of the Board, HQ Eastern Naval Command, Visakhapatnam (HQ ENC) in March 2004 accepted the necessity and accorded Administrative Approval (A/A) for the work at a cost of ₹ 2.94 crore.

Although the work envisaged the laying of a proposed pipeline underneath a culvert in the Main Howrah – Chennai railway track through RCC hume pipe casing, HQ ENC sanctioned the work without obtaining the concurrence of the Indian Railways for the pipes crossing the railway lines. Audit further observed that a part of the new pipeline was also to be laid in 645 Square Meter of land owned by Visakhapatnam Port Trust (VPT). No efforts were made in obtaining the concurrence of VPT prior to according approval at the planning stage. Subsequent to according the A/A, when Chief Engineer (Navy) approached the Railways for obtaining their concurrence, the Railway authorities (November 2004) intimated that the technical work involved could be done only by the Railways as a 'deposit work'[23]. Interestingly, while processing the case for obtaining sanction in December 2004 for the work to be undertaken by the Railways, HQ ENC obtained assurance from the CE (N) that there were no other liabilities and permissions required for the scheme. The authorities even then failed to approach VPT for necessary approvals.

In the mean time, the project was beset by other procedural delays and even though approximate cost estimates were re-submitted in March 2005 and January 2007, the case could not be approved. Ultimately, in August 2007, HQ ENC accorded a revised A/A at a cost of ₹ 4.38 crore. The work was required to be completed within 96 weeks from date of release. Subsequently, CE(W), in January 2008, concluded a contract at a cost of ₹ 3.64 crore with M/s VTC Engineering Pvt. Ltd., Visakhapatnam for execution of the works services. These works services were to be completed by February 2009. Further, an amount of ₹ 0.64 crore was advanced to Indian Railways by January 2009 for laying of the pipeline underneath the culvert as a deposit work.

As of September 2010, the complete physical progress of the job was 95 *per cent* with a booked expenditure of ₹ 4.53 crore. While the Indian Railway completed the works underneath the railway track in May 2010 at a cost of ₹ 0.64 crore, however, part of the project running through the VPT has run into problems. The Garrison Engineer executing the works approached Chief Engineer Port Trust only in February 2009 for according formal permission for laying of pipelines in the VPT area. The Chief Engineer Port Trust, however, advised the GE to approach them through the Defence Estate Office (DEO). DEO Visakhapatnam, in July 2010, worked out a lease rent of ₹ 0.31 crore for the land use for 30 years provided the amount is paid upfront. A Board of Officers for hiring of the subject land was yet to be convened, as of July 2010, for initiating the proposal for obtaining sanction of the Ministry of Defence.

Accepting the facts, Ministry in January 2011, stated that:

- Concurrence of the Railways was obtained verbally before the issue of the A/A since the work was non-technical. It further stated that the

[23] Deposit work - Works carried out by outside agency on behalf of the Ministry of Defence.

change in schematics had to be effected for routing the pipeline during detailed planning stage as the lower reaches of culverts were getting inundated with the contaminated water. Ministry's reply is not acceptable as relying only on the verbal permission from the other Ministry is not in accordance with the established Government procedure. Further, the Board should have built in the works, the fact of inundation of the lower reaches, before making recommendation. Thus, the very purpose of constituting the board for recommendation of re-routing the pipe-line for the safe and hygienic water for naval base was defeated and delayed the completion of project.

- As regards permission from VPT, Ministry stated that the fact that the land on which the pipeline was passing through belonged to the VPT was discovered only when the work was in progress. This confirms audit point that a proper survey of the land was not carried out before sanctioning of the work.

Although the need to provide a new pipe to provide fresh clean water to the Naval Base was felt as early as August 2003, failure to coordinate timely with other entities for the project needs has led to delay in fruition of a water supply scheme till date (December 2010). Besides, despite an expenditure of ₹ 4.53 crore, avoidable delay in planning, execution and commissioning of the water supply scheme has defeated the objective of providing adequate supply of water which is free from contamination to the Naval Base for the last seven years.

4.7 Avoidable payment of penalty surcharge to Kerala Water Authority

Delay in replacement of defective water meters by MES at Kochi resulted into avoidable payment of ₹ 2.40 crore to Kerala Water Authority on account of penalty surcharge.

The water requirement of Naval Base, Kochi is met by Garrison Engineer (GE) Electrical and Mechanical (E/M) Kochi through the supplies received from Kerala Water Authority (KWA). The water supply from the KWA is taken by Military Engineer Services (MES) in bulk from their Main Pump House, Kataribagh, which has three consumer numbers/ water meters. Audit examination of the paid bills and other records in August 2009 revealed an unusual increase in expenditure on payment of tariff bills for water supply *vis à vis* the previous year by the GE (E/M) Kochi.

Audit noted that two water meters for metering the bulk supplies of water received from KWA had become defective in July 2008. KWA, in August 2008, issued a notice to the GE that if both the meters were not replaced within 30 days, as per its regulations, surcharge to the extent of 25 *per cent* in the first month, 50 *per cent* in the next two months and thereafter 100 *per cent* would be levied. As the meters were not replaced, KWA started levying penalty surcharges from September 2008 onwards resulting in avoidable payment of ₹ 2.40 crore.

Though the defective meters were replaced by MES in April 2009, KWA did not accept the meters in the absence of the inspection certificate from the approved agency. Ultimately, KWA accepted the meters in July 2009 and the payment of surcharges ceased from August 2009.

The fact of the levy of penalty surcharge by KWA was accepted by Integrated Headquarters Ministry of Defence (Navy) in July 2010. It also stated that by coincidence during the same period the tariff of water charges were also substantially enhanced and hence the levy of surcharge could not be detected.

After Audit pointed out the avoidable payment, Chief Engineer (NW) Kochi informed audit in December 2010, that KWA Thiruvananthapuram has agreed to set off the surcharge collected by them against 50 *per cent* of the future water charge bills from Naval Base Kochi. The set off of surcharge has started from the bills of October 2010.

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

4.8 Loss due to delay in revision of handling charges for explosives

Delay in revision of handling charges for explosives resulted in a revenue loss of ₹ 2.03 crore to the public exchequer.

Naval Armament Depot (NAD), Mumbai undertakes handling of all explosives on behalf of Indian Navy at ports at the time of their import or export out of India and recovers charges on account of such services from private firms, public sector undertakings, Government Departments at the rates fixed by the Ministry from time to time.

Mention was made in paragraph No. 51 of the Report of the C&AG of India, Union Govt., Defence Services for the year 1982-83 and paragraph No.3 of the Report of the C&AG of India, No.11 of 1990, regarding loss of revenue due to delay in the revision of handling charges of explosives. The Ministry in 1990 had committed that the review of explosive handling charges would henceforth be undertaken once in every three years. On the basis of assurance given by Ministry to the C&AG of India in 1990, Naval HQ, in, March 1996, made it mandatory to review the explosive handling charges once in three years even if the annual increase is not more than 10 per cent. Accordingly, the last revision of rates was undertaken in April 2007 and the rates notified were operative for a period of three years. These rates were to be escalated @ 10 *per cent* on 1 April of subsequent years till the next revision. The latest revision of rates was due from April 2010.

NAD, Mumbai, in November 2009, forwarded a proposal to HQ Western Naval Command (WNC), Mumbai for revision of rates for handling of explosives by Indian Navy. The proposal, *inter alia,* included the revision of all nature of charges such as handling, loading/unloading, barge detention, supervision charges and the security deposits etc. In December 2009, Director General of Naval Armament requested HQ WNC to expedite the proposal for revision. The matter was referred to Principal Controller of Defence Account (PCDA), Navy in the same month and the concurrence was obtained in March 2010 and the revised rates for supervision charges were notified by Ministry in August 2010 @ ₹ 7,969 per ton and these were made applicable with effect from 12 August 2010. Meanwhile, Navy continued to levy supervision charges @ ₹ 4,072[24] per ton.

NAD Mumbai handled 4,713.701 ton of explosives between 1 April 2010 and 12 August 2010 for private parties, Public Sector Undertakings and other Government Departments. Owing to the non-revision of charges in time, the exchequer suffered a revenue loss of ₹ 2.03 crore during this period.

Navy stated, in August 2010, that there was no time frame laid down for initiating the case for the revision of explosive handling charges. The reply is not as per Naval HQ instructions of March 1996 according to which the rates were due for revision from 1 April 2010.

[24] The supervision charges notified in April 2007 were escalated @ of 10 *per cent per annum* in April 2008, April 2009 and April 2010 progressively to determine the supervision charges.

Accepting the facts, Ministry in January 2011, stated that delay cannot be attributed to any single agency as there were several agencies involved in the process of rate revision. It also added that a policy letter is being promulgated by Integrated Headquarters Ministry of Defence (Navy) laying down the time frame to facilitate early revision of rates from next cycle onward. It further stated that a proposal had been forwarded to Ministry to amend the date of applicability of the revised rates promulgated from 12 August 2010 to 1 April 2010 and the difference would be recovered by NAD, Mumbai after amendment of Government letter.

The Ministry needs to lay down a timeframe as also streamline the procedure to ensure timely revision of rates.

4.9 Non-revision of Payment Issue Rates for Kerosene Oil

Non-observance of the prescribed policy on payment issue of Kerosene Oil resulted in a loss of ₹ 49.46 lakh to the public exchequer at two Naval Stations.

Consequent upon dismantling of the Administered Price Mechanism in March 2002, Ministry of Defence (Finance) in April 2002 notified the Free Issue Rates (FIR[25]) and Payment Issue Rates (PIR[26]) for Kerosene Oil @ ₹ 8.91 per litre and ₹ 9.00 per litre respectively. These rates were made applicable uniformly across the country. The Ministry of Defence, in September 2003, evolved a revised procedure for working out FIR and PIR for POL[27] products which, *inter alia*, stipulate that the FIR has to be fixed by adding 2 *per cent agency charges* to the procurement rate, whereas, the PIR was to be fixed by adding 7 *per cent* departmental charges to FIR. The PIR so arrived should not be less than the prevailing market rates. Owing to variation in the procurement rates, such FIR and PIR of POL products were not be made uniformly applicable throughout the country. The FIR and PIR rates were, therefore, required to be fixed at Supply Depot/FOL Depot Level in consultation with the Deputy Controller of Defence Accounts/ Local Audit Officer. Besides, these rates were subject to revision as and when the Oil Public Sector Undertakings revised their rates.

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25 Free Issue Rates are applicable where stores/kerosene oil etc is issued for bonafide use of the units/formations etc

26 Payment Issues Rates are applicable where civilians paid from Defence Services Estimates, Service Personnel etc purchase stores/kerosene oil etc for their personal use.

27 Petroleum, Oil & Lubricants.

Audit noticed that Indian Navy did not revise PIR of Kerosene Oil, as per revised procedure at two Naval Stations, which resulted in a loss of ₹ 49.46 lakh to the exchequer. The details are discussed below:

Case I

Based on the PIR notified by Ministry of Defence (Finance) in April 2002, units under HQ Andaman and Nicobar Command, between September 2003 and February 2009, issued 1,81,750 litres of Kerosene Oil to entitled persons on payment basis. As per the formula for fixation of PIR, enshrined in the revised procedure promulgated in September 2003, the PIR for Kerosene Oil at Andaman and Nicobar Islands for the period from September 2003 to February 2009 ranged between ₹ 8.78 per litre and ₹ 62.83 per litre. However, it was observed in audit in November 2008 that units under HQ Andaman and Nicobar Command did not revise the PIR and continued to make the payment issues of Kerosene Oil @ ₹ 9.00 per litre. Non-revision of PIR for Kerosene Oil during the period led to a loss of ₹ 28.90 lakh.

Integrated Headquarters Ministry of Defence (Navy) in September 2009 accepted the loss. Integrated Headquarters Ministry of Defence (Navy) added that the Government policy letter for fixing of free/payment issue rates of POL was not received by HQ Andaman and Nicobar Command and was subsequently forwarded to them only in August 2007. Thereafter, new PIR fixed in October 2007 by a Board of Officers was not implemented as HQ Andaman and Nicobar Command interpreted that the Kerosene Oil is to be issued on payment at Public Distribution System rates to Government servants who fall in Below Poverty Line category.

The contention of Integrated Headquarters Ministry of Defence (Navy) is not tenable as Naval authorities ought to have taken appropriate action for immediate and correct dissemination of Government orders.

Case II

Based on PIR notified in April 2002, INS Dronacharya, between September 2003 and April 2010, issued 1,04,534 litres of Kerosene Oil to entitled persons on payment basis. However, based on the formula for fixation of PIR enshrined in the revised procedure the PIR for Kerosene Oil during the period from September 2003 and April 2010 ranges from ₹ 9.52 to ₹ 43.86 per litre. However, the unit did not revise the PIR and continued to make payment issues of Kerosene Oil @ ₹ 9.00 per litre which resulted in a loss of ₹ 20.56 lakh.

On being pointed out in Audit, in April 2010, the unit authorities stated in May 2010 that the Government letter of September 2003 has not been received by them till date.

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

4.10 Savings at the instance of Audit

A saving of ₹ 1.31 crore was effected after audit pointed out significant variations in procurement cost of 17 items of aviation spares contracted for by Naval Headquarters as well as the incorrect assessment of requirement in respect of two items by Material Organisation, Kochi.

Audit scrutiny of documents at Integrated Headquarters Ministry of Defence (Navy) and MO Kochi relating to procurement of Naval aviation spares and items of spares for meeting the refit requirements of a ship respectively resulted in a saving of ₹ 1.31 crore in two cases. Details are discussed below:

Case I

Against the annual review of demand for the years 2008-09 and 2009-10, Director of Naval Air Material raised two indents in December 2008 and August 2009 respectively for procurement of spares for KA-28 helicopters. Based on these two indents, Integrated Headquarters Ministry of Defence (Navy) Directorate of Naval Air Material placed the following supply orders/concluded contract:

Sl. No.	Name of the firm	ARD/Mode of procurement	Date of placement of supply order/ conclusion of contract	No. of items	Total value
1.	M/s. Rosboron Service (India) Ltd.	2008-09/ PAC basis	18 January 2010	114	₹ 3.61 crore
2.	M/s. LLC 'Techno Pilot Group', Latvia	2009-10/ LTE basis	23 March 2010	13	₹ 0.43 ♣crore
3.	M/s. Aerodex Aviation, India	2009-10/ LTE basis	23 March 2010	57	₹ 1.34 crore
4.	M/s. Spets Techno Export, Ukraine	2009-10/ LTE basis	08 April 2010	32	₹ 1.49 ♣ crore

Audit noticed significant variations in rates in respect of 19 identical items ordered for procurement through supply orders at Sl No.1 to 4 above, even though the contracts were concluded within a period of less than three months. The variation ranged from 37 *per cent* to 3,680 *per cent*[28]. Audit, therefore, pointed out in May 2010 that acceptance of higher rates would lead to extra expenditure in the procurement of spares. Integrated Headquarters Ministry of Defence (Navy) accepted the facts in May 2010 and deleted 17 items valuing ₹ 0.86 crore from the contract/ supply orders.

Accepting the facts, the Ministry stated, in January 2011, that the procurement against annual review of demand for 2008-09 was taken up on Proprietary Article Certificate (PAC) basis as there had been severe constraints in sourcing Russian origin spares in view of their obsolescence and the small quantity requirements of Navy's limited fleet. Notwithstanding the PAC status, M/s Rosboron Service (India) Ltd., delayed the submission of their quotes. Therefore, the next annual review of demand for 2009-10 was processed on limited tender enquiry basis. These ARD cases were considered and negotiated as a package rather than taking up line-by-line items, as there were a large number of items and there was no fixed trend in the pricing policy of these spares. As of February 2011, Indian Navy is likely to purchase these 17 items, either through repeat orders or through invoking option clause, at the offered lowest rates in near future.

The reply of the Ministry is not tenable as procurement of spares in a package deal did not absolve Integrated Headquarters Ministry of Defence (Navy) from

♣ 1 USD = ₹ 45.56

[28] Details given in Annexure II

verifying the unit cost of each item with a view to ascertaining the reasonability of their rates. Besides, the procurement of 17 items in near future under option clause/repeat orders at the lower price was at the behest of audit which led to cancelling of contracts for these items at higher rates.

Case II

Based on the indent raised by Material Organisation Kochi (MOK) in April 2008 for 157 items of spares for meeting the refit requirements of INS Sutlej, a Naval Logistic Committee (NLC) in May 2009 approved the procurement of 132 items at a total cost of ₹ 1.64 crore from M/s Geeta Engineering Works Pvt. Ltd., Mumbai.

Audit scrutiny of the procurement in May 2009 revealed that MOK was already holding adequate stock to meet the demands in respect of two items out of 132 items, cleared for procurement by the NLC. Since these two items were high value stores costing ₹ 0.45 crore, audit requested MOK to conduct a *de novo* review of their requirement. MOK initially stated that these were long lead time items and their procurement was essential. However, in June 2009 MOK agreed to undertake the review. Based on the review carried out at the instance of audit, MOK in July 2009 cancelled the orders of these two items, costing ₹ 0.45 crore, thus resulting in savings to that extent.

Accepting the facts, Ministry stated, in January 2011, that the query and suggestion of audit to re-look at the requirement did finally lead to review of provisioning parameters and cancellation of order, thereby, resulting in avoiding of over provisioning to the tune of ₹ 0.45 crore.