CHAPTER I: INTRODUCTION

1.1 Foreword

This Report relates to matters arising from the audit of the financial transactions of the Ministry of Defence and its following Organisations:

- Army,
- Inter Services Organisations,
- Defence Research and Development Organisation and its laboratories dedicated primarily to Army and Ordnance Factories,
- Defence Accounts Department
- Ordnance Factories, and
- Defence Public Sector Undertakings

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 frame policies and directives that will lead to improved financial management of the Organisations, 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 of the expenditure of the above Organisations. Subsequent chapters present detailed findings and observations arising out of the audit and performance reviews 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 safeguarding 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 these 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 Services Organisations, such as Armed Forces Medical Services, Military Engineer Services (MES), Defence Estates, Quality Assurance, *etc*., serve the Defence forces in the three wings of the Army, Navy and Air Force. They are responsible for development and maintenance of common resources for optimising cost-effective 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. Thirty-nine factories are responsible for production and supply of ordnance stores to the armed forces.

Defence Public Sector Undertakings(DPSUs) function under the administrative control of Department of Defence Production. There are nine DPSUs which are headed by respective Chairman cum Managing Director (CMD).

1.3 Integrated Financial Advice and Control

Ministry of Defence and the Services have a full-fledged 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 Public Fund. Secretary (Defence Finance) is responsible for providing financial advisory services to Ministry of Defence and the Services at all levels, and 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) (DPC) 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 of 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 risk assessment of the Organisation as a whole and of 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 2013-14, audit of 732[3] units/formations was carried out by employing 10920[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 Revenue procurements made by the Ministry of Defence and the Service Organisations form the critical area as far as the audit of Defence Sector is concerned. We have been pointing out deficiencies in the procurement process in the previous Audit 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. The present Report highlights cases which assume importance in the light of their impact on operational preparedness. The Report also brings out issues regarding Non-availability of specialised parachutes, inaccurate assessment of requirement of BMP vehicle by Indian Army, working of Cantonment Boards, Army Aviation Corps, loss due to excess payment and short recovery of electricity charges, loss due to under recovery of brass rod in conversion orders, production of weapon manufacturing factories and blockage of funds due to accumulation of inventory *etc.* which require redressal.

- The Cantonments in India are permanent military stations in which troops are being regularly quartered. There are 62 notified Cantonment Boards (CBs) in the country.The Audit of CBs is carried out under Section 14(1) & (2) of the Comptroller and Auditor General's (Duties, Powers, and Conditions of Service) Act, 1971 (C&AG's DPC Act

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[3] Number of units/formations audited by O/o DGADS, New Delhi and O/o DG (OF) Kolkata.
[4] Number of Party days employed during the financial year 2013-14 by the O/o DGADS New Delhi and O/o DG (OF) Kolkata.

1971).Each CB is headed by a Chief Executive Officer (CEO), who performs the executive functions of the Board and also acts as the Member-Secretary of the Board. He reports to the Director General Defence Estates (DGDE), New Delhi, On the basis of the population, the CBs are categorized into four categories. CB have been given the status of Municipalities, to provide civic amenities to the personal residing in the cantonments. During the period 2009-10 to 2013-14, none of the test checked 17CBs, except for CB Clement Town, had prepared and implemented Town Planning schemes, plans for economic development and social justice in their respective areas. Moreover none of the CBs provided all the 24 types of services, mandated as per the Cantonments Act, to its residents. Further no Central Government schemes for upliftment of the poor applicable in the CBs and provision of infrastructure facilities were, implemented in the cantonments. The position regarding revenue generation was also not encouraging as the CBs were unable to optimize revenue generation through taxes and non-taxes, leading to their increased dependency on Grant-in-aid from the Ministry of Defence. This was mainly due to non-revision of taxes every five years, recovery of property tax at a lower than the stipulated rate and non-levy of Vehicle Entry Tax *etc*.(Paragraph 2.1)

- Combat Free Fall (CFF) Parachutes are authorised for Parachutes (PARA) Special Forces (SF) personnel which are required during highly specialized operations and are vital to the success of the mission. CFF Parachutes had been procured in 1986, through import, with shelf life of 10 years and commissioned out of service in 2002 being no longer operational worthy. The parachute was developed by DRDO in 2006, could not be productionised successfully. Parachutes Special Forces Battalions of Indian Army were not having parachutes for over a decade. An expenditure of ₹10.75 crore incurred on its development and production had become unfruitful. (Paragraph 2.2)

- Army Aviation Corps was created with the main objective of contributing to battle field success by providing guidance to the field Commanders in applying decisive combat powers. The Corps is, however, plagued with 32 *per cent* deficiency against its authorised fleet strength. The helicopters held are old and ageing, with 52 *per cent* of the fleet more than 30 years old. Low level of serviceability of helicopters further reduces the effective availability for operations, to 40 *per cent* of the authorisation. Despite these shortcomings, Army Aviation could not replace its fleet of Cheetah/Chetak helicopters being used for reconnaissance and observation, which are due for de-induction since 10^{th} Plan period (2002-2007) onwards. We observed that against 18 schemes approved in 11^{th} and 12^{th} Service Capital Acquisition Plan, contract in respect of only four schemes could be concluded in nine years period, so far. Thus failure in meeting the targets and objectives of the acquisition plans and tardiness in procurement action were the main reasons denying the Corps to acquire suitable replacement for the old and ageing fleet. (Paragraph 3.1)

- Infantry Combat Vehicle BMP is the mainstay of the Mechanized Infantry of Indian Army. It was inducted into service in 1986 to be a complimentary vehicle with tank. BMP is a fighting combat vehicle which is of Russian origin and presently manufactured by the Ordnance Factory (OF) Medak. OFB could produce only 265 BMPs during last six years against production capacity of 600 BMPs which resulted in short fall of 55 *per cent* of available capacity. Thus non augmentation of facilities for production of BMP in Ordnance Factory, Medak not only resulted in delay in supply of 389 BMPs valuing ₹1,374 crore to Army, but also adversely impacted the operational preparedness of Mechanised Forces. Moreover, there was extra liability/expenditure to the tune of ₹270.97 crore due to delay in supply.(Paragraph 3.2)

- Army took more than 10 years in procurement of 432 numbers of Image Intensifier Sights for Tank T-55 by which time, the Tank was declared Obsolescent (OBT) and would be retained in service only till 2018-19 as per de-induction plan. Thus, delay of over a decade in procurement of Image Intensifier Sight for Commander of Tank T-55 and non-cancellation of indent resulted in procurement of 432 sights worth ₹22.12 crore, although not warranted by the Army at that belated stage. Out of which 180 Sights worth ₹9.22 crore were issued to command units after the Tank T-55 were declared obsolescent and 252 sights worth ₹12.90 crorewere held in stock as of April 2014.(Paragraph 3.3)

- While the Garrison Engineer (GE) is responsible to enforce pre-check on the electricity bills before making payment to Electric supply agencies, we found that due to failure on the part of the GEs in exercising the requisite checks and in adhering to the approved electricity tariff, an excess payment of ₹24.54 crore was made by the GEs selected for audit. The GEs also failed to effect recovery of electricity charges worth ₹23.66 crore from the paying consumers, including private parties, which was mainly due to short recovery of energy and fixed charges, delay in floating of bills, defective meters, *etc.* These lapses of excess payment and short recovery underscore the inadequacy of internal controls in MES.(Paragraph 4.1)

- The selected six weapon manufacturing Factories falling under the Weapons, Vehicles and Equipment group contributed to 11 *per cent* of the total cost of production in the Ordnance Factory Board (Board) during 2011-12 to 2013-14. Audit covered the performance of six Factories for 2011-12 to 2013-14, on 25 strategic weapon items that together accounted for 79 *per cent* of total cost of production of 68 weapon items in the product line of these Factories. The aim of our audit with five objectives was to form an opinion on the Board's ability to provide quality products on time to its clients, mainly the Armed Forces. Total value of shortfall in issue of the selected weapons against the revised targets stood at ₹1479 crore during 2011-12 to 2013-14. Delays in receipt of input stores are the predominant cause for slippages across the Factories. Quality problems besiege the Factories with impact on cost, achievement of targets and above all, the reputation of the Board and its products. The Factories could not complete the quality control of stores within prescribed 15 days time in 40 to 63 *per cent* instances. The availability of assured funds with the Armed Forces helped them to accept the products from the Board regardless of the high issue prices. The users, the Army noted the erosion of trust in field units because of weapon defects. Further the recurrence of defects previously pointed out by the SQAE in its Quality Inspection Notes indicates inadequate attention to these Notes. Besides, delayed indigenisation and continued reliance on imports of certain assemblies posed a challenge to the Factories in meeting the demand. (Paragraph 7.2)

- Provision of lower product yield and higher process loss by Metal and Steel Factory Ishapore in their orders on trade firms for conversion of brass billets to brass rods, inspite of the fact that one of the trade firms offered higher product yield and less process loss, had resulted in low recovery of brass rods by ₹3.32 crore and extended undue benefit to the trade firms to the same extent.(Paragraph 7.9)

- In order to obtain a reasonable assurance on whether the commercial interests of M/s Bharat Earth Movers Ltd. were adequately met, Audit decided to review the system of Procurement and Inventory Management in the Company during the period from 2010-11 to 2012-13. Our analysis of the various causes contributing to the decrease in profit revealed that one of the many factors contributing to this was high inventory levels impacting on the working capital. Vendor negotiations resorted to by the Company were in deviation to the Purchase Manual and CVC guidelines. The amount of Bank Guarantees obtained for advances paid was not in accordance with the CVC guidelines. Documentation of all the activities relating to procurement was inadequate. Vendor management was not foolproof due to non-availability of data regarding all the tenders in the system. Vendor list contained duplicates indicating lack of sufficient controls in SAP. Advances remained unadjusted and also could not be monitored due to inclusion of payments made against proforma invoices, ad-hoc payments against pending POs, *etc*. under advances. Stores manual was not updated for last 23 years. Due to inadequate security features, SRM system of the Company lacked confidence of foreign vendors. No integration of data between SAP and SRM was provided.
(Paragraph 8.1)

1.7 Persistent irregularities in Defence Research and Development Establishment

Cases of non realization of project deliverables in terms of Staff projects, Technology Demonstration/Research and Development projects have been highlighted in Report No. 24 of 2011-12, Report No. 16 of 2012-13 and Report No. 35 of 2014. However, no significant improvement was noticed as reported in Chapter VI. Corrective steps need to be taken urgently in this regard.

1.8 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 January 2015 and June 2015 through letters addressed to them personally.

The Ministry of Defence did not send replies (September 2015) to 30 paragraphs out of 33 Paragraphs featured in Chapters II to VIII.

1.9 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 September 2015 indicated that ATNs on 60 paragraphs included in the Audit Reports up to and for the year ended March 2013 remain outstanding, of which the Ministry had not submitted even the initial ATNs in respect of 20 Paragraphs and 14 ATNs (Sl. No.1 to 14) are outstanding for more than 10 years as shown in **Annexure-I**.

1.10 Financial Aspects and Budgetary Management

1.10.1 Introduction

The budgetary allocations of the Ministry of Defence are contained under eight Demands for Grants of which six grants are included under Defence Service Estimates (DSE) and two under Civil Grants.

- Two Civil Grants which include Demand No. 20 - Ministry of Defence (Civil) and Demand No. 21 - Defence Pensions.

- Six Grants of the Ministry of Defence, which include the following:

  Demand No.22, Defence Service - Army

  Demand No. 23, Defence Services - Navy

  Demand No. 24, Defence Services - Air Force

  Demand No. 25, Defence Ordnance Factories

  Demand No. 26, Defence Services - Research & Development

  Demand No. 27, Capital Outlay on Defence Services -Includes All Services and Departments other than those covered by the Demands for Grants of Ministry of Defence (Civil)

- The budgetary requirements for the Border Roads Organisation are provided by the Ministry of Road Transport & Highways.

The above mentioned Grants are broadly categorized into Revenue and Capital expenditure.

- **Revenue Expenditure:** This includes expenditure on Pay & Allowances, Transportation, Revenue Stores (like Ordnance stores, supplies by Ordnance Factories, Rations, Petrol, Oil and Lubricants, Spares, *etc*.), Revenue Works (which include maintenance of Buildings, water and electricity charges, rents, rates and taxes, *etc*.) and other miscellaneous expenditure.

- **Capital Expenditure:** This includes expenditure on Land, Acquisition of new weapon and ammunitions, Modernization of Services, Construction Works, Plant and Machinery, Equipment, Tanks, Naval Vessels, Aircraft and Aero-engines, Dockyards, *etc*.

Approval of Parliament[5] is taken for the Gross expenditure provision under different Demands for Grants. Receipts and Recoveries, which include items like sale proceeds of surplus/obsolete stores, receipts on account of services rendered to State Governments/other Ministries, *etc*. and other miscellaneous items are deducted from the gross expenditure to arrive at the net expenditure on Defence Services for the six Demands, *viz.* Demands Nos. 22 to 27. A brief analysis of these grants is given below except Grant No. 23, Defence Services-Navy and Grant No.24, Defence Services-Air Force which are commented upon in a separate report.

1.10.2 Grant No.20 & 21- Expenditure from Civil Grants

1.10.2.1 Grant No. 20- Expenditure of Ministry of Defence(Civil)

The budgetary provisions and actual expenditure including Revenue and Capital expenditure for the year 2013-14 under Demand No. 20 is shown in **Table - 1** below:

[5] Report No.20 of Standing Committee on Defence (2012-13, Fifteenth Lok Sabha)

Table-1: Budgetary allocation and Actual Expenditure: MoD (Civil)

(₹in crore)

Budget Estimates	Revised Estimates	Actual Expenditure
17,293.79	16,811.89	16,828.99

Major components of Gross Revenue expenditure of ₹15732.60 crore for 2013-14 are Canteen Stores Department (CSD) (₹12,290.22 crore), Defence Accounts Department (₹1,037.20 crore), Coast Guard Organisation (CGO) (₹1047.73 crore), Jammu & Kashmir Light Infantry (J&K LI) (₹837.27 crore) Defence Estates Organisation (DEO) (₹300.96 crore) *etc*. In the Capital Outlay of ₹1,096.39 crore of actual expenditure in 2013-14, the major components are Capital Outlay on Other Fiscal Services- Customs (₹1,070.22 crore), housing and office buildings (₹23.94 crore) and Miscellaneous Loans for Unit Run Canteen (URC) by CSD (₹0.62 crore). Further, a sum of ₹729.79 crore was surrendered at the fag end (27.03.2014) mainly due to 10 *per cent* mandatory cut imposed by Ministry of Finance.

1.10.2.2 Grant No. 21 - Defence Pensions

Defence Pensions, under Ministry of Defence, provides for pensionary charges in respect of retired Defence personnel (including Defence Civilian employees) of the three services, *viz.* Army, Navy and Air Force, and of employees of Ordnance Factories, *etc*. It covers payments of service pension, gratuity, family pension, disability pension, commuted value of pension, leave encashment, *etc*.

The position of budgetary allocation and expenditure for the year 2013-14 under this Grant is as under:

Table- 2: Budgetary allocation and Actual Expenditure: Defence Pension

(₹in crore)

Budget Estimates	Revised Estimates	Actual Expenditure
44,500.00	45,500.00	45,499.54

1.11 Grant No. 22 to 27 – Defence Services Estimates

1.11.1 At a glance

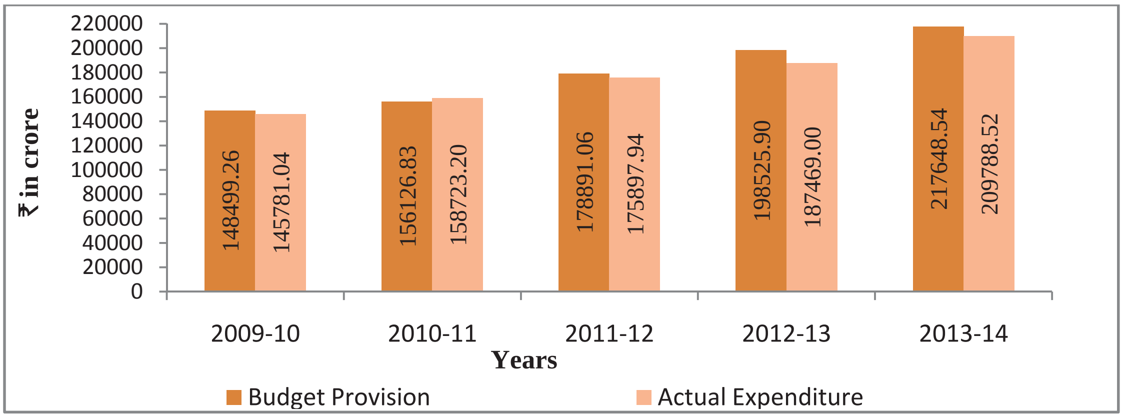
The overall Defence Budget (Grant No. 22 to 27) allocation and actual expenditure (Voted & Charged) for the period 2009-10 to 2013-14 are given in **Table-3** and **Chart -1** as under:

Table-3: Total Defence Budget allocation and Actual expenditure

(₹in crore)

Year	Budget Provision	Actual Expenditure
2009-10	1,48,499.26	1,45,781.04
2010-11	1,56,126.83	1,58,723.20
2011-12	1,78,891.06	1,75,897.94
2012-13	1,98,525.90	1,87,469.00
2013-14	2,17,648.54	2,09,788.52

Chart-1: Budget Provision Vs Actual Expenditure

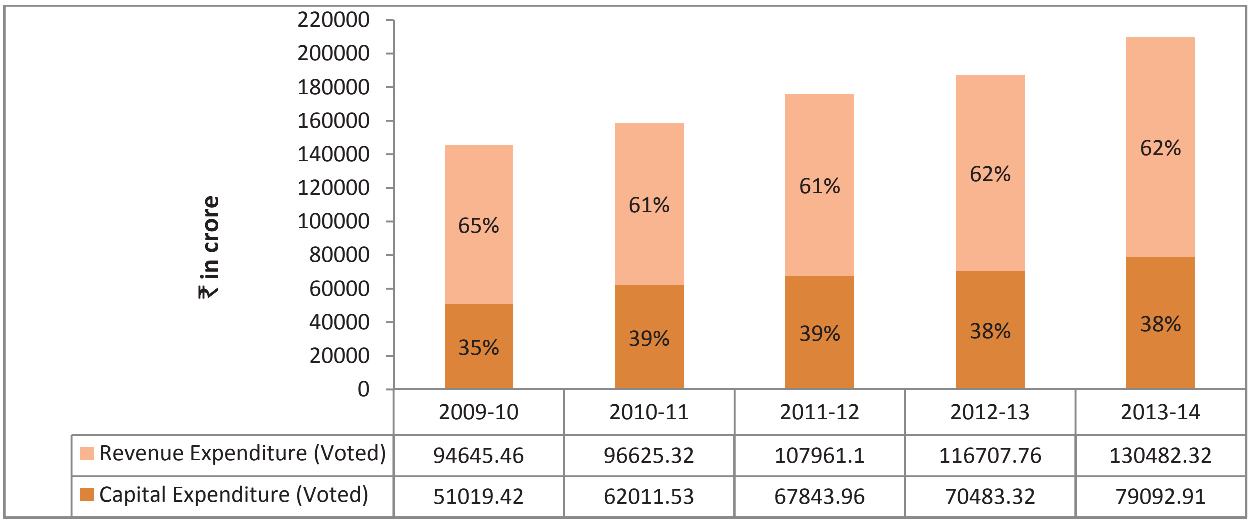


- The data relating to actual Defence expenditure shows an overall increase of 43.91 *per cent* during the period 2009-10 to 2013-14whereas the increase in 2013-14 over the previous year is 11.91 *per cent.*

1.11.2 Revenue expenditure vs. Capital expenditure in Defence Services

Capital and Revenue expenditure (Voted) for the period 2009-10 to 2013-14 is given in **Chart - 2** below:

Chart - 2: Revenue expenditure vs. Capital expenditure (Voted)



The above data shows that the proportion of Voted Capital and Revenue expenditure as a percentage of total Defence expenditure (Voted) has remained between 35 to 39 *per cent* during the period 2009-10 to 2013-14, however, there is no change in percentage in expenditure over the previous year in 2013-14.

1.12 Break-up of Expenditure (Voted) relating to Army, Ordnance Factories & R&D (Capital & Revenue) – Grant No. 22, 25, 26 and 27[6]

A detailed analysis of the expenditure (Voted) for the period 2009-10 to 2013-14 relating to Army, Ordnance Factories and R & D showing Revenue and Capital expenditure is given in **Table-4** below.

Table-4: Expenditure (Voted) of Army, Ordnance Factories & R&D

(₹ in crore)

Description of Grant	Components of Expenditure	2009-10	2010-11	2011-12	2012-13	2013-14
Army	Actual	77,512.29	80,789.82	86,776.05	94,274.06	1,02,138.70
	Revenue	62,716.64 (80.91%)	65,001.96 (80.46%)	71,832.66 (82.78%)	79,516.95 (84.35 %)	87,720.08 (85.88 %)
	Capital	14,795.65 (19.09%)	15,787.86 (19.54%)	14,943.39 (17.22%)	14,757.11 (15.65 %)	14,418.62 (14.12 %)
Ordnance Factory	Actual	3,520.27	1,527.00	1,704.15	2,116.26	3,963.91
	Revenue	3,279.98 (93.17%)	1,073.42 (70.30%)	1,427.94 (83.79%)	1,754.03 (82.88%)	3,498.57 (88.26 %)
	Capital	240.29 (6.83%)	453.58 (29.70%)	276.21 (16.21%)	349.07 (16.60%)	465.34 (11.74 %)
R&D	Actual	8,507.87	1,0191.99	9,932.29	9,860.56	10,929.57
	Revenue	4,355.57 (51.20%)	5,230.88 (51.32%)	5,321.24 (53.58%)	5,218.32 (52.92%)	5,696.25 (52.12 %)
	Capital	4,152.30 (48.81%)	4,961.11 (48.68%)	4,611.05 (46.43%)	4,642.24 (47.08%)	5,233.32 (47.88 %)

Note: Figure in the brackets represents the Revenue/Capital expenditure as a percentage of the Actual expenditure

- The total Army expenditure during 2013-14 has registered an increase of 8.34 *per cent* over the previous year with the Revenue expenditure registering an increase of 10.32 *per cent* and the Capital expenditure recording a decrease of 2.29 *per cent.*

[6] Grant No. 23 – Navy and Grant No. 24 – Air Force are analysed in the Compliance Audit Report of the Union Government (Defence Services) Air Force and Navy

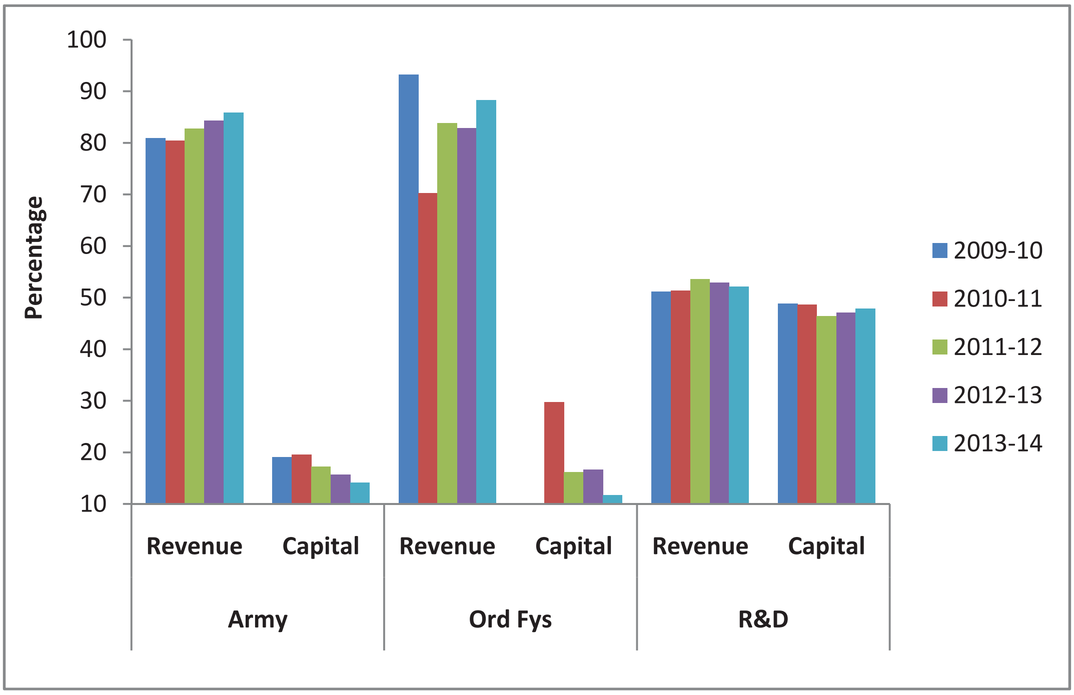
- The total Ordnance Factory expenditure during 2013-14, has recorded an increase of 87.31 *per cent* over the previous year with the Revenue expenditure an increase of 99.46 *per cent* and the Capital expenditure registering an increase of 33.30 *per cent.*

- The total R&D expenditure during 2013-14, has recorded an increase of 10.84 *per cent* over the previous year with Revenue expenditure a increase of 9.16 *per cent* and the Capital expenditure registering an increase of 12.73 *per cent*.

1.12.1 Trend of total Expenditure in respect of Army, Ordnance Factories and Research & Development - Capital and Revenue

A trend of total Army, Ordnance Factories and Research and Development expenditure both Capital and Revenue as a proportion of actual expenditure during the period 2009-10 to 2013-14 is given in **Chart-3** below:

Chart-3: Trend of total Capital and Revenue Expenditure in respect of Army Ordnance Factories (Ord Fys) and Research & Development (R&D)



- **Army*:*** In the year 2013-14 Revenue component of total Army expenditure has increased by 5 *per cent* since 2009-10 from 81 *per cent* in 2009-10 to 86 *per cent* in 2013-14 while the Capital component has recorded a corresponding decrease during the same period from 19 *per cent* (2009-10) to 14 *per cent* (2013-14).

- **Ordnance Factories:** The Revenue component of the total actual expenditure of the Ordnance Factories for the period 2009-10 to 2013-14 decreased by 5 *per cent* from 93 *per cent* in 2009-10 to 88 *per cent* in

2013-14, whereas the Capital component of expenditure increased by a corresponding percentage from 7 *per cent* to 12 *per cent.*

- **Research & Development:** The Revenue expenditure on R&D has increased by 1 *per cent* from 51 *per cent* in 2009-10 to 52 *per cent* in 2013-14 during the period 2009-10 to 2013-14 while the Capital expenditure has decreased by a similar percentage from 49 *per cent* to 48 *per cent.*

1.13 Trend of major componentsof Revenue expenditure (Voted)

1.13.1 Army (Voted)

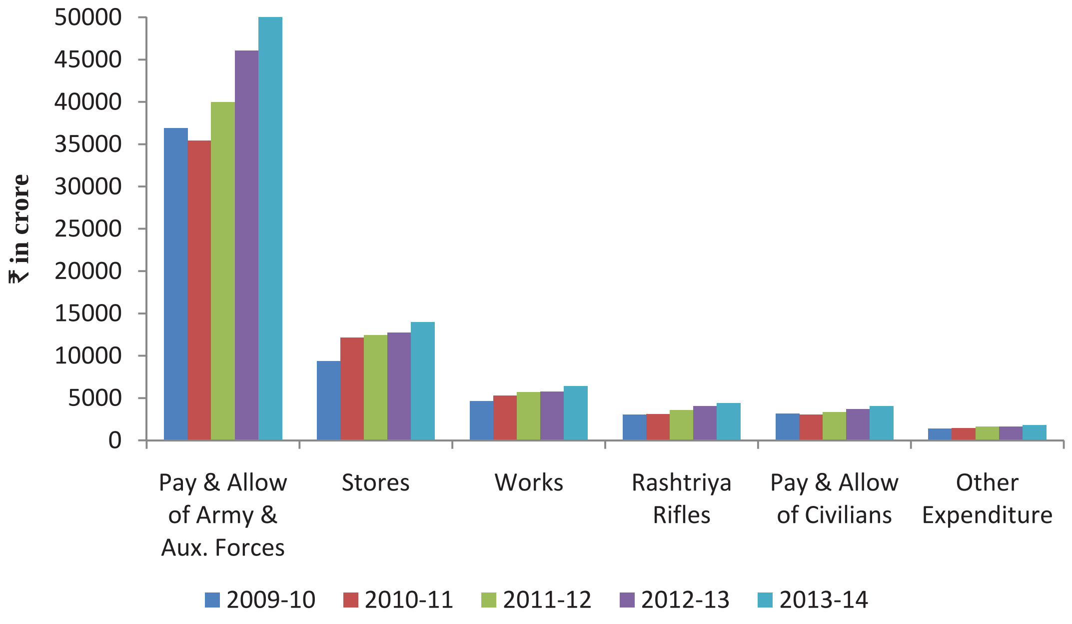
During the period 2009-10 to 2013-14 maximum Revenue expenditure was incurred under six Minor Heads (MH) of the Army as given in **Table-5** and in the **Chart-4** below:

Table-5: Details of major components of Revenue expenditure of Army

(₹ in crore)

Year	Pay & Allowances (MH-101& 103)	Stores (MH-110)	Works (MH-111)	Rashtriya Rifles (MH-112)	Pay & allow. of Civilians (MH-104)	Other expenditure (MH-800)
2009-10	36,896.23	9,404.65	4,608.34	3,047.58	3,132.27	1,380.31
2010-11	35,445.39	12,144.48	5,308.35	3,098.71	3,051.42	1,475.79
2011-12	39,996.27	12,442.20	5,708.68	3,585.38	3,361.21	1,644.18
2012-13	46,057.23	12,749.70	5,768.73	4,076.22	3,673.96	1,638.63
2013.14	50,532.55	13,953.78	6,383.76	4,435.58	4,055.56	1,770.98

Chart-4: Major components of Revenue expenditure of Army



- There is no significant rise in expenditure recorded under first six Minor Heads having highest expenditure *viz.* Pay & Allowances of Army & Auxiliary Forces, Stores, Works, Rashtriya Rifles, Pay & Allowances of Civilians and Other Expenditure relating to at 36.96 *per cent*, 48.37 *per cent*, 38.53 *per cent*, 45.54 *per cent*, 29.48 *per cent* and 28.30 *per cent* respectively during the period 2009-10 to 2013-14.

1.13.2 Ordnance Factories (Voted)

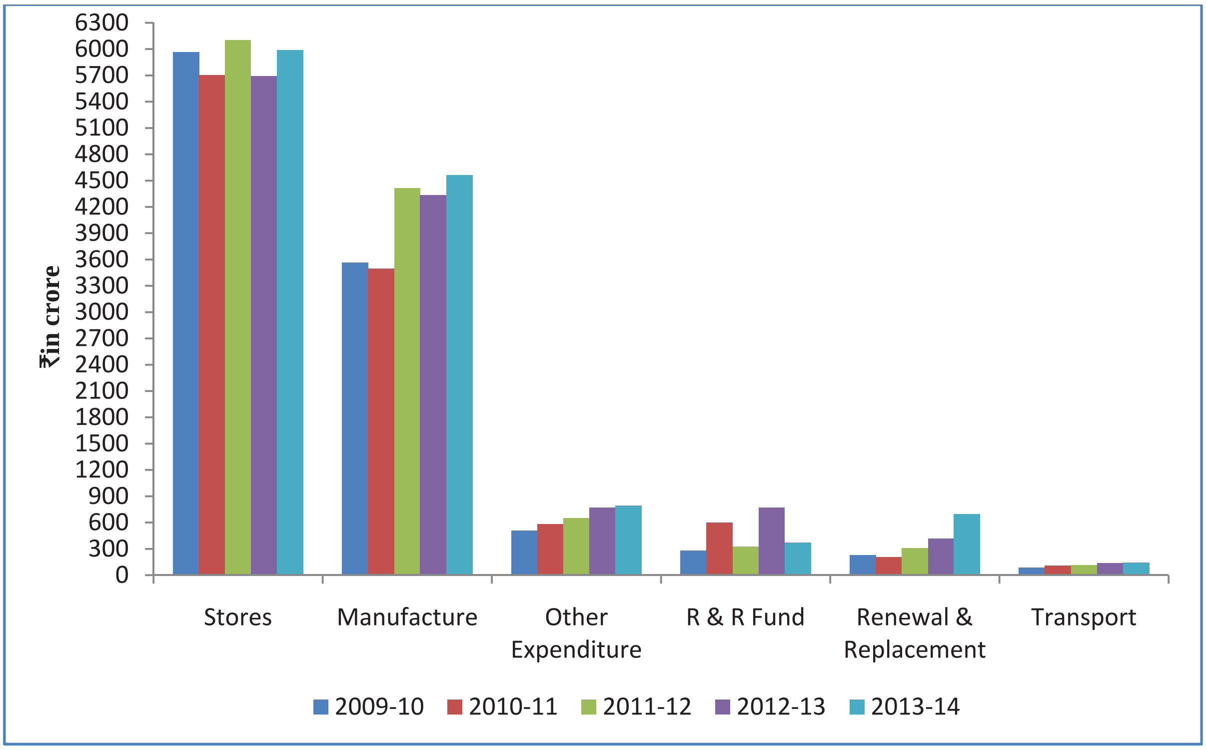
During the period 2009-10 to 2013-14 maximum Revenue expenditure was incurred under six MH of the Ordnance Factories as given in **Table-6** and in the **Chart-5** below:

Table-6: Major components of Revenue expenditure of Ordnance Factories

(₹ in crore)

Year	Stores MH-110	Manufacture-MH-054	Other expenditure MH-800	Renewal& Reserve (R&R) Fund-MH-797	Renewal & Replacement MH-106	Transport MH-105
2009-10	5,965.16	3,566.03	506.74	280.00	228.24	86.59
2010-11	5,704.96	3,499.75	582.66	600.00	207.82	110.73
2011-12	6,101.41	4,415.33	649.75	325.00	310.25	115.98
2012-13	5,691.76	4,335.73	767.68	350.00	415.85	135.01
2013.14	5989.63	4,562.58	794.97	375.00	697.01	146.75

Chart 5: Major components of Revenue expenditure of Ordnance Factories



- **Expenditure under** Minor head 'Renewal and Replacement', ‘Transportation’, 'Other Expenditure', ‘R&R Fund’, Manufacture, and

Stores have shown an increase of 205.38 *per cent*, 69.47 *per cent*, 56.88 *per cent*, 33.93 *per cent*, 27.95 *per cent* and0.41 *per cent* respectively during the period 2009-10 to 2013-14.

1.13.3 Research & Development (Voted)

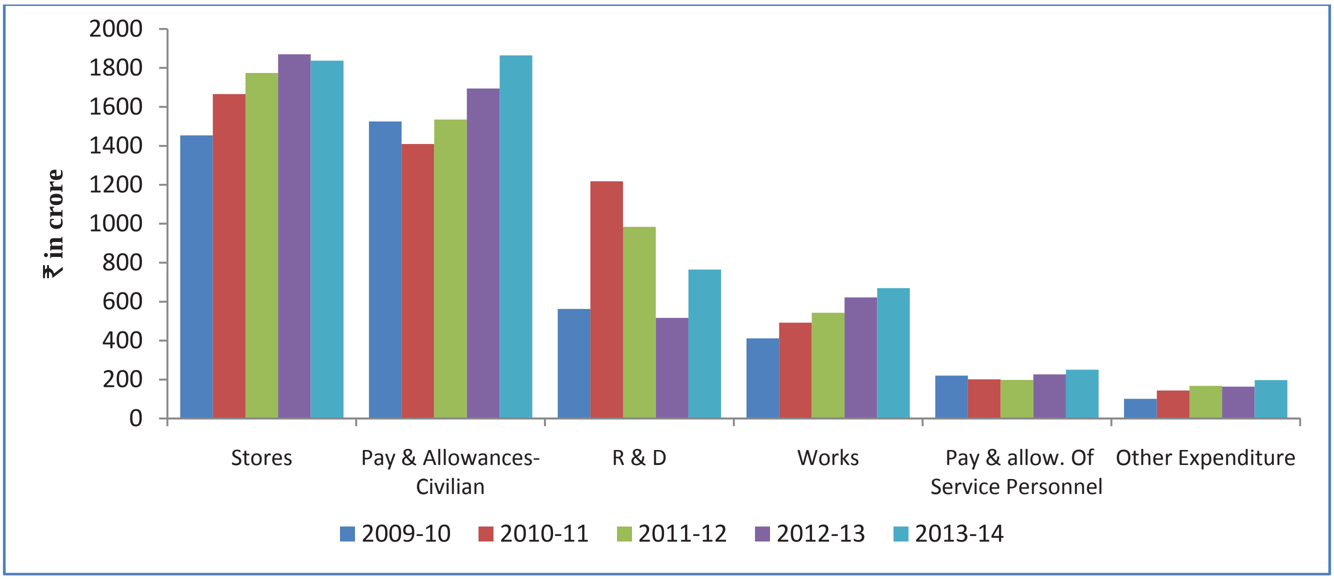
During the period 2009-10 to 2013-14 maximum Revenue expenditure was incurred under six Minor Heads (MH) of the R&D as given in **Table-7** and **Chart-6** below:

Table-7: Major components of Revenue expenditure of Research & Development

(₹in crore)

Year	Stores MH-110	Pay & Allowances-Civilian MH-102	R&D MH-004	Works MH-111	Pay & Allowances of Service Personnel MH-101	Other Expenditure MH-800
2009-10	1,453.76	1,525.66	562.81	411.80	220.34	101.31
2010-11	1,665.91	1,409.71	1,218.25	492.17	201.61	144.02
2011-12	1,774.18	1,534.88	983.91	543.20	198.23	167.55
2012-13	1,870.19	1,694.22	516.97	621.39	226.38	163.43
2013-14	1,837.27	1,864.71	764.72	669.10	250.76	197.27

Chart 6: Major components of Revenue expenditure of Research &Development



- The expenditure under Minor Head- 'Other Expenditure', 'Works' 'Research and Development', 'Stores', Pay & Allowances-Civilian' and 'Pay & Allowances of Service Personnel' have shown an increase of 94.72 *per cent*, 62.48*per cent*, 35.87 *per cent*, 26.38 *per cent, 22.22 per cent* and 13.81 *per cent* respectively during the period 2009-10 to 2013-14.

1.14. Trend of Capital expenditure - Major Head-4076-Grant no. 27-Capital Outlay on Defence Services

1.14.1 Components of Capital expenditure

There are eight Sub Major Heads (SMH) under this Grant, *viz*. Sub Major Head 01- Army, Sub Major Head 02 - Navy, Sub Major Head 03- Air Force, Sub Major Head 04- Ordnance Factories, Sub Major Head 05 - R&D, Sub Major Head 06 - Inspection Organisation, Sub Major Head 07 - Special Metal and Super Alloys Projects and Sub Major Head 08 - Technology Development.

1.14.2 Trend analysis of Capital expenditure (Voted) of Army, Ordnance Factories and R&D[7]

The details of Capital expenditure of Army, Ordnance Factories and R&D *i.e.*; SMH-01, 04 and 05 during the period 2009-10 to 2013-14 is given in **Table-8** below:

Table-8: Total Capital Expenditure (Defence Services) Vs Army, Ordnance Factories and R&D

(₹in crore)

Year	Total Capital Expenditure	Capital Expenditure of Army	Capital Expenditure of Ordnance Factories	Capital Expenditure of R&D
2009-10	51,019.42	14,795.65	240.29	4,152.30
2010-11	62,011.53	15,787.86	453.58	4,961.11
2011-12	67,843.96	14,943.39	276.21	4,611.05
2012-13	70,483.32	14,757.11	349.07	4,642.24
2013-14	79,092.91	14,418.62	465.34	5,233.32

- **Total Capital Expenditure of Defence Services**: The total Capital expenditure of Defence Services has recorded an overall increase of 55.02 *per cent* during the period 2009-10 to 2013-14. However, Army expenditure during this period has recorded a decrease of 2.55 *per cent*.Compared to this the component-wise increase in Capital expenditure of Ordnance Factories and R & D were 93.66 *per cent* and 26.03 *per cent*, respectively.

- **Army Capital Expenditure:** The Capital expenditure component of Army against the total Capital expenditure of Defence Services decreased by 11 *per cent* from 29 *per cent* in 2009-10 to 18.23 *per cent* in 2013-14. The Capital expenditure of Army during 2013-14 has recorded a decrease of 2.29 *per cent* over the previous year, despite an

[7] SMH- 02 and SMH- 03 are analysed separately in Audit Report of Union Government (Defence Services) Air Force and Navy. In respect of SMH- 06- and SMH- 08 total expenditure during the period 2009-10 to 2013-14 was ₹54.23 crore and ₹139.11 crore respectively. In respect of SMH-07 the expenditure during these years was Nil.

increase of 12.22 *per cent* in the Capital expenditure of Defence Services.

- **Ordnance Factory Capital Expenditure:** Capital expenditure of Ordnance Factory has not seen any significant variations as a component of the total Capital expenditure during the period 2009-10 to 2013-14. From 0.47 *per cent* of the total Capital expenditure in 2009-10 it has increased to 0.59 *per cent* in 2013-14, though over the previous year, the Capital expenditure in 2013-14 has shown an increase of 33.31 *per cent*.

- **R&D Capital Expenditure:** Capital expenditure of R&D has seen a decrease of nearly 2 *per centi.e*. from 8.14 *per cent* (2009-10) to 6.62 *per cent* (2013-14) with respect to total Capital expenditure. Compared to the previous year, the Capital expenditure of R&D has increased by 12.73 *per cent.*

1.14.3 Trend of Saving/Excess in Capital Expenditure (Voted)

The trend of 'Saving' and 'Excess' in Capital expenditure for the period 2009-10 to 2013-14 is given in **Table-9** below:

Table-9: Trend of Saving/Excess in Capital Expenditure

(₹in crore)

Year	Total Grant (Voted)	Total Expenditure	Under Total Capital Grant	
			Saving (-)	Excess (+)
2009-10	54,779.62	51,019.42	3,760.20 **(6.86%)**	-
2010-11	60,776.21	62,011.52	-	1,235.31 **(2.03 %)**
2011-12	69,148.01	67,843.96	1,304.05 **(1.89%)**	-
2012-13	79,526.99	70,483.32	9,043.67 **(11.37%)**	
2013-14	86,685.31	79,092.91	7,592.40 **(8.76%)**	-

Note: Figure in brackets represents the saving (-)/excess (+) as a percentage of Total Grant (Voted).

- It is evident from the above table that during the period 2009-10 to 2013-14 there were persistent "Savings' except in the year 2010-11 when there was an "excess" of 2.03 *per cent*. The 'Savings' have ranged 11.37 *per cent* to 1.89 *per cent* during this period.

- A decrease in 'Savings' was noticed from ₹9043.67 crore (11.37 *per cent)* during 2012-13 to ₹7592.40 crore (8.76 *per cent*) in the year 2013-14. However, funds amounting to ₹7854.78 crore (9.06 *per cent*) were surrendered on the last working day of the financial year 2013-14 which was more than savings.

1.15 Profile of Defence Public Sector Undertakings (DPSUs)

There are nine[8] Defence PSUs under the administrative control of the Ministry of Defence. These Defence PSUs along with two subsidiaries are audited by the Office of the Principal Director of Commercial Audit and ex officio Member, Audit Board, Bangalore.

i. Bharat Electronics Limited, Bengaluru (BEL) is a listed Company with Government of India as the majority share holder (75.02 *per cent*). It was primarily set up to meet the specialized electronic needs of the Indian Defence Services. BEL has been conferred the Navratna status by the Government of India. It has one subsidiary *i.e.,* BEL Optronics Devices Limited, Pune. The paid up capital of BEL as on 31 March 2014 was ₹80 crore. The turnover of BEL increased from ₹6103.53 crore in 2012-13 to ₹6275.52 crore in 2013-14 *i.e.,* 3 *per cent*.

- BEL Optronics Devices Limited, Pune (BELOP) is a subsidiary of Bharat Electronics Limited (92.79 *per cent* share holder). It has been established for conducting research, development and manufacture of Image Intensifier Tubes and associated high voltage Power Supply Units for use in military, security and commercial systems. The paid up capital of BELOP as on 31 March 2014 was ₹18.32 crore. The turnover of BELOP increased from ₹146.65 crore in 2012-13 to ₹171.49 crore in 2013-14 *i.e*. 17 *per cent*.

ii. Bharat Earth Movers Limited (BEML) Bengaluru is a listed Company with Government of India as the majority share holder (54.03 *per cent*). The company operates under three major Business verticals – *viz*. Mining & Construction, Defence and Rail & Metro. It has one subsidiary *i.e.* Vignyan Industries Limited Tarikere. The paid up capital of BEML as on 31 March 2014 was ₹41.77 crore. The turnover of BEML increased from ₹2808.91 crore in 2012-13 to ₹ 2911.51 crore in 2013-14 *i.e.*, 4 *per cent*.

- Vignyan Industries Limited, Tarikere (VIL) is a subsidiary of BEML Limited (95.56 *per cent* share holder). This Unit is a Steel Casting Foundry which specializes in churning out components for Earth Moving Machinery, Valves, Die Casting Machines, Ropeways, Automobiles and for Railways. The paid up capital of VIL as on 31 March 2014 was ₹2.79 crore. The Turnover increased from ₹24.50 crore in 2012-13 to ₹32.72 crore in 2013-14 *i.e.*, 34 *per cent*.

iii. Bharat Dynamics Limited, Hyderabad (BDL) is a fully owned Government of India undertaking. It is engaged in manufacture of Guided Weapon Systems. The paid up capital of BDL as on 31 March

[8] Profile and ATN status of four shipyards (Mazagon Dock Shipbuilders Limited, Garden Reach Shipbuilders & Engineers Limited, Goa Shipyard Limited and Hindustan Shipyard Limited) and Hindustan Aeronautics Limited have been covered in the C&AG Report of the Union Government (Defence Services) Air Force and Navy.

2014 was ₹115.00 crore. The turnover increased from ₹1072.01 crore in 2012-13 to ₹1774.05 crore in 2013-14 *i.e*., 65 *per cent*.

iv. Mishra Dhatu Nigam Limited, Hyderabad (Midhani) is a fully owned Government of India undertaking. It is engaged in manufacture of widest range of advanced metals and alloys and products of national security and strategic importance. The paid up capital of Midhani as on 31 March 2014 is ₹187.34 crore. The turnover marginally increased from ₹553.90 crore in 2012-13 to ₹554.62 crore in 2013-14.