

CHAPTER IV: NAVY

Procurement

4.1 Procurement of unsuitable Navigation Computers

Failure to mention the correct Part Number for Navigation Computer in the indent/purchase order resulted in procurement of two such systems worth ₹2.28 crore, which could not be put to use.

Navigation Computer (NC) is essential for helicopter 'A' to enable it to fly. A 'metallic equipment tally' indicating serial number, description, model number, part number/reference number and modification status is fitted externally to the NC to enable Naval units to raise indent for the correct equipment.

To meet the critical requirement of NCs, a purchase order (PO) was placed (July 2010) by the Directorate of Naval Air Material (DNAM), Integrated Headquarters (IHQ) MoD (Navy) on M/s Varman Aviation Private Limited, Bangalore for supply of two NCs¹ at a cost of ₹2.28 crore. The two NCs after being received and inspected (September 2010) were found unsuitable for use on helicopter 'A' as the Original Equipment Manufacturer (OEM) had incorporated (January 2005) an interface to the NC and consequently its Part Number had also been modified². The modified NC had additional female connectors / new software.

We observed that even though the OEM had modified the Part Number of NCs in January 2005, five out of six helicopters held by the Indian Navy carried pre-modified equipment tallies. The modification to the Part Number of NCs was also not carried out on the parts catalogue. As a result of this the wrong Part Number was indicated in the indent (November 2009) and, subsequently, in the PO (July 2010). The vendor refused (September 2010) to

¹ Part Number CP-1282B/ASN-123

² Part Number modified as CP-1282C/ASN-123 in place of CP-1282B/ASN-123

accept the rejected NCs on the ground that they had supplied the stores as per the order.

In reply (August 2011) IHQ MoD (Navy) accepted the facts.

Thus, failure on the part of the Indian Navy to mention the correct Part Number of the item resulted in wrong procurement of two NCs costing ₹2.28 crore, which could not be used.

The matter was referred to the Ministry (January 2012); their reply was awaited (September 2012).

4.2 Extra expenditure in procurement of spares for Sea Harrier aircraft

Failure to refer to previously contracted rate and non-negotiation of the offered rate in procurement of Base and Depot spares for Sea Harrier aircraft led to an avoidable expenditure of ₹1.49 crore.

The Defence Procurement Manual (DPM) prescribes that reasonableness of the price proposed has to be established by taking into account the competition observed from the response of the trade to the enquiry, last purchase price (LPP), estimated value as given in the indent, market price wherever available, etc.

A requirement of four types of Base and Depot (B&D) spares on AOG³ priority for Sea Harrier aircraft was projected (October 2009) by HQ Naval Aviation Goa on Directorate of Naval Air Material (DNAM), Integrated Headquarters (IHQ) MoD (Navy) which in turn floated (November 2009) a Request for Proposal (RFP). A purchase order (PO) was placed (February 2010) on L1 vendor viz. M/s Sterling Defence Ltd., UK, for two of the spares, namely, Retainer Roller Bearing (RRB) at a unit cost of USD 9,900 (₹4,87,575) and Shaft Assembly Input (SAI) at a unit cost of USD 23,500 (₹11,57,375). The PO was placed without negotiating either the high rates or

³ AOG – Aircraft on Ground i.e procurement to be made on top most priority

even the delivery schedule despite AOG procurement and, vendor's offered delivery schedule of 160-190 days was accepted vis-à-vis 90 days prescribed in the RFP. The vendor delivered the spares in September/ November 2010.

Meanwhile, DNAM, IHQ MoD (Navy) had placed (December 2009) another PO on M/s Aerospace Logistics, UK, for supply of 81 types of spares for Sea Harrier aircraft against an Annual Review of Demand (2008-09), that also included the two spares referred to above. The contracted unit cost of these spares under PO of December 2009 was PDS 94 (₹7,590) for RRB and PDS 1,831 (₹1,47,800) for SAI. The vendor delivered the spares in June/ September 2010.

Our examination revealed that contrary to the provisions of DPM the negotiated rates under the PO placed in December 2009, even as these were manifold lower, were not taken into account while placing the PO in February 2010. Further, DNAM, IHQ MoD (Navy) neither constituted any Contract Negotiation Committee (CNC) nor, while justifying reasonability of rates (January 2010), apprised the Principal Integrated Financial Advisor (PIFA) of the rates achieved in December 2009. This failure of DNAM led to an extra expenditure of ₹1.49 crore.

The DNAM stated (October 2011) that the procurement in these cases fall in two different categories and due to separate timelines for materialisation of spares, the prices achieved were also different. Further, reference data for price estimation were generally based on data available from Integrated Logistics Management Services (Air) for the orders which had actually materialised.

The contention of DNAM is not tenable as a recently contracted reference price lower by a baffling 683 *per cent* to 6324 *per cent vis-à-vis* the offered price was available and despite an apparent unrealism in the offered rate, the price was not negotiated either for its value or the delivery keeping in view an AOG procurement. Further, failure to refer the available contracted rate points to either negligence or lacunae in the reference datum for which correction need to be devised to avoid recurrence.

The matter was referred to the Ministry (December 2011); their reply was awaited (September 2012).

4.3 Unwarranted procurement of Seaking stores

Ad hoc projection for stores bereft of compliance to the very canons for its provisioning resulted in an unwarranted procurement worth ₹4.02 crore.

To facilitate effective procurement of stores by the Directorate of Naval Air Material (DNAM), Ministry of Defence (MoD) issued instructions in July 1992 stipulating that the Naval stores/items with nil consumption in the past three years and having no dues out are not required to be included in the Annual Review of Demands (ARDs) projected by the Material Organisation (MO).

The purchase orders (POs) for Seaking stores placed (July 2006) by the Integrated Headquarters (IHQ), MoD (Navy) DNAM on the basis of ARD 2004-05 projected by the MO, Kochi, included, *inter alia*, orders for the stores valued at ₹4.02 crore that were not in demand, as indicated below:

Sl. No.	Item	Name of the vendor	Stock at the time of the PO	Receipts as per PO of July 2006 (in 2007-08)	Issue of items between 2002 and July 2006	Issue of items between August 2006 and 2011	Items issued in 2012	Total held by MO, Kochi till date
1.	Rodend Assy Clevis	M/s Westland Helicopters, UK	05	24	Nil	01	21	07
2.	Plate Inner Bearing	M/s Amsafe Logistics, UK	Nil	33	Nil	Nil	04	29
3.	Collar Assy Output		100 +27 ⁴	133	Nil	Nil	22	238

As indicated in the table above, our examination revealed that the items procured in 2006 had nil consumption since 2002 and also had zero dues out; yet demands for these items were projected by the MO, Kochi which resulted in their procurement in numbers that were not justified. We also observed that even as the regular demand for item at serial number 3 in the table above had been cancelled (November 2001) by the Naval Aircraft Yard (NAY), Kochi, the item was still projected for procurement in ARD 2004-05 and actually

⁴ Quantity 27 was received/taken on charge in October 2006

procured later in July 2006. Further, the items having been procured had not been issued till December 2011, thereby, confirming that the projected demands for these items did not exist.

MO, Kochi stated (February 2012) that though the user unit had cancelled the demand for certain items, the projection made to the IHQ, MOD (Navy) was not reduced in view of long lead time, frequent usage and the fact that the Original Equipment Manufacturer (OEM) had stopped manufacturing these stores. It was further stated that the stores procured would be consumed during the shelf life (2023) of Seaking helicopter.

As the supply of almost all the items against the PO of July 2006 materialised by December 2007, i.e within eighteen months, the contention of long lead time is an afterthought. The reply is also not tenable since as per the Naval Instructions, provisioning is to be made within an anticipated lead time of two-three years depending upon the nature of the spares and is to be reviewed annually. As such there was no justification for placing the PO on this ground.

Further, ARD for other spares of Seaking helicopter carried out in years subsequent to ARD 2004-05 did not factor in stoppage of the manufacture by the OEM and no evidence was provided by the Indian Navy to suggest that the procured spares were under notice for stoppage of manufacture by the OEM.

Also, the low consumption of these spares in past seven years subsequent to procurement belies the argument of likely consumption of these spares over the shelf life of Seaking helicopter. The procurement was, therefore, in absolute violation of the instructions for provisioning of stores and led to blockage of funds of ₹4.02 crore.

The matter was referred to the Ministry (December 2011); their reply was awaited (September 2012).

Contract Management

4.4 Failure to synchronise creation of a critical test facility

A test equipment procured at a cost of ₹10.72 crore in 2008 could not be commissioned for three years. Delay in conclusion of a contract for its installation also resulted in extra expenditure of ₹1.65 crore.

The Indian Navy, in July 2001, placed an order for system 'A' for use on board Naval aircraft. The system is constituted of various components identified as Line Replacement Units (LRUs) which are required to be periodically tested/tuned on ground with the help of a Ground Test Bench (GTB) that helps to identify and rectify faults in the LRUs as well as in training of maintenance personnel. The system 'A' was proven by December 2008.

Our examination (December 2011) revealed that inordinate delay had occurred in procurement and operationalisation of GTB. The Original Equipment Manufacturer (OEM), in response to a Request For Proposal (RFP) issued in July 2007, apart from submitting (September 2007) an offer to supply the GTB at a cost of USD 2.56 million (₹12.11 crore), had also separately quoted USD 0.17 million (₹80.61 lakh) for installation of GTB even as this was not required as per RFP. A contract was, however, concluded (April 2008) only for the supply of GTB at a negotiated cost of USD 2.27 million (₹10.72 crore).

Since the RFP had not included the installation of GTB within its scope, the unsolicited offer of the OEM to install GTB at an additional cost was not considered. While the supplier had delivered the GTB in November 2008, the contract for its commissioning was concluded with the same firm only in April 2011 at a cost of ₹2.46 crore which was substantially higher than the supplier's earlier offer to do so at a cost of ₹0.81 crore. During the intervening period the warranty of all equipment of GTB worth ₹10.72 crore had expired and in the absence of functional GTB between 2009 and 2011, the LRUs had to be despatched to the OEM in Russia for testing and repairs.

Hence, framing of RFP in a skewed manner and keeping installation of GTB out of its scope resulted not only in additional cost of ₹1.65 crore but also in sub-optimal utilisation of GTB.

Integrated Headquarters (IHQ) Ministry of Defence (MoD) (Navy) stated (October 2011) that the installation of GTB was postponed to ensure that system 'A' was fully proven prior to commissioning of the GTB. The explanation of the IHQ MOD (Navy) however underplays the fact that since the procurement of GTB was for testing the system 'A' and, therefore, inevitable, the supply and installation of GTB could have been made subject to the system 'A' being suitably proven in testing. Thus, the failure on the part of Navy to synchronise procurement of GTB with its installation is evident.

The matter was referred to the Ministry (December 2011); their reply was awaited (September 2012).

4.5 Inordinate delay in setting up of a training facility

Inordinate delay of over five years in processing a case led to price escalation of ₹12.50 crore (₹6.64 crore after discounting the inflation) in setting up of a Damage Control Training Facility.

The training curriculum relating to seamen of the Indian Navy (IN) prescribes that all seamen deployed on off shore duties are required to be trained in ship borne damage control and repair. The basic training in this regard is imparted at Seamanship School Kochi. The Damage Control Training Facility (DCTF) is a training simulator that provides realistic and stressful environment to seamen and simulates various damage like situations. A DCTF simulator, designed and installed at Naval unit "A" by M/s Goa Shipyard Limited (GSL), a Public Sector Undertaking (PSU), in November 2001 at a cost of ₹16 crore was found useful in enhancing the quality of the basic training.

In order to provide the same facility to seamen under training the IN decided (June 2003) to install another DCTF at Seamanship School Kochi at an estimated cost of ₹17 crore. The work was awarded as a repeat order to GSL. The installation of DCTF, however, got unduly delayed between

December 2006 and January 2012 owing to difference of opinion between IN and Ministry of Defence (MOD) over the justifiability of a dedicated staff complement for the facility. As the MOD failed to resolve the matter, IN kept procurement action on hold. In the meantime though the Defence Procurement Procedure (DPP) 2006 was issued, but IN failed to take advantage of the stipulation in DPP-2005 that allowed all procurement proposals of vintage earlier than DPP-2005, to be taken to a further level. Instead, it opted (August 2006) for *de novo* initiation of the proposal under DPP-2006 as a 'Buy Indian' repeat order on GSL which involved a longer time frame in processing the case and its culmination in an approval by the MOD. Eventually, the order was placed on GSL in December 2009 at a price of ₹29.50 crore which led to an excess expenditure of ₹12.50 crore, which, when discounted with the average inflation rate during the period, led to an effective cost escalation of ₹6.64 crore.

The MOD stated (May 2012) that creation of the training facility without adequate manpower would have resulted in its sub-optimal utilisation and this necessitated that the manpower issue be addressed comprehensively prior to proceeding with induction of the facility. Further, though the MOD argued that the case was at a preliminary stage as it stood accepted from the necessity angle only and as such the case was initiated *de novo* under DPP-2006, they did not explain the stages protected/sanctified for continuation of procurement in vogue under vintage DPPs. The MOD's reply on the issue of manpower is also not tenable as the Acceptance of Necessity accorded (November 2004) for creation of the facility had made it amply clear that the manpower requirement would be met by the IN either by outsourcing or by alternate sources. In any case, the training facility was eventually sanctioned without additional manpower.

Thus, the heavy footed approach of IN in handling procurement action led to an avoidable expenditure of ₹6.64 crore; besides, seamen were deprived of superior quality of 'Damage Control Training' in the intervening five years.

4.6 Non-conclusion of contract for repair/overhaul of Seaking rotables

Failure of the Hindustan Aeronautics Limited (HAL) to optimally utilise the facility for repair/overhaul of Seaking rotables led to offloading of three such rotables to the Original Equipment Manufacturer (OEM) at a cost of ₹18.36 crore. Absence of a contract between the Navy and HAL also resulted in an avoidable expenditure of ₹1.36 crore on re-repair/overhaul of a rotatable that had failed prematurely.

The Indian Navy (IN) and HAL entered (June 2004) into a Memorandum of Understanding (MOU) for setting up of repair/overhaul facilities at a total cost of ₹71.68 crore. The facility, with an annual capacity to repair/overhaul six Main Gear Box (MGBs) was set up by July 2004. The MOU, *inter alia*, provided for creation of full fledged repair/overhaul facilities for complete transmission systems viz. MGB, Main and Tail Rotor heads etc. of Seaking helicopter at HAL. The MOU was to remain in force only till the completion of the project i.e July 2004. Thereafter, the repair/overhaul of MGBs etc. was to be taken up by HAL as per the terms and conditions of a separate contract, which was required to be concluded between the IN and HAL.

A mention was made in paragraph 4.1 of the Report of the C&AG of India, No. 7 of 2005 (Air Force and Navy) about delay in setting up of repair and overhaul facilities for the complete transmission systems of Seaking helicopter at HAL. The Ministry in their Action Taken Note (ATN) had stated (July 2007) that the expenditure on offloading was inescapable and a team of officers and personnel had been appointed at HAL to oversee timely repairs and overhaul of components to meet naval requirements. Also, periodic review meetings were being convened between the OEM and HAL to keep the programme on schedule.

Our examination (May 2010) revealed that the facility with an annual capacity to repair/overhaul six MGBs was set up by July 2004 and against the prescribed task of 33 MGBs till March 2010, HAL could repair/overhaul only 26 MGBs. The shortfall necessitated offloading of three MGBs between December 2008 and March 2010 to the OEM at a cost of ₹18.36 crore.

Notwithstanding clear stipulation about conclusion of a contract in MOU for repair/overhaul of MGBs, no such contract was concluded by the IN with HAL. In the absence of the contract, the repair/overhaul work was being entrusted by the IN to HAL through placement of repair orders.

Though all the repaired/overhauled MGBs were tested at HAL in accordance with test procedures, which were duly monitored by HAL, Quality Assurance and representatives of Director General Aeronautical Quality Assurance (DGAQA), 10 out of 26 MGBs repaired/overhauled by HAL since July 2004, failed prematurely. Of the 10 MGBs which failed prematurely, one MGB, repaired/overhauled at a cost of ₹1.85 crore, failed without any utilisation and was re-repaired/overhauled by HAL at a cost of ₹1.36 crore. In the absence of any contract, the Navy had to pay for the re-repair/overhaul of the MGBs, which otherwise could have been avoided.

Integrated Headquarters (IHQ) MoD (Navy) stated (January/November 2011) that the optimum production level of repair/overhaul of six MGBs annually at HAL could not be reached due to delay in receipt of proprietary spares, tooling, expertise and absence of a long term business agreement between HAL and OEM for assured and committed supply of spares. IHQ MoD (Navy) further attributed (June 2010 and November 2011) the high rate of failure to acquisition, assimilation and consolidation of new and complex technology.

The contention of IHQ MoD (Navy) is not tenable as HAL after undertaking a feasibility study, was required to create a full-fledged facility with all the technical knowhow. Non-conclusion of a long term agreement between HAL and OEM even after a lapse of over six years since creation of the facility also points to the Ministerial failure to activate HAL in the matter. Also, the Navy could have safeguarded its interests by concluding a contract with HAL on setting up of the facilities.

Thus, due to inability of the IN to ensure optimum exploitation of the facility, overhaul of three MGBs had to be offloaded to the OEM at a cost of ₹18.36 crore. Further, failure to conclude a contract with HAL and ineffective inspection have resulted in an avoidable expenditure of ₹1.36 crore on

Report No. 17 of 2012-13 (Air Force and Navy)

re-repair/overhaul of one MGB, even though it had failed prematurely without any utilisation.

The matter was referred to the Ministry (December 2011); their reply was awaited (September 2012).