CHAPTER III : ARMY

3.1 Functioning of Army Aviation Corps

" For the contents of this paragraph/report, printed version of the relevant report may be referred to"

3.2 Shortfall in availability of BMP vehicle in Indian Army

" For the contents of this paragraph/report, printed version of the relevant report may be referred to"

3.3 Unwarranted procurement of Image Intensifier Sight for Commander of Tank T-55

Image Intensifier Sights valuing ₹22.12 crore for Commander of Tank T-55 were procured between February 2011 and June 2013 after the tank being declared obsolescent in December 2011.

Defence Procurement Procedure 2002 stipulates that in order to cut down the delays in procurement of equipment and to ensure that the procurement system is more responsive to the needs of Armed Forces, time frame for completion of different procurement activities should be made. Further, as per Army Order (AO) 14/94, when the status relating to Service Stores/Equipment is declared 'Obsolescent' (OBT), no further provisioning of the same will be made.

We noticed during audit of Central Ordnance Depot (COD), Agra in October 2012 and further examination in November 2013 that Integrated Headquarters (IHQ) of Ministry of Defence (MoD), Army took more than 10 years in procurement of an equipment[32] (432 numbers) for Tank T-55 by which time,

[31] [1,666/3,150]*100=52.89(Approx 53 *per cent*)
[32] Z 7 1ZG-1282 Sight Periscope Commander AV, NVD passive (T-55)

the Tank was declared OBT and would be retained in service till 2018-19 only as per de-induction plan.

The case is discussed below: -

Tank T-55 were inducted in Indian Army between 1966 and 1988. As per de-induction schedule, all the Tank T-55 inducted between 1971 to 1988 are to be de-inducted by 2018-19. A need was felt (August 2002) to equip the Commander of 455 numbers Tanks T-55 with an Image Intensifier (II) based night vision device (sight) to enable him to direct the gunner to engage targets at night. Based on request for proposal issued in August 2002 and users trial conducted in December 2002 and March 2003, the Binocular Sight of Opto Electronics Factory (OLF) Dehradun was found successful. Commercial Negotiation Committee (CNC), in their meetings in July 2006, *i.e.*, after a gap of nearly four years recommended procurement of 455 numbers II Sight for Commander of T-55 Tank from OLF Dehradun with revised price of ₹5.12 lakh per unit. The original price quoted in bid of September 2002 was ₹1.87 lakh per unit. Directorate General of Ordnance Services, Army HQrs, New Delhi placed an indent on OLF, Dehradun in February 2007 for procurement of 455 numbers of II Sight at a total cost of ₹23.30 crore (cost per unit ₹5.12 lakh), which were to be consigned to COD, Agra by June 2008. However, no equipment was delivered by OLF, Dehradun by due date of delivery. It was decided in February 2009 that OLF, Dehradun would deliver 455 commander sight by December 2009 in spite of suggestion of the Army regarding not to extend the delivery period as T-55 Tanks were likely to be phased out shortly. However, OLF did not deliver any II Sights up to January 2011. In September 2012, ex-post sanction was accorded by MoD to regularise the last extension of delivery period up to December 2009 and further extended up to March 2013. However, IHQ of MoD (Army) in October 2013 short closed the contract and quantity amended to 432 numbers. Total 432 Commander Sights were received in COD, Agra from February 2011 to June 2013.

Meanwhile, 433 numbers Tanks were declared obsolescent in December 2011 and in terms of Army Order 14/94 no further provisioning of store/equipment for the tanks could be made. The entire population of OBT Tanks (433 numbers) held with the units would be phased out by 2018-19. Hence, procurement of 432 Sights which were to be used by the Commanders of T-55 tanks was not in consonance with AO 14/94 and therefore was injudicious. We observed that 180 Sights valuing ₹9.22 crore received between February 2011 and March 2012 were issued to user units between June 2013 and November 2013 against the OBT Tanks after this was pointed out by Audit in October 2012. Balance quantity of 252 sights valuing ₹12.90 crore received between April 2012 and June 2013 were still (April 2014) held in COD Agra awaiting demand from user units.

The matter was referred to COD Agra in June 2014 through the Factual Statement of case (FSC). COD in its reply of August 2014 stated that declaring an equipment OBT implies that further provisioning would be stopped. However existing indents would be continued with Ex Trade/ Directorate of indigenization in accordance with supplementary directive of IHQ of MoD of February 2014. COD further stated that in order to enable the

Army to effectively utilize these tanks, these night Sights were correctly procured.

The contention of COD was not tenable as OLF could not supply the Sights within original validity of indent and extension of delivery was granted in September 2012 after the tanks (433 numbers) were declared OBT in December 2011. Further Army had also suggested not to extend delivery period for T-55 Sights beyond December 2008 but the Sights were procured even after the due time frame when these were not required due to OBT status and de-induction plan of Tank T-55. Moreover, procurement pertained to the period prior to supplementary directive issued by the IHQ of MoD in February 2014. On verification of the utilization of the Image Intensifier sights in one of the Armoured Regiment it was noticed that out of 23 Image Intensifier sightsissued to them without demand, 22 Image Intensifier sightswere kept in store after its receipt.

Thus, delay of nine years in procurement of Image Intensifier Sight for Commander of Tank T-55 and non-cancellation of indent after the Tanks were declared OBT resulted in procurement of 432 sights worth ₹22.12 crore. Out of these 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 crore were held in stock as of April 2014.

The case was referred to Ministry in January 2015; their reply was awaited; (September 2015)

3.4 Excess procurement of stores

Failure of Master General of Ordnance to ascertain the requirements from Directorate General of Electronics and Mechanical Engineering before conclusion of contracts resulted in unwarranted procurement of stores valuing ₹5.95 crore. Though the firm was requested to reduce the quantities by MGO, the firm however did not entertain the request to reduce the quantity after conclusion of contracts

Procurement progressing Organization (PPO), which function under the control of Master General of Ordnance (MGO), Integrated Headquarters (IHQ) of MoD (Army) is responsible for procurement of all spares based on import indents raised by Central Ordnance Depots (CODs) and Ordnance Services (OS) Directorate. The demands are floated as Request for proposal (RFP) on Global Tender or single Tender basis.

We noticed in December 2012 that for procurement of spares for missiles and weapons *etc*, Commercial Negotiation Committee (CNC) meeting was held in February 2011 under the Chairmanship of DDG PPO. The members of CNC inter-alia included representative from DGEME, who accepted the criticality of the stock position of spares during the deliberations. As per the recommendation of CNC, two contracts, for different consignee locations were placed on M/S SFE , Ukraine, in December 2011 at the total cost of

Euro[33] 11.83 million (₹80.78 crore approx.) for supply of spares. However, after conclusion of the contracts, MGO Branch had approached DGEME in July 2012 with a request for vetting of requirement by the Equipment manager of the respective weapon system, for which spares were being procured. DGEME responded in July 2012, by reducing the quantities worth Euro 0.87 million (₹5.95 crore). Since the contract had already been concluded, even before the vetting of quantities from DGEME was solicited, MGO's Branch approached the firm in July 2012 to incorporate the changes in quantity and amend the contract accordingly. The firm however refused to make any amendments to the contracts stating that items were ready for delivery and advance payments had already been made by them to their plants. The firm completed supplies in full in respect of both the contracts and payment was made in November 2012.

Thus, seeking of quantitative requirement of spares from DGEME after conclusion of contract by MGO resulted in procurement of excess stores valuing ₹5.95 crore. In response to issues raised by Audit, though the IHQ of MoD (Army) stated (April 2015) that vetting requirement of stores after signing of contracts could have been avoided yet it differed with the observation that the spares procured were unwarranted. Excess procurement of spares was justified in the reply by stating that all the stores procured under the contract had been utilized and issued to sub depots/user units. It was also stated that all the stores procured were under Life Time Buy to sustain the equipment till 2025.

The reply furnished was not acceptable due to the following reasons:-

- MGO concluded the contract for higher quantities before ascertaining the quantitative requirement of stores from DGEME. Even at the CNC stage, DGEME did not object to the surplus quantities being procured, despite the fact that the contract was concluded after ten months of the CNC.

- Disposal of surplus spares procured by issuing them to Sub Depots /units cannot justify the excess procurement

- Issue of stores to depots is by no means an indication of their gainful utilization.

Thus, failure of MGO in ascertaining the requirement of spares from DGEME, before conclusion of contracts resulted in unwarranted procurement worth ₹5.95 crore.

The matter was referred to Ministry in March 2015; their reply was awaited (September 2015).

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[33] 1 Euro = ₹68.28

3.5 Less deduction of Liquidated Damages.

While the procedure for levy of Liquidated Damages (LD) stated that LD at reduced rates was to be levied only if there is no loss caused to the State, yet the Army Purchase Organization invoked the condition without ascertaining the facts about the loss caused and thereby extended undue benefit to the defaulting contractors. In a test case, Audit found that loss had actually occurred.

General conditions of contracts as applicable to contracts placed by the Central Purchase Organization (DGS&D [34]) of Government of India, prescribes that the Purchaser may recover from the contractor Liquidated Damages (LD) including administrative expenses and not by way of penalty a sum equivalent to 2 *per cent* of the price of any stores which the contractor has failed to deliver within the period fixed for delivery in the schedule for each month or part of a month, provided that the total damages so claimed shall not exceed 10 *per cent* of the total contract price.

Army Purchase Organization (APO), headed by the Chief Director of Purchase (CDP), is responsible for the central procurement of food stuffs, food grains, edible oils, malted items, *etc*., for the Army. The payment responsibility of such procurement rests with the Principal Controller of Defence Accounts (PCDA), Headquarters (HQ), New Delhi. The Acceptance of Tenders (AT) by the APO is governed by the general conditions of contract placed by DGS&D.

Scrutiny of ATs and payment vouchers in respect of 32 procurement cases concluded between 2010-11 and 2013-14 at PCDA HQ revealed that supply of stores was delayed by the suppliers, thereby attracting levy of liquidated damages at the rate of two*per cent* per month under general conditions of contracts (DGS&D). We however observed that though there was a delay in supplies ranging from one months to eight months the same was regularized by the CDP by levy of LD at the reduced rate of 0.2 *per cent* per month. No justification for levying of LD at reduced rates was found on record. This had resulted in an undue favour and under recovery to the tune of ₹3.55 crore in respect of 32 procurement cases.

The issue of recovery of LD at the reduced rates of 0.2 *percent* against the provision of two *per cent* per month was taken up with APO (December 2014). In their reply, the APO stated (March 2015) that as per the current procedure which is based on legal advice, two *per cent* of the value can be claimed in case of actual loss. It was however stated that if no actual loss occurs, only nominal amount equivalent to ten *per cent* of the applicable rate *i.e*, 0.2 *per cent* was to be levied. Claiming of LD at the higher rate without any evidence of loss would therefore not stand judicial scrutiny.

Notwithstanding the reply, we observed that while imposing the LD at the reduced rate of 0.2 *per cent* no evidence had been put forth by APO on record to establish that there was no loss caused due to delay in supplies. Imposing

[34] DGS&D: Director General of Supplies & Disposal

reduced rates was therefore not duly substantiated. On the contrary, we found during detailed examination of a sample case for procurement of Malted Milk Food which was contracted at a rate ranging from ₹143.46 to ₹174.84 per Kg in 2013, that due to failure in timely supply through APO, DGS&T had purchased the items locally to meet the immediate requirements of the troops at higher rates averaging ₹217 per Kg during the year. Hence, there was a loss caused to the State which establishes the contention that APO had not verified the facts about actual loss caused to the State and had thereby extended an undue benefit to the defaulting contractors by levying LD at a reduced rate. In the 32 cases referred above the effect of under recovery of LD worked out to ₹3.55 crore.

The matter was referred to the Ministry in March 2015; their reply is awaited (September 2015).

3.6 Non- installation of Hydraulic Test Benches

Four out of five Hydraulic Test Benches procured for MBT Arjun at a cost of ₹2.23 crore were lying idle since their procurement in November 2010 due to delay in creation of requisite infrastructure and in installation/commissioning of the equipment.

Master General of Ordnance (MGO) Integrated Headquarters of Ministry of Defence placed indent on Heavy Vehicle Factory Avadi (HVF) for procurement of Hydraulic Test Bench (HTB) to be installed in the repair workshops as a test facility of Gun Control System (GCS) of Main Battle Tank (MBT) Arjun. Accordingly HVF placed (April 2009) a supply order on M/S Leonardo Engineer Pvt. Ltd. Bangalore for procurement of five HTBs at a total cost of ₹2.79 crore. The consignee of HTBs was HVF Avadi.

HVF Avadi had intimated MGO and all identified units the detail of requisite infrastructure *i.e.* 415 volt AC supply and water supply for cooling arrangement anticipated in August 2009. Further complete drawing/specification of HTB to create facility for installation at user site were also communicated to all units in August 2009.

The equipment were supplied by the firm in November 2010 and weredespatched by HVF Avadi in October/November 2010 to Military College of Electronics and Mechanical Engineering, Secundrabad (MCEME) and four Army workshops at the Delhi Cantt. Jaisalmer, Jodhpur and Ahmednagar Payment amounting to ₹2.57 crore was made between March 2010 and May 2010 as per terms and condition of supply order.

Test check of records in 12 Corps Zonal Workshop, Jodhpur in February 2013, revealed that the Hydraulic Test Bench received in December 2010 was lying idle as the work for provision for infrastructure though approved in 2011-12 had not been executed. The Workshop however confirmed in January 2015 that though the infrastructure had been created, yet the equipment was not commissioned as the firm expressed its inability to do so till clearance of outstanding dues.

Further examination of installation and commissioning of the HTBs consigned to other four stations revealed that though the infrastructure had been created at all the four stations by September 2013, yet the equipment could be commissioned only at MCEME. The workshops at Delhi Cantt and Ahmednagar are awaiting installation, whereas at Jaisalmer the equipment has not been commissioned despite being installed in the workshop.

Thus, four HTBs procured at a cost of ₹2.23 crore could not be put to use (January 2015) ever since their procurement in November 2010 due to delay in creation to requisite infrastructure and in installation/commissioning of the equipment. The purpose of procurement was thereby defeated.

The case was referred to Ministry in January 2015; their reply was awaited; (September 2015)

3.7 Avoidable expenditure in procurement of Hi-Lo Beds.

Indecisiveness in having a Comprehensive Annual Maintenance Contract in procurement of Hi-Lo beds in the first call led to retendering, which had resulted in extra expenditure of ₹63 lakh in procurement of 1406 beds.

The Defence Procurement Manual (DPM-2009) stipulates that in case of Medical Equipment where five years warranty/guarantee is provided for, firms may be asked to quote Comprehensive Annual Maintenance Contract (CAMC) rates for five years on expiry of warranty period and these are to be loaded in Comparative Statement of tenders and taken into consideration while deciding the L-1 vendor. DPM further provides that evaluation criterion would be clearly indicated in the Request for proposal (RFP) in such cases.

The Director General, Armed Forces Medical Services (DGAFMS) invited (November 2011) open tenders duly incorporating above provisions on CAMC in the tender documents for procurement of 1406 Hi-Lo Beds as these were qualified as Medical equipment. The response was received from nine firms (December 2011) and out of which three firms were technically accepted (January 2012) by Technical Evaluation Committee (TEC). Out of the three technically qualified firms, only one firm namely M/s Surgicon Mediquip Pvt Ltd had quoted inclusive of CAMC at ₹5.31 crore and M/s Carevel System quoted lowest rate at ₹3.93 crore without CAMC. As the price bids did not meet the requirement of RFP/DPM about CAMC, retendering was resorted to in July 2012. This time response from fourteen firms was received. Out of these, three firms were found technically acceptable by the TEC.

M/s Hi-tech Metal & Medical Equipment Pvt Ltd was found the lowest (L-I) with quoted rates of ₹5.38 crore (including CAMC with spares) and₹4.77 crore (without CAMC) in both the situations. M/s Dustech Engineers quoted ₹5.75 crore including CAMC and ₹5.10 crore without CAMC. M/s Janak Health Care quoted ₹8.49 crore including CAMC and ₹7.43 crore without CAMC. The Cost Negotiation Committee (CNC) meeting held on 2nd November 2012 with the technically qualified firms, however, recommended removal of the

CAMC clause from the Acceptance of Tender (AT) on the grounds that Armed Forces Medical Store Depots (AFMSDs) were the initial and ultimate consignee and beds were to be issued to various units in periphery as such repairs would not be required. The CNC decided exclusion of CAMC clause in violation of the provision of DPM.

The DGAFMS placed Acceptance of Tender in December 2012 on M/s Hi-tech Metal & Medical Equipments Pvt Ltd, New Delhi for supply of 1406 beds at a negotiated cost of ₹4.56 crore (excluding CAMC charges) to be delivered within 60 days *i.e.* upto 16.02.2013. However, the beds were supplied by the firm by April 2013.

While in the 2nd call, the rates of M/s Hi-tech Metal & Medical Equipment Pvt Ltd was accepted at ₹4.56 crore without CAMC in violation of provision of DPM yet in the first call lowest tender of M/s Carevel System for ₹3.93 crore was rejected due to non-quoting the CAMC rates. This resulted in extra expenditure of ₹63 lakh.

To an audit query (January 2013) regarding retendering due to non-quoting rates for CAMC by the lowest firm as per DPM provisions and accepting lowest rate in second call without CAMC, the DGAFMS stated (May 2013) that CAMC charges were waived off by the CNC after due deliberation wherein it was decided that concluding CAMC after warranty period would be futile and irrelevant as beds were to be distributed across the country. The reply is not acceptable as the CNC did not have powers to waive off the CAMC charges. CAMC waiver should have been obtained at the time of the first call from the Ministry to avoid excess expenditure.

Besides violation of DPM provisions Hi-Lo Beds were purchased at higher rates resulting in extra expenditure of ₹63 lakh.

In reply (July 2015), the Ministry accepted the audit observations and asked the DGAFMS to fix responsibility for the lapses.

3.8 Recoveries, savings and amendment of annual accounts at the instance of Audit

Based on our observations, the audited entities had recovered overpaid pay and allowances, sundry charges and recovered electricity charges, cancelled irregular works sanctions and amended annual accounts, having a net effect of ₹11.70 crore.

During the course of audit, we observed several instances of irregular payments, under/non-recovery of charges, issue of irregular sanctions and accounting errors. Acting on the audit observations, the audited entities took corrective action, the net effect of which is summarised below:

Recoveries

The check of records of Defence Research and Development Organisation, Principal Controllers of Defence Accounts, Military Engineer Services (MES), Canteen Stores Department (CSD) HQ *etc*. revealed instances of irregular payment of pay and allowances, electricity duty and taxes, sundry charges *etc* amounting to ₹7.02 crore. On being pointed out, the entities concerned recovered the irregular payments.

Savings

Various sanctioning authorities such as the Sub-Area HQ of the Army, Station HQ, Corps HQ, *etc* cancelled irregular administrative approvals to works. The net result of these actions was a saving of a total of ₹1.65 crore.

Amendment of annual accounts

When we pointed out instances of excess collection of Octroi and Value Added Taxes (VAT) which were not CSD Revenue, the CSD corrected the annual accounts by transferring the excess amount to General Reserve Fund. The net effect of these corrections was ₹3.03 crore.

The case was referred to the Ministry in April 2015; their reply was awaited (September 2015).