

CHAPTER V: RESEARCH AND DEVELOPMENT ORGANISATION

5.1 Loss of stores in transit

Stores worth ₹ 10.63 crore meant for LCA programme were lost in transit. No insurance claim for these stores could be preferred as the stores were not insured by ADE.

Aeronautical Development Establishment (ADE)¹ concluded a contract with M/s BAE Systems Overseas Inc (USA) in September 2004 for supply of 15 ship sets of LCA- Integrated Flight Control System (IFCS) Line Replaceable Units (LRUs) at a total cost of USD 30.60 million (₹ 140.70 crore²). The firm was required to deliver all the units by December 2008.

As per extant orders, stores costing ₹ 2.50 crore or more are required to be insured against loss or damage in transit and the insurance cover is invariably required to be obtained before despatch of the consignment by the firm/supplier. Insurance of items against loss/damage in transit in this contract were all the more critical since contract provided for delivery at supplier's factory after which all risks were to be borne by ADE. The General Financial Rules provide that an officer shall be held responsible for any loss sustained by the Government through fraud or negligence on his part.

In the course of audit it was observed that while ADE received 14 ship sets by February 2008, the consignment containing the 15 ship sets, containing Actuators, costing USD 2.13 million (₹ 10.63³ crore) has not been received by them till date (October 2010) even though the firm had despatched the

¹ Aeronautical Development Establishment is a laboratory of India's Defence Research & Development Organisation under the Ministry of Defence

² 1 USD = ₹ 49.97

³ 1 USD = ₹ 46.00

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consignment through British Airways on 22 December 2008. Efforts were made to locate the missing consignment worldwide by ADE through British Airways, Embassy of India and M/s Balmer Lawrie & Co. (Air Consolidation Agency). However, all such efforts remained unfruitful. Meanwhile, complete payment was released to the firm by October 2009.

DRDO⁴ HQ indicated in March 2010, that such transactions of the laboratory were governed by the Air Consolidation Contract entered into with M/s Balmer Lawrie & Co. Since the contract did not have an insurance clause, therefore, the consignment was not insured by ADE. The explanation offered by DRDO HQ is unacceptable as the Air Consolidation Contract makes it amply clear that either (i) in terms of extant orders, a consignment valued more than ₹ 2.50 crore is to be insured by the Laboratories /Establishments. Directors of Laboratories /Establishments will use their discretion to insure a particular consignment on their own irrespective of their value depending on the nature of goods, or (ii) Air Consolidation Agency (ACA⁵) i.e M/s Balmer Lawrie & Co. will offer insurance coverage through New India Insurance Company Ltd. provided they are informed before the despatch of the item preferably at the time of sending supply order copy.

Accepting the facts, Ministry, in October 2010, sought to place onus on the ACA by stating that the ACA was fully responsible for the loss to the Government as ADE did not get the pre-alert of consignment before it was shipped. It was further added that ACA also made a huge violation by shipping it *via* Heathrow, whereas, the shipping notice clearly states that the shipment should not be transferred, transshipped on a non-continuous voyage. Ministry's reply is not acceptable as the onus on the need for insurance in all general purchase valued more than ₹ 2.50 crore rests with ADE as per the provision of contract of June 2007 concluded with ACA. It is also immaterial whether ADE gets any pre-alert of the consignment or not as no such conditions were laid down in the contract concluded with the supplier.

⁴ Defence Research & Development Organisation

⁵ Air Consolidation Agent

In sum, failure of ADE to comply with the extant orders resulted in a transit loss of stores worth ₹ 10.63 crore for which no insurance claim could be raised. The matter needs to be investigated by the Ministry to fix the responsibility for not insuring the stores and thus causing a loss to Government, due to negligence on part of the official(s).

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Countersigned

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