CHAPTER II : MINISTRY OF DEFENCE

2.1 Inordinate delay in indigenisation of TATRA vehicles

BEML signed a collaboration agreement for indigenisation of TATRA vehicles 28 years back in 1986, with Original Equipment Manufacturer (OEM) at the instance of the Ministry of Defence. The objective of attaining 86 *per cent* indigenisation by 1991 was envisaged by BEML. However, till 2014 the target is yet to be attained. BEML attributed the delay mainly to the failure of Ministry in placing order for sufficient number of vehicles between 1986 and 1991. The process for indigenisation of TATRA vehicles suffered due to lack of clear long term projection of orders by Army to BEML. As a result, the objective of self-reliance in production of TATRA vehicles was defeated.

The Indian Military's dependence on the foreign suppliers for their defence products has been continuing despite several initiatives[8] taken by the Government to achieve self-reliance. Institute of Defence Study and Analysis (IDSA) in its report (July 2013) on Indian Defence Industries had stated that India was the world's largest importer in Defence, spending 52 to 61 *per cent* of its Defence Capital Acquisition budget on import during the period 2006-07 to 2010-11. In India, nine Defence Public Sector Undertakings (DPSUs) and 39 Ordnance Factories (OFs) have been accorded the role of the designer and integrator of defence products with a view to develop the industries for defence equipment. The Department of Defence Production (DDP), under the Ministry of Defence, oversees their activities. They cater to the needs of the defence sector through their in-house production programmes by Transfer of Technology (TOT) from Foreign Original Equipment Manufacturers (OEM). The product range of DPSUs include aircraft, warships, submarines, heavy vehicles and earthmovers, missiles, a variety of electronic devices and other major equipment for the defence sector.

In line with these products, TATRA vehicle which is the most extensively used vehicle for mounting the missiles and radars and procured by Indian Army from Bharat Earth Movers Limited (BEML) was selected for conduct of a holistic examination. Audit in this regard was carried out during July 2012 to December 2012 at Department of Defence Production in MOD, Army HQ, BEML, Bengaluru, Central Ordnance Depot[9], Dehu Road and two Army Base

[8] Industrial Policy Resolutions of Government of India from 1948 onwards.
[9] COD Dehu Road is dedicated depot to stocking, provisioning and procurement of Tatra spares.

Workshops[10]. The report has been up-dated by ascertaining latest position as of October 2014.

TATRA vehicles are special 'B'[11] type i.e. non-combat vehicles designed for all-terrain which are used in Indian Army mostly for transportation of tanks and also as missile launcher, gun-towing tractor, ammunition carrier, fire crash tender, medium recovery vehicle, etc.

These vehicles were being imported from M/s OMNIPOL of Czechoslovakia (OEM) since 1969. The Army had imported about 1340 TATRA vehicles before May 1983, when the Government desired that their future requirement be met by indigenous production based on license agreement with the OEM, as that would help save Foreign Exchange (FE) and achieve self-sufficiency in production, spares and maintenance support of TATRA vehicles.

BEML, a DPSU, was chosen in 1983 by the Ministry for indigenous production of the TATRA vehicles and, in May 1986, BEML signed an agreement with OEM, for licensed production[12] of TATRA vehicles and spare parts with validity of 10 years. A Detailed Project Report (DPR) was prepared by BEML in June 1986, according to which a maximum of 86 *percent* indigenisation was to be achieved through production of 1030 TATRA vehicles in phases over a period of five years from 1986 to 1991. For this purpose certain production facilities including civil works and plant and machinery were required to be established at BEML by 1987 and 1991 respectively at a cost of ₹ 29.45 crore, which was approved by CCPA[13] (February 1987). The CCPA approval also indicated that at the stabilisation of indigenisation by the end of 1990-91, there could be savings to the tune of ₹ 19.78 crore on FE. BEML also signed other agreements/MOUs with the OEM-2 subsequently which were also related to the process of indigenisation. The brief of all the agreements are given in Table -10 below:

Table: 10 – Particulars of Agreements signed for production of TATRA vehicles

Year of license agreement/ MOU	Name of OEM	Period of validity	Key issues and items covered
License Agreement made in May 1986	M/s OMNI POL	10 years	1. Envisaged transfer of complete knowhow and technical documentation of the vehicles with continual upgradation with payment of ₹ 3 crore as technical documentation fee. 2. Covered extensively the component parts and spare parts. 3. Components up to the value of ₹ 39.95 crore were to be purchased by BEML.

[10] 508 Army Base Workshop Allahabad and 510 Army Base Workshop Meerut are entrusted with overhaul of Tatra Vehicles.
[11] Class B vehicles are those which are used for non-combat purposes in Indian Army
[12] Licensed production is production after acquiring technical documentation and knowhow for the specified product in the licensed territory for 6x6 and 8x8 versions. Tatra 4x4 was included under the strategic alliance agreement in 1997.
[13] Cabinet Committee on Political Affairs.

			4. Provision for buy-back of component parts and spare parts by the collaborator. 5. Manufacture of three types of TATRA vehicles[14].
Component Parts Agreement made in June 1997	M/s TATRA SIPOX (UK) LIMITED (TSUK)[15] (OEM-2)	10 years (this agreement was however not implemented after signing of the next agreement of September 1997)	1. 'Component parts agreement' for procurement of 104 components required for production of four types[16] of TATRA vehicles. 2. The buy-back clause of component parts and spare parts of TATRA (without indicating any quantity or value).
Strategic Alliance Agreement in September 1997	M/s TSUK	10 years	This agreement besides covering the TATRA vehicles covered other vehicles such as Katasi 4X4 vehicle, Phantoon Main Steam Bridge System, excavators and finishing machines mounted on TATRA chassis, cranes mounted on TATRA chassis etc., superseding the agreement of June 1997.
MOU signed in March 2003	M/s TSUK	10 years	1. Covered TATRA[17] as well as heavy recovery vehicles. 2. Excluded from the indigenisation process, vital aggregates such as axles and certain components which were hitherto covered by the previous Agreements.
MOU[18] of February 2008 and MOA[19] of February 2009	M/s TSUK	10 years	1. Covered indigenous manufacture of another variant of the TATRA vehicle[20] and more advanced Euro II engines for the TATRA vehicles. 2. To achieve around 60-65 *per cent* indigenization of the engine by the 36th month from commencement of production. 3. BEML would be permitted to indigenize all bought-out and proprietary items of TATRA engines and also have the option to buy engine parts which could not be manufactured in India due to technical or economic reasons. 4. The cost of this indigenization process/transfer of technology of the engine was US$ 4.00 Mln. Towards this, a sum of ₹ 18.70 crore was paid in July 2010 and January 2011.

***Source**: Extracts from License Agreements/MOU*

BEML commenced production of TATRA vehicles from the year 1987-88 after procuring components from OEM as per agreement signed in 1986. In the subsequent years also regular orders were placed on the OEM for procurement of components and assemblies as mentioned in **Annexure-II**.

[14] T-815 VTI 26265 8x8, T-815 VVIT 20235 6x6 and T-815 VVN 26265 8x8
[15] After Czechoslovakia politically split into Czech and Slovak Republics, a company called TATRA SIPOX (UK) LIMITED took over the business of the erstwhile M/s Omnipol and M/s SIPOX group of companies
[16] T 815 VTI 8x8, T 815 VVN 8x8, T 815 VP-13 8x8, T 815 VPR-9 8x8
[17] Current range of TATRA vehicles including TATRA based Heavy Recovery Vehicle AV 15.
[18] MOU is a legal document describing a bilateral agreement between parties, which generally lacks the bind power of a contract.
[19] MOA is a legal document written between parties to cooperatively work together on an agreed upon project and hold the parties responsible to their commitment
[20] Tipper Trucks with 22 to 28 tonne capacity.

The audit findings on indigenisation of TATRA vehicles are discussed in succeeding paragraphs.

Audit Findings

1. Poor target achievement in the process of indigenisation

As per the DPR prepared by BEML with approval of CCPA, 86 *per cent* indigenisation of TATRA vehicle was to be achieved by the year 1990-91. However, the progress actually achieved by BEML by the year 1990-91 was abysmally low at only 29.31 *per cent*. Even by 2012-13, i.e. after 26 years of the approval by CCPA, the achievement level of indigenisation was just 62.50 *per cent*. Though BEML claimed to have achieved additional 12.5 *per cent* in the year 2013-14 by indigenising Axle and other components, yet this additional level of indigenisation was awaiting the approval by Controllerate of Quality Assurance (CQA)[21].

We observed that despite failure to achieve the envisaged targets of indigenisation a total of 7,942 TATRA vehicles were produced and supplied by BEML. The brief details of production and extent of indigenisation of TATRA between 1986-87 and 2013-14 are shown in the **Annexure-II**.

It can be seen from the **Annexure-II** that during the period 1987 to 1991, orders were not placed on BEML as planned, however, in the period since 2000 significant number of orders were placed on BEML. Even then BEML manufactured the vehicle by importing a substantial portion of the components from the foreign collaborator. This was despite the fact that transfer of complete knowhow and technical documentation pertaining to manufacture of the vehicles was provided in the agreement of 1986. Thus, despite a time overrun of more than two decades, the indigenisation was yet to reach the planned level of 86 *per cent*.

2. Audit examination of the process of indigenisation of TATRA revealed the following:

(i) Adverse impact on indigenization due to absence of long term projection

Government in 1983, decided for indigenous production of TATRA by getting licence from foreign OEM, instead of import, based on the long term requirement of the vehicles assessed by Army at an average of 150 vehicles per annum. BEML, in its DPR[22], proposed that 86 *per cen*t indigenisation would be achieved by producing 1,030 vehicles during the period from 1986-87 to 1990-91. Production programme vis-a-vis progress in indigenisation

[21] Controllerate of Quality Assurance(BEML) is an authority holding sealed particulars (AHSP) of TATRA vehicles

[22] DPR prepared by BEML indicates that production programme of TATRA vehicles was according to the requirement of vehicles assessed by Army.

proposed in DPR was approved by CCPA in 1987. However, actual supply orders placed by the Ministry on behalf of Army for production by BEML were nowhere near the target indicated in the DPR as could be seen from Table 11 below:

Table-11: Details showing shortfall in orders placed on BEML

Year	No. of vehicle to be produced as per DPR	Actual orders placed on BEML	Cumulative Orders placed
1986-87	80	0	0
1987-88	200	80	80
1988-89	250	130	210
1989-90	250	190	400
1990-91	250	100	500
1992-2014	Not considered in DPR	7,695	8,195

***Source**: Ministry's reply to draft Audit Report*

It could be seen from the Table-11 above that against the planned number of 1030 vehicles envisaged in the DPR for achieving indigenisation of 86 *per cent*, orders for only 500 vehicles were placed by the Ministry between 1986 and 1991. In a communication to the Ministry, BEML had indicated in 1988 that in the event of less numbers of orders for vehicles from Army, indigenisation was becoming costlier based on economy of scale. BEML therefore attributed the delay in indigenisation to the less number of orders placed by Ministry.

The Ministry/Army also did not convey to the BEML any commitment about continuation of orders beyond 1990-91 in terms of long term projection of order as an incentive for indigenisation. Ministry, however, subsequently placed orders for 7,695 vehicles on BEML between 1992 and 2014.

There were also certain cases of procurement of TATRA vehicles, where the orders on BEML were placed by circumventing the normal procedures and without appreciating the actual need as projected by the Army indicating lack of clarity for indigenisation as discussed below:

(a) Army HQ projected a request for procurement of 1070 HMV GS (4x4) vehicles in December 2001. We found that the vehicles were procured by the Ministry on a single vendor basis from BEML in March 2002 at a cost of ₹ 285.72 crore. Procurement from BEML was made without considering other vehicles viz. Stallion 6x6 (Ashok Leyland) and LPTA 6x6 (TELCO) which had been approved by the Ministry for introduction in Army in February 2000, subject to execution of modifications. As stated by FA (DS) the procurement from BEML was costlier than other two 6x6 vehicles. Hence, the procurement was made at higher cost and

after paying 100 per cent interest free advance, in violation of Defence Procurement Procedure. On the one hand, BEML was producing TATRA vehicles by importing major components from OEM and on the other hand alternative opportunity to local industries was not given.

(b) Against the governing GSQR No 486 for HMV 6x6 and HMV 4x4 applicable for Infantry Battalions, Army procured 490 GS (6x6) vehicle for Infantry under GSQR 731, which was applicable for Corps. of Engineers. Since TATRA HMV (6x6) was the only introduced vehicles under GSQR 731, the orders (March 2006) were placed on M/s BEML for supply of 490 HMVs 6x6 at a total cost of ₹ 245.54 crore. Not only were the vehicles so procured expensive by ₹ 65.46 crore, but the same also had technical disadvantages like lesser travelling speed and reduced shelf life.

(c) Army procured 124 TATRA (4x4) vehicles at a cost of ₹ 45.57 crore in March 2006 for enhanced mobility and deployment of Air Defence (AD) Guns in the deserts. Procurement of 4x4 vehicles was made despite the recommendations of trial team (2003) which had indicated that only TATRA 6x6 vehicles would be suitable for the formations. Subsequently, during an operational exercise conducted in desert terrains in April 2007, users found that the TATRA 4x4 HMVs mounted with the AD guns were not able to keep matching mobility with army units equipped with TATRA 6x6 HMVs or 8x8 HMVs. The vehicles received under the order were eventually, proposed for sub-optimal uses as support vehicles for equipment like Radars, Command Posts etc.

(ii) Exclusion of Axle from the scope of indigenisation

As per the DPR prepared by BEML and CCPA approval, major components of TATRA vehicle viz. axle, which formed 25 *per cent* of the overall process, was to be indigenised in the last phase i.e. during 1990-91. However, axle was not indigenised and the licence agreement of 1986 expired in 1996. Subsequently, BEML signed another agreement in 1997 for component parts with validity period of ten years. While this agreement was in force, the BEML signed an MOU with the OEM-2 in March 2003 in which BEML and the OEM-2 agreed to work together to indigenise all other parts and aggregates except Axles and components. This agreement effectively diluted the provisions of earlier agreements by excluding vital aggregates like Axles and some other components, which constituted around 25 *per cent* of vehicle for the purpose of indigenisation. Exclusion of Axle therefore, had an adverse impact on the overall process of indigenisation and resulted in continued dependence on the foreign vendor for the vital component.

Scrutiny of records at BEML revealed that prior to the signing of this MOU by the Chairman, BEML proposal for exclusion of Axle and other components had not been deliberated upon or approved by the Board of Director of BEML.

No specific reasons for the same were recorded in BEML documents either. DDP however took cognisance of the fact in January 2010 and observed that the MOU signed in 2003 was in violation of original agreement, because the original agreement gave BEML the right to indigenous manufacture of all parts of the vehicles including the axle. It therefore directed BEML to terminate the MOU of 2003 as it gave away a valuable right which had been acquired after payment of money.

These directions of DDP were, however, not complied by BEML and the MOU was allowed to complete its full term of 10 year, up to December 2013. These events clearly indicate that the DDP neither initiated action to terminate the MOU between 2003 and 2010, nor did it enforce its annulment even after issuing directions to BEML in January 2010. This was despite the fact that the DDP had continuous representation in the Board of BEML.

It was stated in reply that BEML developed the Axle indigenously and had offered TATRA vehicles with indigenously developed axle for Bulk Production Clearance in April 2014. The BPC is yet to be accorded as of October 2014.It is evident from the above reply that successful trial evaluation of indigenised axle and subsequent accord of Bulk Production Clearance was still in the process of completion. Therefore, the claim by BEML of achieving 75 *per cent* indigenisation was subject to CQA approval.

(iii) Delay in indigenisation of spares

Ready availability of spares is not only essential for repair and up-keep of vehicles but also for overhaul of the vehicles, which is carried out by the Army Base Workshops (ABW) at Allahabad and Meerut. As per the Agreement of 1986, BEML, besides indigenizing the TATRA vehicles, was also to indigenize its spares. Scrutiny of the records revealed that:

- Indigenisation of spares did not commence till 2007 i.e.; 21 years after initial agreement of 1986.As a result, only 4,423 items of spares out of the total 10,878 items i.e. 40.66 *per cent* had been indigenized by 2013.
- There was a shortfall in supply in respect of 1,758 items of spares worth ₹ 39.51 crore out of 4,078 indigenised items for which orders were placed by Central Ordnance Depot, Dehu Road on BEML between 2008-09 and 2013-14. This shortfall constituted 43 *per cent* of the items for which orders were placed during these six years.
- It was seen that in the ABW Allahabad (June 2014) 681 items of spares parts related to overhaul are pending for supplies, despite the fact that BEML is a single window agency for supplying spares of TATRA vehicles. During the year 2013-14, the non-availability of spares was to the extent of 75 *per cent* in ABW Meerut.

Ministry in response to draft audit report stated (October 2013) that average availability of spares of TATRA vehicle during the period 2008-09 to 2010-11 was 74 *per cent* which they found satisfactory. The fact however remains that availability of spares does not address the issue of shortfall in supply of 43 *per cent* of indigenized spares by BEML, between 2008-09 and 2013-14.

The non availability of spares would result in considerable delay in the overhaul/repair of TATRA vehicles.

Conclusions

Indigenisation of TATRA vehicles and spares was planned by the Ministry in 1986. The process was envisaged to be completed within five years, but even after 28 years of the license agreement, it is yet to achieve its targeted level. The BEML, therefore, continues to be dependent on OEM.

The process for indigenisation of TATRA vehicles suffered due to lack of clear long term projection of orders by Army to BEML. This led to lack of commitment of the BEML towards indigenisation. Subsequent changes in the agreements, which instead of being directed towards increasing indigenization, caused increased dependence on the OEM. Further indigenisation of spares for the vehicles was also inordinately delayed as the process itself was initiated in 2007, i.e. after 21 years of the agreement. Because of non-availability of spares, the situation has further worsened, due to a shortfall in respect of 43 *per cent* of indigenized spares (March 2014). This would affect the overall maintenance process of the vehicles. Given the number of TATRA vehicles used by Army there is an urgent need to speed up indigenisation by BEML and increase production levels in respect of indigenized spares.

2.2 Procurement of unacceptable equipment valuing ₹ 27.32 crore

Ministry of Defence imported 999 number of Individual Chemical Agent Detectors (ICADs) worth ₹ 27.32 crore between January 2010 and October 2010 for detecting the presence of chemical agents and toxic industrial compounds. Non conducting Field Evaluation Trials /simulated trials in Indian conditions as prescribed by DPP resulted in acceptance of defective ICADs worth ₹ 27.32 crore. These equipment were awaiting replacement since August 2011 by the firm as of June 2014.

Chem Pro 100i is a handheld Individual Chemical Agent Detector (ICAD) for real time detection of chemical warfare agents (CWAs) and toxic industrial compounds in the ambient air. It samples the immediate area to determine the presence of chemical agents. It also provides monitoring after an attack and is used by personnel who are in full Nuclear, Biological, Chemical (NBC)

protective posture, troops, counter proliferation teams, independent raid parties and Quick Reaction Teams.

Defence Procurement Procedure (DPP), 2006 (Capital) provides that Field Evaluation Trials (FETs) will be conducted by the User Services on the basis of Standard Operating Procedures (SOP) evolved by them and Staff Qualitative Requirement (SQR) of the equipment would be part of the trial directive. The field evaluation shall be conducted by the user in all conditions where equipment is likely to be deployed and detailed Field Evaluation Report (FER) shall be drawn up and sent to SHQ for preparation of Staff Evaluation.

Ministry of Defence (MoD) in November 2007 issued Request For Proposal (RFP) seeking Techno - Commercial proposal for 666 ICADs(1st lot), to 12 foreign vendors. The RFP however did not include the provision stipulated in the DPP that evaluation of equipment shall be conducted by the user in all the conditions where equipment was likely to be deployed. After analysis of the technical offers received against the RFP, two firms were recommended in May 2008 for user trials.

A combined technical delegation comprising representatives of the users, Defence Research and Development Organisation (DRDO), Director General of Quality Assurance (DGQA) and Electronics and Mechanical Engineering (EME) carried out trials only at vendor premises in December 2008 and the equipment Model Chem Pro 100i fielded by M/s Environics Oy, Finland was declared compliant to all the parameters. The above delegation tested the ICAD in the vendor's premises without evaluating the same in Indian conditions where the equipment was to be deployed. Test reports also did not indicate that Indian weather conditions were simulated during tests at vendor premises.

Thus, the equipment for Chemical Agent Detection, which would be sensitive to ambient conditions, was not tested in Indian conditions where the equipment was to be deployed before acceptance of the tender, which was against the provisions of DPP on conducting Field Evaluation Trials.

In July 2009, MoD concluded a contract with M/s Environics Oy of Finland for procuring 1st lot of ICADs at the total cost of Euro 2.85 million (then approximately ₹ 18.94 crore). After completing Acceptance Test Procedure (ATP) the entire consignment was received in January 2010. Further, repeat order for additional 333 ICADs (2nd lot) was placed in March 2010 under option clause of the same contract at the total cost of Euro 1.40 million (then approximately ₹ 8.38 crore). The 2nd lot was received in September 2010. At

the stage of receipt also, Joint Receipt Inspection (JRI) provided for functional checking of equipment. However there was no evidence to suggest that functional checking of equipment was done as part of JRI in respect of either of the two procurements.

Subsequently, in an another procurement of Chem Agent Monitor (CAM) (September 2009), vendor M/s Environics Oy, Finland offered the equipment ICADs for user trials in Indian condition which failed to meet the technical specifications and hence led Director General Perspective Planning (DGPP) to conduct Mid Course Evaluation (MCE) of both of the already procured lots of ICADs in Indian conditions with live testing facilities and expertise available at Defence Research Development Establishment, (DRDE) Gwalior.

Mid Course Evaluation team consisting inter alia representatives of NBC warfare, tested the samples at DRDE Gwalior in April 2011 for CWA exposure. Deficiency regarding failure of ICAD to detect the Blister Agent, Blood Agent and Chocking Agent within the stipulated time was observed during Mid Course Evaluation in four units of ICADs sampled from 1st lot of ICADs. Accordingly, the quality claim in respect of 1st lot ICADs was raised against the vendor in August 2011.

Further, Mid Course Evaluation of six samples ICADs from 2nd lot was conducted in October 2011 at DRDE, Gwalior. All these six samples also failed in test. The quality claim in respect of 2nd lot ICADs was also forwarded to the vendor in November 2011. The firm had initially inspected and collected data from the failed samples in October 2011 and tried to rectify the defects. The equipment rectified by the firm was again evaluated at DRDE, Gwalior in October 2012. But the ICADs again failed in test. Master General of Ordnance (MGO) Branch of Integrated HQ of MoD (Army) requested (November 2012) the firm for replacement at the earliest of both lots of ICADs as the same were under warranty till October 2012 and the firm was liable to replace the equipment free of cost within the warranty period. The firm, while not refusing to replace the equipment, however, put the onus of failure on Indian side by stating that DRDE, Gwalior was not optimally sanitized and well equipped to carry out such tests.

Replacement issue is unresolved even after lapse of more than one and half years of validity of warranty claim (October 2012) and the equipment remained without any use for its intended purpose till date with 95 *per cent* of payment already made.

In response to Audit query (February 2012) as to reasons for failure of the item within one year from acceptance of stores, MGO Branch, IHQ of MoD (Army) stated in August 2012 that the items had been accepted after successful quality inspection by DGQA during Pre Despatch Inspection(PDI). It further stated (May 2013) that during the signing of these contracts, these facilities were not available in India for carrying out CWA testing and hence the same were not included in the scope of the JRI. The reply is not acceptable as the Nerve and Blistering Agent facility existed in DRDE, Gwalior since 2005 and Blood Agent and Choking Agent testing since 2010. However, these facilities were not utilized at JRI stage. The failure in conducting Field Evaluation Trials/testing of the equipment in Indian condition/simulated Indian conditions as prescribed under DPP had resulted in procurement of an unacceptable equipment. Further, resultant procurement of deficient specification were again not subjected to functional checking, provided as part of JRI.

Therefore non conduct of field trials in Indian conditions/simulated Indian conditions and lack of functional checking at JRI stage led to unfruitful expenditure of ₹ 27.32 crore besides compromising the operational preparedness.

The case was referred to Ministry in May 2014; their reply was awaited (October 2014).

2.3 Loss of revenue due to unauthorised use of Defence land by United Services Club, Mumbai

Failure of the Local Military authorities to process the case for obtaining Government sanction for entering into a lease for the Defence land occupied by the United Services Club, Mumbai resulted in recurring loss of revenue to State exchequer to the tune of ₹ 5.74 crore per annum. Despite the lapse of nine years, the Ministry of Defence failed to monitor the assurance given to the Public Accounts Committee of the Parliament to review the arrangements with US Club which continued to commercially exploit A-1 defence land valuing ₹ 114.85 crore without Government sanction and at a nominal rent of ₹ 0.36 lakh per annum.

A case of functioning of United Services Club (US Club) as a profitable, commercial venture on A-1 defence land without Government sanction and at a nominal rent was reported as paragraph 24 in Compliance Audit Report No. 7 of 2001 of C&AG. The Club occupied a total of 22 buildings including a squash court and 16939.31 square meters of open area, in addition to 53.50 acres of Defence land for use as Golf Course (including Club Annex measuring 1,749.84 square meters). In 1998 the Defence Estates Department had estimated the cost of 16939.31 square meters (4.19 acres) open area as

₹ 54.78 crore and the annual rent payable as ₹ 2.73 crore @ five *per cent* of the market value of land. As against this, the Club was paying a sum of ₹ 0.36 lakh per annum for rent towards the buildings, as last fixed by a Board of Officers appointed by Station Headquarters, Colaba, Mumbai in July 1989.

In the Action Taken Note (ATN), the Ministry of Defence (MoD) stated (December 2004) that Service Headquarters and Director General Defence Estates (DGDE) have been instructed to review all such cases in order to take necessary action for the continuance or otherwise of such clubs. MoD also stated that fresh instructions were issued to the Army Headquarters (AHQ) in November 2004 to convene a Board of Officers (BOO) involving representatives of Defence Estates Department to review the working of the US Club and to give recommendations as regards the continuance or otherwise of the existing arrangements as well as the requirement of issue of fresh lease of the buildings along with appurtenant land to the Club.

Subsequently a BOO was held (March 2005), which recommended that the existing buildings of the US Club and its Annex along with appurtenant land should be taken on charge by the Military Engineer Services (MES). A fresh lease deed should be executed including appurtenant land. The rent of the existing buildings in use by the Club should be revised and the use of appurtenant Defence land by the Club should also be regularized till the date of fresh lease deed.

In May 2006 the DEO recommended that the Government sanction should be obtained for regularizing past occupation of entire A-1 Defence land by the US Club including Golf course area. The DEO also recommended that lease rent @ five *per cent* of the market value of the area of 16939.31 square meters of the Defence land appurtenant to the buildings being occupied and used by the Club should be charged, as applicable for commercial use.

Director of Defence Estates Southern Command also recommended (September 2006) that fresh lease agreement be executed and fresh lease rent calculated by a Board of officers in association with the DEO.

Audit scrutiny (June 2012) at DEO Mumbai revealed:

- Though the Board proceedings were finalized (March 2005) by Local Military authorities and Defence Estates Department recommended (May/September 2006) to enter into a fresh lease for the Defence land occupied by the Club, no case has been processed by the Station Headquarters and pursued by Defence Estates Department (February 2014) to obtain the Government sanction for the same despite the lapse of more than nine years after the ATN was furnished by MoD assuring to review the arrangements with US Club. As a result, the Club continues to occupy the A-1 Defence land unauthorisedly;

- As a result, no fresh lease was executed as of April 2014. In absence of fresh lease, rent of the existing buildings in use by the Club was continued to be paid at nominal rate of ₹ 0.36 lakh per annum, while Club generated considerable revenue by way of regularly hosting reception/wedding parties, charging Tournament Green Fee ranging between ₹ 0.15 lakh and ₹ 4 lakh for Golf tournaments conducted by Defence, Government/Semi Government, Civil & Corporate offices and annual membership charges of ₹ 3.65 lakh for Golf and Swimming collected from Corporate organisations;

- The value of the 16939.31 square meters of Defence land at Colaba being used by the Club was at ₹ 114.85 crore at Government rates (as of 2012) and the annual rent at five *per cent* of the value of the land works out to ₹ 5.74 crore per annum. This was a recurring loss of revenue to the Government exchequer due to non finalisation of fresh lease agreement with the Club;

- In absence of effective MES control mechanism, new unauthorized constructions have come up in the Club on Defence land in the Club Annex, without the approval of the Government.

On pointing out in audit, the DEO in July 2012 and February 2014 while substantiating audit comments stated that no lease agreement has been entered into between the Club and Local Military Authorities/DEO/MES for the military buildings and land occupied by the Club. It was also stated that no proposal/application has been received from the Club for payment of rent/dues to the Government. Meanwhile, we noticed that a Board of Officers has been constituted by Headquarters Mumbai Sub Area in July 2013 for fixation of rent and allied charges for buildings occupied by the Club.

Thus failure of the Station Headquarters Colaba to process the case and of the Defence Estates Department to follow up for obtaining Government sanction for entering into a lease for the Defence land occupied by the US Club resulted in recurring loss of revenue to Government exchequer to the tune of ₹5.74 crore per annum. The MoD, on their part, failed to monitor the assurance given to the Public Accounts Committee of the Parliament to review the arrangements with US Club which continued to commercially exploit A-1 Defence land valuing ₹ 114.85 crore without Government sanction and at a nominal rent of ₹ 0.36 lakh per annum.

The case was referred to Ministry in May 2014; their reply was awaited (October 2014).

2.4 Irregular construction on Defence leased land

Old Grant Bungalow along with adjoining land measuring 4.56 acre in Kirkee Cantonment near Pune was leased for residential purpose. The holder of occupancy rights appointed true and lawful Power of Attorney Holder to obtain necessary sanction of Government to facilitate sale of the property. The laxity on the part of Defence Estates Officer facilitated the POAH to obtain sanction for reconstruction on above Defence land and construct a Community Centre which was being used for religious purposes in gross violation of Ministry's instructions.

As per para 7 (c) of Ministry of Defence policy of March 1995, it is the prime responsibility of the Defence Estates Officer (DEO)/Cantonment Executive Officer (CEO) to verify from time to time whether any breaches of conditions of leases have been committed by any of the lessees. The DEO/CEO concerned should notify the lessees about such breaches wherever they exist and they should call upon them to take action for removal of such breaches or to initiate action for their condonation/regularisation immediately. The Ministry had also issued instructions in March 1985 that the request from religious and charitable institutions need not be considered for allotment of Defence land for their use unless they are from very highly reputed and non-controversial institutions.

Bungalow No. 26 under GLR Survey Number 225 measuring 4.56 acre located at Bombay Road was classified as B-3 Defence land placed under management of DEO, Pune Circle and held on Old Grant terms[23] by Holders of Occupancy Rights[24] (HOR). The HOR executed a specific Power of Attorney (POA) in October 2000 and appointed two Trustees[25] of a Trust[26] as true and lawful Attorneys jointly and severally. In the above POA, the HOR clearly mentioned that they had executed an agreement on same date for sale of the said Bungalow to the Trust for consideration of ₹ 40.00 lakh, for which HOR was not authorised as per Cantonment Laws.

The Power of Attorney Holders (POAH) were authorised only to apply for necessary permission, approval and sanctions from DEO/CEO/Central Government or such other authority for purpose of sale of the property to the Trust and do any other act for facilitating the sale of property. But the DEO executed an 'Indenture[27] of Admission Deed' in March 2006 with the POAH

[23] Old Grant Sites are a legacy of Pre-independence land policies intended to provide necessary accommodation to the military officers. Under this, officers were given grant of land sites, on which they could build houses. No right of property for the land was, however, ever granted to them. Later, civilians were also allowed to build such houses on lands belonging to the State, but these houses were to be hired by the Local Military Authorities.
[24] (i) CV Mariwalla (ii) Kishore Vallabhdas, (iii) Hansraj Vallabhdas and (iv) Jaysingh Vallabhdas.
[25] (i) Rev. George Varghese and (ii) Mr. Leny John.
[26] St. John's Mar Thoma Parish & Community Centre, Pune a Charitable Trust registered under the Bombay Public Trust Act.
[27] Indenture is a contract binding one person to work for another

wherein DEO agreed to accord sanction to carry out reconstruction and further added that premises will not be used for any other purpose other than residential building or do anything thereon which was not in conformity with the instructions relating to use of land held on old grant terms. Deed also stipulates that the land shall not be sold, leased, licensed or mortgaged by the HOR. As the POAH was authorised by HOR only to obtain sanction for sale/do acts which only facilitate the sale of property, the act of execution of 'Indenture of Admission Deed' for reconstruction of the said Bungalow by the DEO with the POAH was *ultra vires*.

We noticed (May 2012) that the POAH submitted a plan to erect/re-erect/ alter the said Building to the CEO in May 2006 which was forwarded to the DEO who endorsed 'No Objection' on the plan for demolition and reconstruction of main Bungalow (with 10 *per cent* additional plinth area) within a week without verifying the legal status of POAH.

In the mean time Station Headquarters Kirkee intimated to the DEO in August 2007 regarding construction of a Community Hall and unauthorised WBM road on above land. However, DEO intimated the Station HQ in September 2007 that the site was inspected and construction of road was authorised but remained silent on issue of unauthorised construction of Community Centre in place of residential building. The laxity by DEO facilitated the irregular reconstructions on Defence land. Further, representative of the Trust sought permission (September 2008) to hold a religious function to be attended by thousands of people at the Community Centre, i.e. Bungalow Number 26. The sanction was granted by the DEO in September 2008 for use of the property for religious purpose which was against the clause of Deed made in March 2006 that premises will not be used for any purpose other than residential buildings and also in contravention of Ministry's instruction of March 1985 that Defence land would not be allotted to religious/charitable institutions. These facts corroborate our conclusion that DEO was well aware of all the events starting from execution of an 'Indenture of Admission Deed' with the unauthorised POAH to the erection of Community Centre at the site. Thus DEO did not notify the HOR about such breaches nor took the required action for resumption of the Defence land at that time.

In response to audit queries (May 2012) the DEO stated that neither HOR sought any permission for construction of Community Hall nor granted by the DEO. The reply is not comprehensive as Station HQ Kirkee intimated the DEO in August 2007 about irregular construction. The DEO issued eviction notice in December 2012 to the POAH for unauthorised construction and use for the religious purpose instead of residential purpose after pointing out in audit. The bungalow continues to be in possession of POAH as of May 2014.

Thus execution of an irregular deed for reconstruction by DEO and failure on the part of DEO and CEO to take appropriate action against POAH/HOR

facilitated the POAH to illegally construct the Community Centre on Defence land and misuse the Defence property valued at ₹ 22.14 crore.

The case was referred to Ministry in June 2014; their reply was awaited (October 2014).

2.5 Non recovery of overpaid rent for requisitioned land

Delay in issue of clarification by the Ministry on implementation of the rationalized rate of rent for land held on requisition by Defence resulted in non- recovery of overpayment of ₹ 2.83 crore to the land owners even after lapse of more than four years.

Jammu and Kashmir requisitioning and acquisition of Immovable Property Act, 1968 provides that "where the Government is of the opinion that any property is needed or likely to be needed for any public purpose, being a purpose of the State, it may by an order, notify that the property should be requisitioned". Further, Jammu and Kashmir Requisition and Acquisition of Immovable Property (RAIP) Rules, 1969 provides payment of compensation for the requisitioned property by the competent authority and to be revised every five years.

City land falling under Jammu Municipality/Srinagar Municipality/ Poonch Municipality including Srinagar and Jammu Cantonment were under same category and other two categories were Town Area Committee and Notified Area Committee under RAIP Rules 1969. Subsequently, city land areas were classified (April 2008) as Municipal Corporations, Municipal Councils and Municipal Committees. Though Poonch Municipality was categorized as Municipal Council but remained documented in the category of Municipal Corporation in the table of rate of rent for Kashmir and Jammu Divisions issued by the Government of J&K (April 2008). Government of J&K appointed a committee (December 2008) to recommend rationalization of rent rate and remove anomalies in the rate structure. The committee recommended fixation of rates of rent for requisitioned land under occupation of Armed forces in accordance with rates notified in April 2008 and deleted Poonch Municipal Council from the category of Municipal Corporations and put it at par with rate of rent applicable to other Municipal Councils. Hence the rent applicable for the requisitioned land in Poonch would be lower from ₹ 33,750 per kanal per annum (pkpa) to ₹ 16,875 pkpa. Government of J&K accepted the recommendations of the committee and issued Government Order in this regard in January 2009 which was applicable to land under occupation of J&K Police security forces/Army on internal security/counter insurgency duties.

We observed (March 2013) that though this order was applicable to Army also but the State Government did not endorse its copies to Directorate of Defence Estates, Northern Command (DDE, NC) and MoD. In absence of any

communication, DEO Udhampur continued to pay the rental compensation at the higher rate[28] resulting in overpayment of ₹ 2.83 crore (year wise details in given in **Annexure-III**) for the period from 16 February 2008 to 31 March 2010 for requisitioned land measuring 829 kanals 10 marlas under Poonch Municipal Council. However, on receipt of information about the reduction in rates (August 2010) DDE, NC, directed (September 2010) DEO to restrict payment of compensation for lands falling under Poonch Municipal Council at the rate ₹ 16875/- pkpa and to initiate the case for recovery of excess payment made with effect from 16 February 2008.

In reply to audit query (March 2013) on overpayment of rental compensation made, DEO stated (March 2013) that the matter had been referred to the competent authority for directions to recover the excess payment of rent. Further DDE, NC stated (October 2013) that action for the recovery/adjustment would be taken up on receipt of clarifications regarding applicability of rates of rent for land falling within the limit of Poonch Municipal Council sought in October 2010 from Government of J&K and after specific decision by DGDE/MoD.

DGDE/Ministry of Defence however did not give any clarification which resulted in non-recovery of overpaid amount of ₹ 2.83 crore till date without implication of interest payment.

The case was referred to Ministry in June 2014; their reply was awaited (October 2014).

2.6 Unfruitful expenditure on payment of bandwidth charges by Canteen Stores Department

Canteen Stores Department incurred an unfruitful expenditure amounting to ₹ 3.63 crore on bandwidth charges from October 2009 to September 2013 under Integrated Canteen Stores Department System (ICSDS) project.

The Ministry, in May 2003, accorded sanction for Computerization of all CSD Depots under Integrated Canteen Stores Department System (ICSDS) at a cost of ₹ 7.11 crore. The scheme involved computerization of all CSD Depots to include procurement of Hardware, Software, Networking, Training, Site Preparation, Installation of Software at all CSD Depots and inter-connecting them through CSD owned Internet. The Supply Order was issued to M/s Wipro Limited in August 2006, with the period of completion by August 2007. The software and networks were to be subjected to acceptance tests by the users (unit depots) who were to issue acceptance certificates on successful completion. User acceptance tests were carried out between May 2008 and

[28] ₹ 33,750/- pkpa instead of ₹ 16,875 pkpa (per kanal per annum)

May 2009 and acceptance was accorded by CSD Mumbai subject to completion of pending jobs by M/s Wipro.

The system was handed over to CSD in two phases in July 2009 and September 2009. However, after the systems went 'LIVE', (September 2009) it encountered serious connectivity/implementation issues in all the depots based on feedback received from user depots. Most of the modules were not fully functional and as a result system was unable to carry out even a single transaction to obtain final result.

In the meantime, a work order was placed by CSD Mumbai in June 2008 on M/s Hughes Communication India Ltd. for providing VSAT Bandwidth Services for the project. Payment amounting to ₹ 3.63 crore was made by CSD Mumbai on account of bandwidth charges to M/s Hughes Communication from October 2009 to September 2013. However, we observed that the ICSDS application was still not implemented as of August 2014.

On being pointed out in audit (June 2010) about payment of bandwidth charges by CSD despite serious connectivity issues and failure of the modules to function, CSD Mumbai stated in reply (August 2010) that payment of bandwidth charges was made only after rectification of connectivity issues. The reply was not factual as connectivity issues were still unresolved till August 2014.

The draft paragraph was referred to Ministry in June 2014. Ministry in response to issues stated (August 2014) that action has been taken to terminate the contract with M/s Hughes Communication and payment of bandwidth charges was stopped from October 2013. The fact however remains that without ensuring the functioning of infrastructure created by M/s Wipro, the CSD procured VSAT bandwidth from M/s Hughes Communication and paid an amount of ₹ 3.63 crore from October 2009 to September 2013 which could not be used as most of modules were not fully functional and the system was not able to carry out a single transaction.

Thus, the CSD HQ incurred an unfruitful expenditure of ₹ 3.63 crore on bandwidth charges despite the system remaining non functional as of August 2014.