

CHAPTER I: INTRODUCTION

1.1 About the Report

The Report relates to matters arising from the audit of the financial transactions of Indian Air Force (IAF) and relevant records relating to IAF of the following organisations.

- Ministry of Defence (MoD)
- Defence Research and Development Organisation (DRDO) and its laboratories dedicated primarily to IAF
- Hindustan Aeronautics Limited (HAL)
- Defence Accounts Department dealing with IAF
- Military Engineer Services (MES) dealing with IAF

Office of the Principal Director of Audit, Air Force [PDA (AF)], New Delhi, along with its two branch offices at Bengaluru and Dehradun, is responsible for audit of Air Force and other related organisations. Hindustan Aeronautical Limited (HAL) is audited by the Principal Director of Commercial Audit & Ex-officio Member Audit Board IV, Bengaluru.

There are broadly three distinct types of audit: Financial Audit, Compliance Audit and Performance Audit.

Financial Audit is the review of financial statements of an entity that seeks to obtain an assurance that the financial statements are free from material misstatements and present a true and fair picture of its affairs.

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

Performance Audit is an in-depth examination of a programme, function, operation or the management system of entity to assess whether the entity is achieving economy, efficiency and effectiveness in the employment of available resources.

This Report contains findings pertaining to capital and revenue expenditure, installation / upgradation of aircraft and systems and performance of work services. Total financial value of cases commented upon in this Report is ₹7686.35 crore.

1.2 Authority for audit

Article 149 of the Constitution of India, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 and Regulations of Audit and Accounts 2007, give authority for audit and detailed methodology of audit and its reporting.

1.3 Planning and conduct of audit

Audit is prioritised through an analysis and evaluation of risks so as to assess their criticality in key operating units. Expenditure incurred, operational significance, past audit results and strength of internal control are amongst the main factors which determine the severity of the risks.

Audit findings of an entity / unit are communicated through Local Test Audit Reports / Statement of Cases. The response from the audited entity is considered which may result in either settlement of the audit observation or referral to the next audit cycle for compliance. Serious irregularities are processed as draft paragraphs for inclusion in the C&AG's Audit Reports which are submitted to the President of India under Article 151 of the Constitution of India, for laying them before each House of Parliament. Performance audits are done through a structured exercise by defining scope of audit, holding entry conference, sampling of units, exit conference, inclusion of feedback on draft report and issuance of final report.

1.4 Profile of audited entities

Indian Air Force was founded in October 1932. Its mission is defined by the Air Force Act of 1950 in the aerial battle space as: "Defence of India and every part

thereof including preparation for defence and all such acts as may be conducive in times of war to its prosecution and after its termination to effective demobilisation". It is headed by the Chief of the Air Staff. The overall administrative, operational, financial, technical maintenance and control of IAF rest with Air HQ. Indian Air Force has seven commands, of which five are operational and two functional commands (one Training Command and one Maintenance Command). Operational and maintenance units of IAF normally consist of wings and squadrons, signal units, base repair depots and equipment depots.

Military Engineer Services (MES) provides engineering support to the Services including IAF. It is one of the largest Government construction agencies with annual budget of approx. ₹9,000 crore. Engineer-in-Chief is the head of the MES.

Hindustan Aeronautics Limited (HAL), a Navratna company under the Ministry of Defence, is engaged in design, development, manufacture, upgrade, repair and overhaul of aircraft, helicopters, aero-engines, avionics and navigation system equipment and marine & industrial gas turbine engines for both military and civil applications. The management of HAL is vested in the Board of Directors headed by a Chairman & Managing Director assisted by Functional Directors (four), Government Directors (two) and Independent Directors (seven). The Company has 20 production units under five complexes (Bengaluru Complex, Design Complex and Helicopter Complex at Bengaluru, MiG Complex at Nashik and Accessories Complex at Lucknow) headed by Chief Executive Officers and 10 Research and Design Centers located at various places.

HAL is the main supplier of indigenous equipments to IAF. The turnover of HAL increased from ₹14,328 crore in 2012-13 to ₹15,135 crore in 2013-14 *i.e. by 6 per cent.*

The Defence Research and Development Organisation (DRDO) undertakes design and development of weapon systems and equipment in accordance with the expressed needs and the qualitative requirements given by the Services. It has 52 laboratories of which nine normally provide services to Air Force.

The Defence Accounts Department headed by the Controller General of Defence Accounts is responsible for accounting of defence services receipts and expenditure as well as defence pensions and also provides services in terms of financial advice.

1.5 Budget and Expenditure of Air Force

The Defence Budget is broadly categorised under Revenue and Capital expenditure. While Revenue expenditure includes pay and allowances, stores, transportation and work services, *etc.*, Capital expenditure covers expenditure on acquisition of new aircraft, weapons and ammunition, replacement of obsolete stores, construction work.

The defence expenditure increased from ₹1,87,469 crore in 2012-13 to ₹2,09,788 crore in 2013-14 *i.e.* by 11.91 *per cent*. The share of IAF in the total expenditure on Defence Services during 2013-14 was ₹58,745 crore *i.e.* 28 *per cent*.

1.5.1 Air Force Expenditure

The total expenditure incurred by IAF during 2009-2014 ranged between 22.81 to 28 *per cent* of the total defence expenditure. In the year 2013-14, the expenditure of IAF rose by 14.92 *per cent* from ₹51,118 crore to ₹58,745 crore, as compared to the previous year.

A broad summary of the expenditure of IAF is given in the Table below:

Table 1.1: Expenditure of IAF

(₹ in crore)					
Year	Total	Percentage change over previous year	As a percentage of total Defence Expenditure	Revenue Expenditure	Capital Expenditure
2009-10	33,259	(+) 11.45	22.81	14,708	18,551
2010-11	38,782	(+) 16.60	24.43	15,179	23,603
2011-12	46,134	(+)18.96	26.23	17,322	28,812
2012-13	51,118	(+)10.80	27.26	18,138	32,980
2013-14	58,745	(+)14.92	28.00	20,160	38,585

Source: Year-wise Appropriation Accounts of Defence Services

1.5.2 Capital Expenditure

The Capital expenditure of IAF rose by nearly 107.99 *per cent* during five year period from 2009-10 to 2013-14. In absolute terms, Capital expenditure increased from ₹18,551 crore in 2009–10 to ₹38,585 crore in 2013-14.

The Capital expenditure of IAF was mainly incurred on acquisition of new aircraft and modernisation or up-gradation of the existing fleet. The average annual

distribution of expenditure over the different categories for the last five years (2009-10 to 2013-14) for IAF is depicted below in the Table below:

Table 1.2: Capital Expenditure of IAF

(₹ in crore)

Year	Aircraft and Aero-engine	Construction work	Other equipment	Others	Total
2009-10	12,097	905	5,317	232	18,551
2010-11	16,094	1,158	6,039	312	23,603
2011-12	20,274	1,153	6,788	597	28,812
2012-13	23,573	1,318	7,399	690	32,980
2013-14	29,069	1,304	7,761	451	38,585

Source : Year-wise Appropriation Accounts of Defence Services

During 2013-14 a significant portion (75.33 per cent) of capital expenditure was incurred on procurement of aircraft and aero engine. About 20 per cent was spent on other equipment and 3.37 per cent was spent on construction activities.

1.5.3 Revenue Expenditure

During 2009-10 to 2013-14, Revenue expenditure of IAF increased by 37.06 per cent from ₹14,708 crore in 2009-10 to ₹20,160 crore in 2013-14. The Revenue expenditure of IAF was mainly incurred on pay and allowances, stores and special project. The distribution of expenditure over different categories of revenue expenditure for last five years is depicted below.

Table 1.3: Revenue Expenditure of IAF

(₹ in crore)

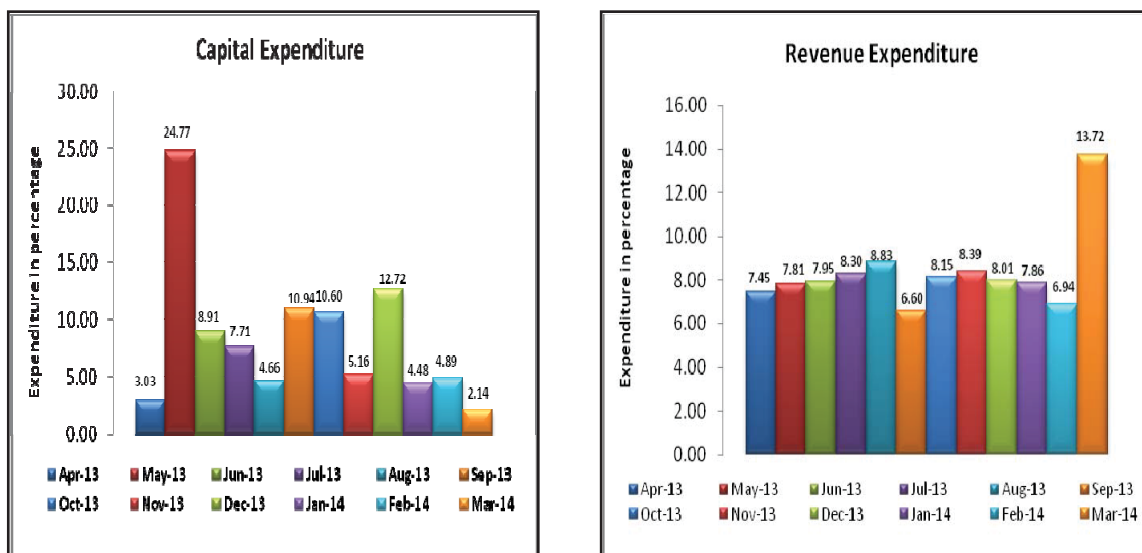
Year	Pay and allowances	Stores and special project	Works	Transport	Others	Total
2009-10	6,971 (47%)	5,640 (38%)	1,560 (11%)	358 (3%)	179 (1%)	14,708
2010-11	6,856 (45%)	5,775 (38%)	1,692 (11%)	620 (4%)	236 (2%)	15,179
2011-12	7,532 (44%)	6,931 (40%)	1,800 (10%)	763 (4%)	296 (2%)	17,322
2012-13	8,378 (46%)	7,038 (39%)	1,775 (10%)	611 (3%)	336 (2%)	18,138
2013-14	9,464 (47%)	7,779 (39%)	1,912 (9%)	661 (3%)	344 (2%)	20,160

Source: Year-wise Appropriation Accounts of Defence Services

1.5.4 Flow of Expenditure during the year

Audit examined flow of capital and revenue¹ expenditure during 2013-14 which is depicted as below.

Figure 1.1: Flow of Expenditure during 2013-14



Source: CGDA letter no. Mech/EDP/326/NewComp dated 15th September 2015

Scrutiny of flow of expenditure revealed that the Revenue expenditure of IAF in March 2014 was 13.72 per cent, which was within the limit of 15 per cent prescribed by Ministry of Finance vide OM No. 7(1)/E.coord/2014 dated 29th October 2014.

1.5.5 Revenue Receipts of Indian Air Force

The details of receipts and recoveries pertaining to the Indian Air Force during the five years ending 2013-14 for the services that they provided to other organisations/ departments are given in the Table below:

Table 1.4: Revenue Receipts of IAF

Year	Receipt and Recoveries
2009-10	468.13
2010-11	592.92
2011-12	619.38
2012-13	605.26
2013-14	700.00

(₹ in crore)

Source: Defence Service Estimates for respective year

¹ Revenue expenditure of IAF for the month of March 2014 is inclusive of ₹9.72 crore incurred by the Ministry of Information and Broadcasting on behalf of the Ministry of Defence.

1.5.6 Appropriation and Expenditure

The summarised position of Appropriation and Expenditure during 2011-12 to 2013-14 in respect of the Air Force is reflected in the Table below:

Table 1.5: Appropriation and Expenditure

(₹ in crore)

AIR FORCE									
	2011-12			2012-13			2013-14		
	Final Grant	Actual Expenditure	Total Excess/Savings (+) / (-)	Final Grant	Actual Expenditure	Total Excess/Savings (+) / (-)	Final Grant	Actual Expenditure	Total Excess/Savings (+) / (-)
REVENUE									
Voted	16,753.53	17,321.43	(+)567.90	18,322.87	18,122.50	(-)200.37	19929.17	20115.89	(+)186.72
Charged	3.23	0.58	(-)2.65	6.18	15.54	(+)9.36	54.10	44.37	(-)9.73
CAPITAL									
Voted	28,253.82	28,766.24	(+)512.42	32,729.64	32,976.34	(+)246.70	38677.62	38584	(-)93.62
Charged	51.36	45.84	(-)5.52	5.70	3.77	(-)1.93	1.70	1.39	(-)0.31
Total	45,061.94	46,134.09	(+)1,072.15	51,064.39	51,118.15	(+)53.76	58662.59	58745.65	(+)83.06

Source: Appropriation Accounts of Defence Services for each year

An analysis of the Appropriation Accounts, Defence Services for each of the three years has been included in the Report of the Comptroller and Auditor General of India for the relevant years, Union Government – Accounts of the Union Government.

1.6 Response to Audit

1.6.1 Response of MoD to Draft Audit Paragraphs

On the recommendations of the Public Accounts Committee (PAC), the Ministry of Finance (Department of Expenditure) issued directions to all the 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 proposed for inclusion in this Report were forwarded to the Secretary, Ministry of Defence through demi-official letters drawing attention to audit findings and requesting a response within six weeks.

Despite the instructions of the Ministry of Finance, MoD's replies to ten Paragraphs out of 15 Paragraphs included in this Report were not received. Thus, the response of the Ministry could not be included in respect of these paragraphs.

1.6.2 Action Taken Notes (ATNs) on Audit Paragraphs of earlier Reports

With a view to enforce accountability of the executive in respect of all issues dealt with in various Audit Reports, PAC desired that Action Taken Notes on all paragraphs pertaining to the Audit Reports for the year ended 31st March 1996 onwards be submitted to them, duly vetted by Audit, within four months from the laying of the Report in Parliament.

Status of outstanding ATNs on audit paragraphs relating to the Air Force and HAL as on 30th September 2015 is as under (details in **Annexure-I**) :

Table 1.6: Status of ATN

Status of ATN	IAF	HAL
Audit Paragraphs/Report on which ATN have not been submitted by the Ministry even for the first time	5	4
Audit Paragraphs/Report on which revised ATN are awaited	12	8