CHAPTER I : INTRODUCTION

1.1 Foreword

This report relates to matters arising from the compliance audit of the financial transactions of the Ministry of Defence and its following organizations:

- Army;
- Inter Service Organisations;
- Defence Research and Development Organisation and its laboratories dedicated primarily to Army and Ordnance Factories;
- Defence Accounts Department; and
- Ordnance Factories.

The report also contains the results of compliance audit of the transactions of the Border Roads Organisation under Ministry of Shipping, Road Transport and Highways.

Compliance audit refers to examination of the transactions relating to expenditure, receipts, assets and liabilities of the audited entities to ascertain whether the provisions of the Constitution of India, applicable laws, rules, regulations and various orders and instructions issued by the competent authorities are being complied with.

The primary purpose of the report is to bring to the notice of the legislature important results of audit. Auditing standards require that the materiality level for reporting should be commensurate with the volume and magnitude of transactions. The findings of audit are expected to enable the executive to take corrective actions as also to frame policies and directives that will lead to improved financial management of the organizations, thus contributing to better governance and improved operational preparedness.

This chapter, in addition to explaining the planning and extent of audit, provides a synopsis of the significant audit observations followed by a brief analysis on the expenditure of the above Organisations. Chapter II onwards, presents detailed findings and observations arising out of the compliance audit of the Ministry and the aforementioned Organisations.

1.2 Audited Entity Profile

Ministry of Defence at the apex level, frames policies on all defence related matters. It is divided into four departments, namely Department of Defence, Department of Defence Production, Department of Research and Development and Department of Ex-Servicemen Welfare. Each department is headed by a Secretary. The Defence Secretary who is the Head of the Department of Defence also coordinates the activities of other departments.

Army is primarily responsible for the defence of the country against external aggression and to safeguard the territorial integrity of the nation. It also renders aid to the civil authorities at the time of natural calamities and internal disturbances. It is therefore, incumbent upon the Army to suitably equip, modernize and train itself to meet the challenges.

DRDO, through its chain of laboratories is engaged in research and development primarily to promote self reliance in Indian defence sector. It undertakes research and development in areas like aeronautics, armaments, combat vehicles, electronics, instrumentation, engineering systems, missiles, materials, naval systems, advanced computing, simulation and life sciences.

The Inter Service Organisations like Armed Forces Medical Services, Military Engineer Services (MES), Defence Estates, Quality Assurance etc. serve the defence forces in the fields which are common to Army, Navy and Air Force. They are responsible for development and maintenance of common resources in order to economise on costs and provide better services. They function directly under Ministry of Defence.

Ordnance Factory Board (OFB) functions under the administrative control of the Department of Defence Production and is headed by Director General, Ordnance Factories. 39 factories are responsible for production and supply of ordnance stores to the armed forces.

1.3 Integrated Financial Advice and Control

Ministry of Defence and the Services have a robust internal financial control system in place. With fully integrated Finance Division in the Ministry of Defence, the Secretary (Defence Finance) and his/her officers scrutinize all proposals involving expenditure from the Government Accounts. Secretary (Defence Finance) is responsible for providing financial advisory services to Ministry of Defence, and the Services at all levels and also for treasury control of the defence expenditure.

Being Chief Accounting Officer of the Defence Services, Secretary (Defence Finance) is also responsible for the internal audit and accounting of Defence expenditure. This responsibility is discharged through the Defence Accounts Department with the Controller General of Defence Accounts as its head.

1.4 Authority for Audit

The authority for our audit is derived from Articles 149 and 151 of the Constitution of India and the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. We conduct audit of Ministries/Departments of the Government of India under Section 13[1] of the CAG's (DPC) Act. Major Cantonment Boards are audited under Section 14[2] of the said Act. Principles and methodology of compliance audit are prescribed in the "Regulations on Audit and Accounts, 2007".

[1] Audit of (i) all expenditure from the Consolidated Fund of India (ii) all transactions relating to Contingency Funds and Public Accounts and (iii) all trading, manufacturing, profit & loss accounts & balance-sheet & other subsidiary accounts.

[2] Audit of receipt and expenditure of bodies or authorities substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory.

1.5 Planning and Conduct of Audit

Our audit process starts with the assessment of high risk of the organization as a whole and each unit based on expenditure incurred, criticality and complexity of activities, level of delegated financial powers, assessment of overall internal controls and concerns of stakeholders. Previous audit findings are also considered in this exercise. Based on this risk assessment, the frequency and extent of audit are decided. An annual audit plan is formulated to conduct audit on the basis of such risk assessment.

After completion of audit of each unit, Local Test Audit Reports (LTARs) containing audit findings are issued to the Head of the unit. The units are requested to furnish replies to the audit findings within a month of receipt of the LTARs. Whenever the replies are received, audit findings are either settled or further action for compliance is advised. Important audit observations arising out of these LTARs are processed for inclusion in the audit reports which are submitted to the President of India under Article 151 of the Constitution of India. During 2009-10, audit of 700[3] units/formations was carried out by employing 14059[4] party days. Our audit plan ensured that most significant units/entities, which are vulnerable to risks, were covered within the available manpower resources.

1.6 Significant Audit Observations

Capital and the Revenue Procurements made by the Ministry of Defence and the Service Organizations form the critical area as far as the audit of Defence Sector is concerned. Audit has been pointing out the deficiencies in the procurement process in its previous reports and the Ministry of Defence has taken several measures to improve the procedures involved. Periodical, revisions of the Defence Procurement Procedure (DPP) and Defence Procurement Manual (DPM), are significant steps to evolve better practices. Despite the same, significant deficiencies exist in the process of procurement, which have been highlighted in the Report.

The present Report highlights cases which assume importance in the light of their impact on operational preparedness and having substantial cost overrun. The Report also brings out issues regarding poor management of contract, inaccuracy in assessment of requirement, irregular payment, diversion of funds from Government into non-Government Account, land acquisition, non-revision of rent for leased Defence land, improper inspection of store, irregularity in accounting etc. which require immediate redressal.

The case regarding delay in induction of state-of-the-art Artillery Guns in the Army highlighted in Paragraph 2.1 is significant. The Army failed in defining the requirement of specific gun system which deprived its Artillery for over a decade from obtaining guns of contemporary technology for replacing the

[3] Number of units/formations audited by O/o Director General of Audit, Defence Services, New Delhi and O/o Principal Director of Audit (Ordnance Factories) Kolkata.

[4] Number of Party days employed during the financial year 2009-10 by O/o DGADS New Delhi and O/o PDA(OF) Kolkata

existing guns of obsolete technology of 1970. The delay in procurement has not only been impacting the operational preparedness of the Army but also resulting in substantial cost overrun. Another case of delay in establishment of repair facilities for 12 Weapon Locating Radars (WLR) even after making advance payment of ₹ 100.18 crore made to United States Government resulted in abnormal delay in repair of WLR (Paragraph 2.2).

Review of ARDE Pune highlighted the issue of lack of productionisation and induction of the outcomes of Staff Projects resulting in continuing dependence on imports.

Irregular purchase was made by DGNCC by placing 80 *per cent* supply order on past supplier at higher rates by ignoring valid L-1 offer, which resulted in extra expenditure of ₹ 21 crore (Paragraph 3.1). Another peculiar case came to notice in which diversion of public money into non-public fund to the tune of ₹ 5.36 crore was made by Army HQ charging 10 *per cent* profit on procurement of Personal Kit Stores for units proceeding on UN Mission. (Paragraph 3.2).

Operational Allowance not admissible to service personnel was paid to Defence Civilian of the same unit. The irregularity involved payment of ₹ 15.16 crore (Paragraph 3.3).

Poor contract management in DGBR caused collapse of a bridge resulting in loss of ₹ 1.30 crore (Paragraph 5.1). In another case a bridge had not been completed after 12 years despite spending ₹ 3.54 crore (Paragraph 5.2).

Sniper rifle procured under Fast Track Procedure for operational requirement could not be used for more than two and half years due to deficient pre-despatch inspection (Paragraph 2.5).

On matters relating to Defence land, Defence Estate Officer could not revise the rent for last 36 years when it was to be revised by every five years for 3.52 acre of land given to Cantonment Board Agra for construction of a shopping centre (Paragraph 2.4).

DRDO could not make use of 407 acre acquired forest land at Faridabad for ₹ 73.26 crore as Central Empowered Committee did not permit to use it for non-forestry purpose. This happened due to non-clearance of title from forest to normal purpose by DRDO before acquiring the land (Paragraph 6.1). In another case of DRDO, project for Modular Bridge was not executed according to the specification recommended in Statement of Case based on which sanction was accorded. This resulted in wastage of assets valued at ₹ 21.46 crore as user did not accept the bridge (Paragraph 6.3).

In case of Ordnance Factories, Audit has commented on the extra expenditure due to delay in finalization of a purchase agreement and purchase of spares at higher cost, undue benefit to a firm, avoidable procurement of propellants and non-recovery of cost of rejected turret castings. In addition, general performance of the Ordnance Factory Organisation for the financial year 2009-10 has also been commented upon.

1.7 Response of the Ministry/Department to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee, Ministry of Finance (Department of Expenditure) issued directions to all Ministries in June 1960 to send their response to the Draft Audit Paragraphs proposed for inclusion in the Report of the Comptroller and Auditor General of India within six weeks.

The Draft Paragraphs are forwarded to the Secretaries of the Ministry/Departments concerned drawing their attention to the audit findings and requesting them to send their response within six weeks. It is brought to their personal attention that in view of likely inclusion of such Paragraphs in the Audit Reports of the Comptroller and Auditor General of India, which are placed before Parliament, it would be desirable to include their comments in the matter.

Draft paragraphs proposed for inclusion in this Report were forwarded to the Secretaries concerned between July 2010 and March 2011 through letters addressed to them personally.

Ministry of Defence did not send replies to 16 Paragraphs out of 27 Paragraphs featured in Chapters II to VII. Department of Defence Production also did not send reply to three out of six Paragraphs included in Chapter VIII of this Report. The response of Ordnance Factory Board, wherever received, had been suitably incorporated in the paragraphs in Chapter VIII.

1.8 Action taken on earlier Audit Paragraphs

With a view to enforcing accountability of the executive in respect of all issues dealt with in various Audit Reports, the Public Accounts Committee desired that Action Taken Notes (ATNs) on all paragraphs pertaining to the Audit Reports for the year ended 31 March 1996 onwards be submitted to them duly vetted by Audit within four months from the date of laying of the Reports in Parliament.

Review of ATNs relating to the Army as of July 2011 indicated that ATNs on 76 paragraphs included in the Audit Reports up to and for the year ended March 2009 remain outstanding, of which the Ministry had not submitted even the initial ATNs in respect of 22 Paragraphs as shown in **Annexure-IA,** and 30 ATNs are outstanding for more than 10 years. With regard to Ordnance Factory Board as of July 2011, Ministry of Defence had not submitted ATNs in respect of three Paragraphs included in the Audit Reports for the year ended March 2003 to March 2010 even for the first time as per **Annexure-IB**. Further, Audit could not vet ATN in respect of other six Audit Paragraphs, as per the details given in the **Annexure-IC**, for want of revised Action Taken Note based on Audit's observations.

1.9 Financial Aspects/ Budgetary Management

What is commonly known as Defence expenditure comprises expenditure under six Grants. Grant No. 22 authorizes expenditure on Army, Inter Service Organizations and others like Inspection Organization, NCC, Rashtriya Rifles and includes Stores and Transportation etc. Grant Nos. 23 and 24 relate to Navy and Air Force, Grant No. 25 authorizes expenditure on Ordnance Factories, Grant No. 26 relates to expenditure for Defence Research and Development Organization and Grant No. 27 authorizes Capital Outlay on all Services.

Defence Outlays can broadly be categorized into Revenue and Capital. Revenue Outlays cover Pay and Allowances, Stores, Transportation etc. Capital Outlays cover expenditure on acquisition of new weapons and ammunitions, replenishment of obsolete stores with modern variety. Much of the modernization of Services takes place under Capital expenditure.

A detailed analysis of the budgetary provision (Voted portion) on Defence Services, Revenue side and Capital side (Voted segment) are given in the following table, which will give the overall picture:

(₹ in crore)

Sl. No.	**Budget provision On Defence Services (Voted) for the year 2007-08**	**Budget Provision On Defence Services (Voted) for the year 2008-09**	**Budget Provision On Defence Services (Voted) For the year 2009-10**	**Increase in Provision (in terms of *per cent*) from 2007-08 to 2009-10**
1.	99778.18	125358.64	148359.74	49
	Revenue Budget provision (Voted) 2007-08	**Revenue Budget provision (Voted) 2008-09**	**Revenue Budget provision (Voted) 2009-10**	**Increase in *per cent* (2007-08 to 2009-10)**
2.	57920.58	77382.54	93580.12	62
	Capital Budget Provision(Voted) For 2007-08	**Capital Budget Provision (Voted) For 2008-09**	**Capital Budget Provision (Voted) For 2009-10**	**Increase in *per cent* (2007-08 to 2009-10)**
3.	41857.60	47976.10	54779.62	31
	Actual Revenue Expenditure (Voted) 2007-08	**Actual Revenue Expenditure (Voted) 2008-09**	**Actual Revenue expenditure (Voted) 2009-10**	**Increase in *per cent* (2007-08 to 2009-10)**
4.	57619.55	77074.06	94645.46	64
	Actual Capital Expenditure (Voted) 2007-08	**Actual Capital Expenditure (Voted) 2008-09**	**Actual Capital Expenditure (Voted) 2009-10**	**Increase in *per cent* (2007-08 to 2009-10)**
5.	37439.90	40894.97	51019.42	36
	Unspent Provision Under Capital Expenditure (Voted) 2007-08	**Unspent provision Under Capital Expenditure (Voted) 2008-09**	**Unspent provision Under Capital Expenditure (Voted) 2009-10**	**Increase/decrease in *per cent***
6.	4417.70	7081.13	3760.20	2007-08 to 2008-09 - 60 **(increase)** 2008-09 to 2009-10 - 47 **(decrease)**

The increase on the Revenue side (Voted segment) was primarily due to revision of pay of defence forces on the recommendations of Sixth Pay Commission. The increase on the Capital side (Voted segment) was mainly due to modernization of services/additional requirement/outgo for new schemes etc. From the above table, it would also be evident that the unspent provision under capital segment was substantial for the three year period 2007-08 to 2009-10.

1.10 Analysis of Revenue Expenditure of Army

For the year 2009-10, the Voted portion of the Grant of Revenue Expenditure for the Army was ₹ 60253 crore. As against this, the expenditure recorded was ₹ 62717 crore registering an excess expenditure of ₹ 2464 crore. In the earlier financial year of 2008-09, there was an unspent provision of ₹ 808 crore.

Pay and Allowances for the Army constituted 58 *per cent* (₹ 36191 crore) of the total revenue expenditure in 2009-10. If Pay and Allowances for Civilians (₹ 3132 crore) and Auxiliary Forces (₹ 705 crore) are added, the Pay and Allowances component would constitute 64 *per cent*, Stores (₹ 9405 crore; 15 *per cent*) Transportation (₹ 1792 crore; 3 *per cent*) Works (₹ 4608 crore; 7 *per cent*) were other significant components of expenditure.

While comparing the expenditure within the Grant, significant excess expenditure took place in almost all the heads, especially in the heads involving Pay and Allowances of Army (₹ 3065 crore), Rashtriya Rifles (₹ 422 crore), Works(₹ 377 crore), Transportation (₹ 323 crore), Ex-Servicemen Contributory Health Scheme (₹ 202 crore), Pay and Allowances of Auxiliary Forces (₹18 crore), Civilians (₹171 crore), Inspection Organization (₹ 51 crore) and Military Farms (₹ 3 crore). Savings took place in Stores (₹ 2034 crore), National Cadet Corps (₹ 107 crore) and other expenditure (₹ 28 crore).

The savings in stores took place due to:

a) reduced expenditure on petroleum products;
b) procurement of sugar which was not re-offered by the Sugar mills;
c) non-conclusion of contract of barrels, deduct issue, return of bills;
d) slow pace of booking by CsDA; and
e) lesser expenditure by DGOF on Engineer Stores supplied.

The Army revenue budget during 2010-11 showed a marginal decrease at ₹ 57326.99 crore in comparison to ₹ 58648.10 crore in 2009-10. As against the budget estimates of ₹ 31599 crore for 2010-11 for Pay and Allowances for Army, the revised estimates stand at ₹ 32452 crore. The budget estimates for 2011-12 for pay and allowances was ₹ 34544 crore.

1.11 Analysis of Revenue expenditure of Ordnance Factories

The bulk of expenditure of Ordnance Factories are met by “Deduct recoveries” for supplies to Army, Navy and Air Force. In addition, Ordnance Factories also do Civil Trade and sell stores to paramilitary forces and to the public. These are booked as Receipts into the Consolidated Fund of India. The following table will give the picture:

(₹ in crore)

Year	Expenditure	Recoveries from supply to Armed Forces	Receipt on supply of surplus stores	Total Receipts	Net Receipt	Net Receipt as Percentage of expenditure
1	2	3	4	5(3+4)	6(5-2)	7
2005-06	6847.13	5701.31	1537.81	7239.12	391.99	5.72
2006-07	6191.89	5147.77	1384.52	6532.29	340.40	5.50
2007-08	7125.63	5850.65	1464.12	7314.77	189.14	2.65
2008-09	9081.28	6123.38	1474.54	7597.92	(-)1483.36	(-)16.33
2009-10	10812.10	7531.08	1545.01	9076.09	(-)1736.01	(-)16.06

The reversal of trend in generating surplus of receipts over expenditure in Ordnance Factory Organisation continued from 2008-09 to 2009-10 also. During 2009-10, though the total receipts has registered an increase of ₹ 1478.17 crore over that of 2008-09, because of increase in expenditure, there was an ultimate deficit of ₹ 1736.01 crore i.e. 16.06 *per cent*. The Ordnance Factories have attributed this to increase in manufacturing cost resulting from increase in Pay and Allowances, payment of arrear of 6th Central Pay Commission (CPC) and non-materialisation of certain CKD/SKD[5] items.

In the revised estimates for 2010-11, net budgetary support from the Consolidated Fund of India after adjustment of Deduct Recoveries and Revenue Receipts has been pegged at ₹ 150.13 crore. For the year 2011-12, the net budgetary support has been estimated at ₹ (-) 1176.75 crore, which is a surplus in accounting parlance.

While, till 2007-08, the Ordnance Factories had been able to maintain negative charge to the Consolidated Fund of India, supplies to the Services have never been able to match the budget provision indicating less supply than anticipated. Against the budgeted supply of ₹ 8393 crore in 2009-10, the supplies booked were at ₹ 7531 crore registering a shortfall of ₹ 862 crore. In 2008-09, the shortfall was of ₹ 474 crore and in 2007-08 it amounted to ₹ 594 crore.

In a number of cases, the issue prices are less than the actual cost of production. These factors have direct effect on the quantum of receipts of Ordnance Factories and consequently the budgetary support that they require from Government. Ordnance Factory Board needs to review the item-wise issue prices considering the actual cost of production otherwise they may run into deficit and would require huge budgetary support. The budget provision of ₹ 10844 crore for such supplies in the year 2011-12 therefore may prove to be very ambitious unless, prices of such supplies are revised sharply upwards.

Overall performance of Ordnance factories for the year 2009-10 has been analysed in this report at Paragraph 8.1.

[5] CKD/SKD – Completely knocked down/Semi knocked down

1.12 Analysis of Capital Expenditure of Army within Capital Outlay on Defence Services

In 2008-09, Army could spend ₹ 10611 crore against a Capital Outlay of ₹ 13312 crore leading to an unspent provision of ₹ 2701[6] crore. In 2009-10, it spent ₹ 14796 crore against an allocation of ₹ 17996 crore resulting in unspent provision of ₹ 3200[7] crore. Detailed analysis further indicates that under some heads even the expenditure incurred had no immediate impact on operational preparedness as an expenditure of ₹ 3466.70 crore was mainly in the nature of advance payments as discussed below:

	2008-09						2009-10					
Minor Head	**O**	**R**	**FG**	**Actual**	**Excess/ Savings***	**Per Cent**	**O**	**R**	**FG**	**Actual**	**Excess/ Savings***	**Per cent**
050- Land	35.00	(-) 5.00	30.00	31.32	(+) 1.32	4.4	51.99	(+) 6.75	58.74	40.95	(-) 17.79	30.29
101- Aircraft and Aero-engine	426.70	(+) 108.55	535.25	602.61	(+) 67.36	12.58	1020.62	(-) 882.45	138.17	138.09	(-) 0.08	0.06
102- Heavy and Medium Vehicles	1285.26	(-)58.48	1226.78	1114.86	(-)111.92	9.12	831.80	(+)351.71	1183.51	1273.56	(+) 90.05	7.61
103- Other Equipments	8345.33	(-) 2179.50	6165.83	5965.81	(-) 200.02	3.24	11121.24	(-) 1217.01	9904.23	10089.54	(+) 185.31	1.87
105- Military Farms	7.50	(-) 3.00	4.50	4.29	(-) 0.21	4.67	7.50	(-) 0.40	7.10	6.33	(-) 0.77	10.85
106- Rolling Stock	114.80	(-) 74.96	39.84	(-) 0.18	(-) 40.02	100.45	170.05	(-) 63.85	106.20	107.06	(+) 0.86	0.81
107- ECHS	60.00	(-) 50.50	9.50	7.57	(-) 1.93	20.32	37.00	(-) 30.60	6.40	5.91	(-) 0.49	7.66
112- Rashtriya Rifles	21.98	(+) 4.36	26.34	26.41	(+) 0.07	0.27	10.24	(+) 32.83	43.07	43.51	(+) 0.44	1.02
113- National Cadet Corps	23.66	(-) 20.00	3.66	3.32	(-) 0.34	9.29	27.30	(-) 22.70	4.60	3.60	(-) 1.00	21.74
202- Construction Works	2992.25	(-) 86.92	2905.33	2855.00	(-) 50.33	1.73	4718.20	(-) 1608.56	3109.64	3087.09	(-) 22.55	0.73

O –Original Grant; R-Re-appropriations; FG-Final Grant; ECHS-Ex Servicemen's Contributory Health Scheme
* - In this table **Saving** was calculated with reference to **Final Grant and Actual expenditure"**

Much of the savings have taken place during 2009-10 in Land, Aircraft and Aero-engines, Military Farms, Rolling Stock, ECHS, Construction Works, National Cadet Corps and Rashtriya Rifles.

The decrease in the appropriation of ₹ 1217.01 crore under the head 'Other Equipments' was due to non-fructification of new schemes, less requirement of funds for Brahmos Missile system, slippage in payments due to failure in PDI of SMERCH, reduced targets by DGOF etc. The expenditure of ₹ 3015.84 crore booked in the month of March 2010 for Brahmos Missile

[6] Saving was calculated with reference to Budget estimates (i.e. Original Provision + Supplementary)-Actual Expenditure
[7] Saving was calculated with reference to Budget estimates (i.e. Original Provision + Supplementary)-Actual Expenditure

system was in the nature of advance payment to Brahmos Aerospace Private Limited against contract concluded on 20 March 2010. Similarly expenditure of ₹ 49.77 crore was advance payment for Combat Net Radio (CNR). Therefore, of the total actual expenditure of ₹ 10089.54 crore booked under the Minor head 103-'Other Equipments', an expenditure of ₹ 3065.61 crore or 30 *per cent* was towards advance payments.

The increase in Appropriation of ₹ 6.75 crore for land was mainly due to delay in acquisition process. The increase of ₹ 352 crore under Heavy and Medium vehicles was mainly due to (a) additional requirement of vehicles to make up existing deficiency, (b) additional requirement of funds for New Scheme (HMV Tatra Quantity 788), (c) erroneous booking and to make up the increased deficiency due to new Raising.

Of the total actual expenditure of ₹ 1273.56 crore booked for Heavy and Medium vehicles, the expenditure on modernization schemes for operational preparedness amounted to ₹ 496.45 crore. Out of this amount, ₹ 314.85 crore was towards advance payments for contracts concluded in late March 2010 for the Tatra Vehicles, for which no benefit could be achieved obviously, during the year 2009-10. Excess occurred under the same head 'Heavy and Medium vehicles' for ₹ 90.05 crore was due to payment against initial advance against HMV Tatra and over booking by CsDA.

The decrease in Appropriation of ₹ 882.45 crore under Aircraft and Aero Engines (Minor Head 101) was mainly due to:

a) Non-fructification of New Schemes (Other than HAL);
b) Non-materialisation of milestones payments of HAL schemes (ALH Utility and ALH WSI Qty 60); and
c) Russian rescheduled Liability Payment booked under Minor Head 103.

Of the total actual expenditure of ₹ 138.09 crore booked for the above Minor head, expenditure of ₹ 86.24 crore was mainly towards advance payments made for design and development of Sakthi Engine and Light Utility Helicopter (LUH), as also non-rescheduled liability, rescheduled liability etc.
The savings on Construction Works (Minor head 202) amounted to ₹ 22.55 crore which was 0.73 *per cent* of the final grant. This saving occurred inspite of re-appropriation of ₹ 1608.56 crore which was 34.09 *per cent* of the Original Grant. The saving was mainly due to:

- CAOs surrendering the allotted funds;
- Internal transfer of funds from New Capital Works to Carry Over Capital works by HQ Western Command;
- Procedural delays in materialization of supply orders
- Refusal by contractors to take mobilization advances in the last quarter of the financial year.

Other reasons for savings were due to:

a) Non-finalisation of land acquisition cases,

b) Non-receipt of sanctions for procurement from Ministry,

c) Less debit raised by the State Accountants General on account of Camp expenditure; delay in sanctions of cases due to limited financial powers of DGNCC in case of new/carry over works etc.

Excess occurred under other Minor head -106 – Rolling Stock was due to additional requirement of funds on completion of modification of wagons by BEML.

1.13 Capital expenditure of Ordnance Factories and DRDO

The capital expenditure of Ordnance Factories during 2009-10 was ₹ 240.29 crore. Normally, expenditure on renewal and replacement in the ordnance factories are met from the renewal and replacement fund created out of the revenue expenditure. During the year 2009-10, the amount transferred to the renewal and replacement fund was ₹ 280 crore and the expenditure incurred from it was ₹ 228 crore.

In the case of DRDO, the capital expenditure during 2009-10 was ₹ 4152 crore. Of this, expenditure on machinery and equipment was ₹ 3802 crore and it constituted 92 *per cent.* The capital expenditure on DRDO was less by ₹ 204 crore (4.91%) than that of the revenue expenditure during the year, which stood at ₹ 4356 crore.

1.14 Rush of expenditure in the last quarter of the financial year and in particular, in the month of March

Ministry of Defence (Finance/Budget) has from time to time, issued instructions to maintain an even pace of expenditure throughout the year. Such instructions had, however, little effect on the pace of expenditure. 44 *per cent* of the annual Capital expenditure under the grants for all the services to Budget Estimates was spent during the last quarter of 2009-10 against prescribed 33 *per cent.* 32 *per cent* of the expenditure to Budget estimates took place in the month of March, at the fag end of the year against the stipulated 15 *per cent*. Under Army Grant, 18 *per cent* of the expenditure to Budget estimates was spent in the month of March.