

## OVERVIEW

The total expenditure of the Defence Services during the year 2013-14 was ₹2,09,789 crore. Of this, the Navy spent ₹33,831 crore, which constituted approximately 16.13 *per cent* of the total Defence Expenditure. The major portion of the expenditure of the Navy is capital in nature, constituting almost 60.18 *per cent* of the total expenditure.

This report contains major findings arising from the test audit of transactions of the Navy, the Coast Guard, the Military Engineer Services and four Defence Public Sector Shipyards *viz.*, Mazagon Dock Limited, Mumbai, Garden Reach Shipbuilders & Engineers Limited, Kolkata, Goa Shipyard Limited, Goa, and Hindustan Shipyard Limited, Visakhapatnam. Some of the major findings included in the Report are discussed below.

### **I Medium Refit cum Upgradation of INS Sindhukirti**

The Medium Refit (MR) of an EKM submarine was due for commencement in 2001, but was carried out from January 2006, by which time the material state of the submarine witnessed extensive deterioration. The MR was scheduled to be completed by January 2009, however, due to deficiency in manpower deployment by the yard, lack of protection to main line cables, delayed supply of yard materials and modernization of equipment, the submarine was delivered by the shipyard to the Navy in June 2015, with its Sea Acceptance Trials to follow. As a result, the Navy is unable to operate one of their lethal platforms since June 2004.

*(Paragraph 2.1)*

### **II Avoidable expenditure of ₹20.80 crore on Medium Refit cum Cadet training ship conversion of INS Sujata due to improper evaluation of bids**

Navy accepted (February 2009) the unsolicited bids of M/s WISL, Mumbai (i.e. a shipyard) for conversion of Indian Naval Ship (INS) Sujata as Cadet Training Ship, on the assumption that it was a merged entity of M/s ABG,

Gujarat (another shipyard) to whom Request for Proposal (RFP) was issued (November 2008). Further, rejection (October 2009) of the bid of M/s WISL in spite of provisions for consideration of unsolicited bids in the Defence Procurement Manual and consequent re-issue (January 2010) of RFP led to a delay of 18 months in conclusion of contract and avoidable expenditure of ₹20.80 crore.

*(Paragraph 3.1)*

### **III Over provisioning of Roller Steel**

Failure of the Indian Navy to follow the extant system driven Review Programme to determine the Procurement Quantities of Roller Steel coupled with the fact that there was reduction in the holding of Sea Harrier aircraft, during the last decade led to the over provisioning and an avoidable expenditure of ₹2.54 crore. Further, due to imminent scheduled decommissioning of aircraft fleet in December 2015, the prospect of utilisation of this over-provisioned quantity of Roller Steel lying in stocks is unlikely.

*(Paragraph 3.2)*

### **IV Extra expenditure of ₹2.43 crore incurred on procurement of spares from a foreign firm**

Material Organisation, Mumbai procured spares from a foreign firm on Proprietary Article Certificate basis even though the spares were available indigenously at a much lesser cost resulting in extra expenditure of ₹2.43 crore.

*(Paragraph 3.3)*

**V Unfruitful expenditure of ₹2.17 crore due to improper planning and consequent offloading of nickel and chrome plating work**

A project sanctioned at a cost of ₹4.58 crore was short-closed after incurring an expenditure of ₹2.17 crore, due to the unilateral action of Director General Naval Projects (Visakhapatnam) in reducing the scope of work by deleting critical items. As a result, the user, Naval Dockyard, Visakhapatnam [ND (V)] was deprived of the intended facility and had to off-load Nickel/ Chrome plating jobs to private trade.

*(Paragraph 3.4)*

**VI Excess procurement of naval stores worth ₹1.03 crore**

Lack of due diligence on the part of Material Organisation, Visakhapatnam {MO (V)} in analysing the specification while placing the purchase order led to excess procurement of cables and resultant avoidable expenditure of ₹1.03 crore.

*(Paragraph 3.5)*

**VII Non exercise of Tolerance clause resulting in avoidable extra expenditure of ₹1.44 crore**

Lack of due diligence by Navy in consolidating the requirement before issuing the Request for Proposal (RFP) led to issue of two separate RFPs for same type of equipment within eight months. Further, it did not invoke the provision of Tolerance clause included in the RFP which resulted in procurement of the same item from the same firm at a much higher rate thus incurring an extra expenditure of ₹1.44 crore.

*(Paragraph 3.6)*

### **VIII Avoidable payment of interest amounting to ₹1.15 crore**

Undue delay by the Engineer-in-Chief Branch in taking up an Arbitration Award for seeking advice of the Legal Advisor (Defence) resulted in an avoidable payment of penal interest of ₹1.15 crore. Moreover, a Project sanctioned in 2003 is still languishing even after a lapse of 12 years with a 42 *per cent* increase in Project cost so far.

*(Paragraph 3.7)*

### **IX Unwarranted procurement of Electric Tachometers**

Material Organisation, Mumbai {MO (MB)} concluded a contract in May 2009 for purchase of 14 Tachometers at a cost which was about 15 times higher than the Last Purchase Price of another contract concluded just two months before, in March 2009, for purchase of 24 Tachometers resulting in extra expenditure of ₹76.44 lakh. Further, in gross violation of Defence Procurement Manual, MO (MB) raised the indents for procurement of Tachometers without assessing the requirement which led to 23 Tachometers worth ₹85.74 lakh lying in stock for the last four years without any demand.

*(Paragraph 3.8)*

### **X Delay in acquisition of Inshore Patrol Vessels**

Acquisition of Inshore Patrol Vessels (IPVs) for Coast Guard on nomination basis for timely replacement of existing 13 IPVs did not fructify due to procedural delays. Resultantly, eight of the thirteen IPVs decommissioned between December 2008 and July 2013 could be replaced after a delay of four to sixty months, while replacement of the remaining five IPVs had not been received, thereby resulting in restricted operational effectiveness of the Coast Guard.

*(Paragraph 4.1)*

## **XI Utilisation of facilities created by Shipyards**

Garden Reach Shipbuilders and Engineers Limited created facilities without ensuring orders commensurate with the facilities created resulting in under utilisation of facilities created. The facilities created in Goa Shipyard Limited remained underutilised due to non-finalisation of collaborator for Mine Counter Measure Vessels project and non-receipt of orders for Offshore Patrol Vessels.

*(Paragraph 5.1)*

## **XII Non-recovery of Liquidated Damages – Mazagon Dock Limited**

Non-recovery of liquidated damages amounting to ₹2.75 crore by Mazagon Dock Limited for delay in completion of the works was an undue favour to the contractor.

*(Paragraph 5.2)*

## **XIII Diversion of funds by Hindustan Shipyard Limited**

Hindustan Shipyard Limited, despite receiving funds from Ministry of Defence (MoD), did not commence the work of Repair and Refurbishment of Machinery and Infrastructure due to absence of orders from MoD. The funds received were kept in fixed deposits and also temporarily diverted to meet the working capital requirements contrary to the terms of sanction.

*(Paragraph 5.3)*