

## **CHAPTER I: INTRODUCTION**

### **1.1 Profile of the audited entities**

This report relates to matters arising from the audit of financial transactions of the following organisations under the Ministry of Defence:

#### **1.1.1 Indian Navy**

The Indian Navy is headed by the Chief of Naval Staff. Integrated Headquarters Ministry of Defence (Navy) is the apex body and chief management organisation responsible for command, control and administration of the Indian Navy. Operational and maintenance units of Indian Navy primarily consist of warships and submarines, dockyards, naval ship repair yards, armament and weapon equipment depots and material organisations. Indian Navy has an Aviation wing with air stations and allied repair facilities under them. Indian Navy also has warship overseeing teams which monitor the construction of ships and submarines at the concerned shipyards.

The objective of the Navy's military role is deterrence/ dissuasion against any intervention or act which is against our National interests, and the ability to inflict a crushing defeat on the adversary in the event of hostilities. Major contributions<sup>1</sup> of the Indian Navy to the nation during the year 2015-16 were:

- Hosting of International Fleet Review (IFR-16) at Visakhapatnam from February 4<sup>th</sup> to 8<sup>th</sup> February 2016.
- Commissioning of Indian Naval Ship (INS) Kochi, the second ship of the Kolkata class guided missile destroyer.
- Commissioning of INS Astradharini, Torpedo Launch Recovery Vessel (TLRV).
- Commissioning of Training Simulator facility to train personnel in operation of MiG 29K aircraft.

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<sup>1</sup> Source: Government of India, Ministry of Defence Annual Report 2015-16

- Induction of eight P-8I Long Range Maritime Warfare (LRMRASW) aircraft.
- Commissioning of 13 Immediate Support Vessels (ISVs).

### **1.1.2 Indian Coast Guard**

The Indian Coast Guard was created to protect the country's vast coastline and offshore wealth. The Director General, Coast Guard exercises general superintendence, direction and control of the Coast Guard. The Coast Guard has various types of patrol vessels for patrolling the coastline for illegal activities like smuggling, trespassing into Indian Maritime zones, etc. Coast Guard also has an Aviation wing to patrol the coastal areas and carry out Search and Rescue Mission at sea with fixed and rotary wing aircraft. The aviation wing has Coast Guard Air Stations and Air Enclaves for effectively carrying out its duties in all the coastal areas. Major achievements<sup>2</sup> of the Coast Guard during the year 2015-16 were as follows:

- Commissioning of Offshore Patrol Vessel (OPV) *viz.*, Indian Coast Guard Ship (ICGS) Samarth.
- Induction of Pollution Control Vessel (PCV) *viz.*, ICGS Samudra Pavak.
- Commissioning of seven Fast Patrol Vessels (FPVs).
- Commissioning of 11 Interceptor Boats (IBs).

The report also relates to matters arising from the audit of financial transactions of the following organisations under the Ministry of Defence:

- Defence Research and Development Organisation of Ministry of Defence and its laboratories dedicated primarily to Indian Navy.
- Defence Accounts Department dealing with Indian Navy and Indian Coast Guard.
- Military Engineer Services dealing with Indian Navy and Indian Coast Guard.

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<sup>2</sup> Source: Government of India, Ministry of Defence Annual Report 2015-16

## **1.2 Authority for audit**

Article 149 of the Constitution of India and 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.

Office of the Principal Director of Audit, Navy, New Delhi, and its three branch offices at Mumbai, Visakhapatnam and Kochi are responsible for audit of Indian Navy, Indian Coast Guard and other related organisations.

## **1.3 Audit methodology and procedure**

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. An annual audit plan is formulated to conduct audit on the basis of risk assessment.

Audit findings of an audited entity are communicated through Local Test Audit Report/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 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 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 Defence Budget**

The Defence budget is broadly categorised under Revenue and Capital expenditure. While Revenue expenditure includes pay and allowances, stores, transportation and works services, etc., Capital expenditure covers expenditure on acquisition of new ships, submarines, weapons, ammunition and replacement of obsolete stores, construction works, etc. Details of Defence expenditure during 2011-12 to 2015-16 is reflected in the table below:

**Table-1.1: Total Defence Budget allocation and Actual expenditure**

(₹ in crore)

Description	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Budget allocation</b>	1,78,891	1,98,526	2,17,649	2,54,000	2,64,142
<b>Actual expenditure</b>	1,75,898	1,87,469	2,09,789	2,37,394	2,43,534

Source: Year-wise Appropriation Accounts of Defence Services

The Defence expenditure in the previous five years registered an increase of 38.45 per cent from ₹1,75,898 crore in 2011-12 to ₹2,43,534 crore in 2015-16. As compared to previous year, the Defence expenditure increased by 2.59 per cent i.e., from ₹2,37,394 crore in 2014-15 to ₹2,43,534 crore in 2015-16. The share of Indian Navy in the total expenditure on Defence Services in 2015-16 was ₹35,196 crore i.e., 14.45 per cent.

### 1.5 Budget and Expenditure of Navy

The summarised position of appropriation and expenditure from 2011-12 to 2015-16 in respect of Indian Navy is reflected in the table below:

**Table-1.2: Appropriation and Expenditure**

(₹ in crore)

Description		Year				
		2011-12	2012-13	2013-14	2014-15	2015-16
<b>Final Grant</b>	<b>Capital</b>	17,922	17,066	19,386	21,807	19,757
	<b>Revenue</b>	12,347	12,755	13,364	14,536	16,126
	<b>Total</b>	<b>30,269</b>	<b>29,821</b>	<b>32,750</b>	<b>36,343</b>	<b>35,883</b>
<b>Actual Expenditure</b>	<b>Capital</b>	19,211	17,760	20,359	22,270	19,875
	<b>Revenue</b>	12,059	12,119	13,472	14,352	15,321
	<b>Total</b>	<b>31,270</b>	<b>29,879</b>	<b>33,831</b>	<b>36,622</b>	<b>35,196</b>
<b>Total Excess/ Savings (+)/(-)</b>	<b>Capital</b>	(+)1,290	(+)694	(+)973	(+)463	(+)118
	<b>Revenue</b>	(-)288	(-)636	(+)108	(-)184	(-)805
	<b>Total</b>	<b>(+)1,002</b>	<b>(+)58</b>	<b>(+)1,081</b>	<b>(+)279</b>	<b>(-)687</b>

Source: Year-wise Appropriation Accounts of Defence Services

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

### 1.5.1 Navy Expenditure

A broad summary of expenditure of Indian Navy is given in the table below:

**Table-1.3: Expenditure of Indian Navy**

(₹ in crore)

Description	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Total Defence Expenditure</b>	1,75,898	1,87,469	2,09,789	2,37,394	2,43,534
<b>Total Expenditure of Navy</b>	31,270	29,879	33,831	36,622	35,196
<b>Percentage change over previous year</b>	(+)14.61	(-) 4.45	(+)13.23	(+)8.25	(-)3.89
<b>As a percentage of total Defence Expenditure</b>	17.78	15.94	16.13	15.43	14.45
<b>Revenue Expenditure</b>	12,059	12,119	13,472	14,352	15,321
<b>Capital Expenditure</b>	19,211	17,760	20,359	22,270	19,875

Source: Year-wise Appropriation Accounts of Defence Services

The total expenditure incurred by the Indian Navy during 2011-12 to 2015-16 ranged between 14.45 and 17.78 *per cent* of the total Defence expenditure. In the year 2015-16, the expenditure of Indian Navy decreased by 3.89 *per cent* from ₹36,622 crore to ₹35,196 crore as compared to the previous year.

### 1.5.2 Capital Expenditure

The average annual distribution of expenditure over different categories for the last five years (2011-12 to 2015-16) for Indian Navy is depicted in the table below:

**Table-1.4: Capital Expenditure of Indian Navy**

(₹ in crore)

Head	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Naval Fleet	10,320 (54%)	11,074 (62%)	8,151 (40%)	13,355 (60%)	10,765 (54%)
Naval Dockyard	648 (3%)	752 (4%)	633 (3%)	635 (3%)	778 (4%)
Aircraft and Aero-Engine	4,336 (23%)	1,695 (10%)	7,746 (38%)	3,248 (15%)	4,183 (21%)
Construction Works	515 (3%)	527 (3%)	516 (3%)	646 (3%)	680 (4%)
Other Equipment <sup>3</sup>	2,583 (13%)	2,773 (16%)	2,630 (13%)	3,654 (16%)	2,656 (13%)
Others	809 (4%)	939 (5%)	683 (3%)	731 (3%)	813 (4%)
<b>Total</b>	<b>19,211</b>	<b>17,760</b>	<b>20,359</b>	<b>22,270</b>	<b>19,875</b>

Source: Year-wise Appropriation Accounts of Defence Services

The Capital expenditure of the Indian Navy rose from ₹19,211 crore to ₹19,875 crore *i.e.*, by 3.46 *per cent* during five-year period from 2011-12 to 2015-16. As compared to previous year, the Capital expenditure of the Indian Navy decreased by 10.75 *per cent i.e.*, from ₹22,270 crore in 2014-15 to ₹19,875 crore in 2015-16. During the year 2015-16, a significant portion (54 *per cent*) of Capital expenditure was incurred on naval fleet, 21 *per cent* and 13 *per cent* was spent on aircraft and aero-engine and other equipment respectively and 4 *per cent* was spent each on naval dockyard, construction works and others.

### 1.5.3 Revenue Expenditure

The distribution of expenditure over different categories of Revenue expenditure for the last five years is depicted below:

<sup>3</sup> Other equipment includes Electrical/Electronics, Weapon, Space and Satellite, Electronic Warfare, etc.

**Table-1.5: Revenue Expenditure of Indian Navy***(₹ in crore)*

Head	Year				
	2011-12	2012-13	2013-14	2014-15	2015-16
Pay and allowances	4,508 (37%)	4,697 (39%)	5,085 (38%)	5,788 (40%)	6,190 (40%)
Stores	4,173 (35%)	3,982 (33%)	4,619 (34%)	4,151 (29%)	4,166 (27%)
Works	763 (6%)	760 (6%)	1,031 (8%)	1,124 (8%)	1,309 (9%)
Transport	353 (3%)	380 (3%)	347 (3%)	355 (3%)	412 (3%)
Repairs & Refits	768 (6%)	654 (5%)	593 (4%)	863 (6%)	776 (5%)
Others	1,494 (12%)	1,646 (14%)	1,797 (13%)	2,071 (14%)	2,468 (16%)
<b>Total</b>	<b>12,059</b>	<b>12,119</b>	<b>13,472</b>	<b>14,352</b>	<b>15,321</b>

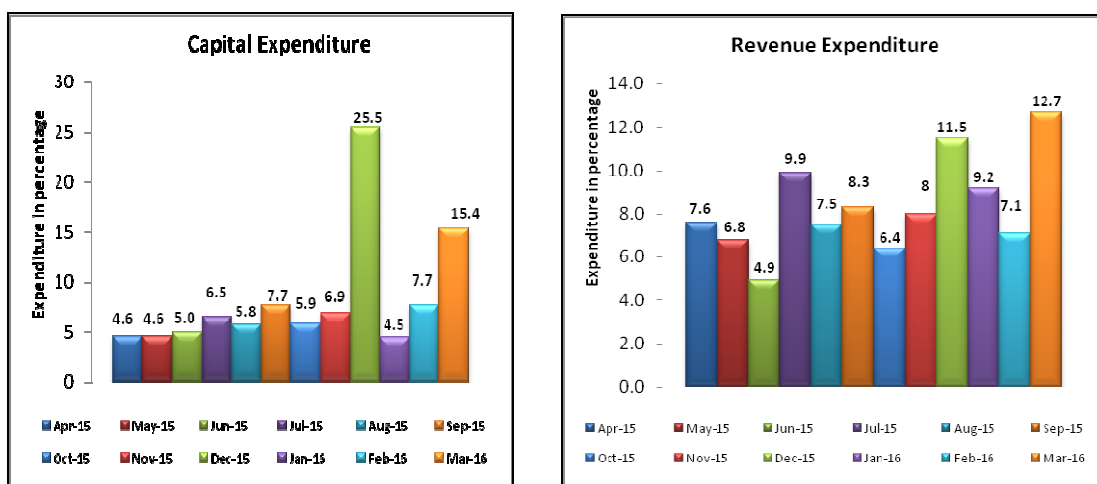
*Source: Year-wise Appropriation Accounts of Defence Services*

Revenue expenditure of the Indian Navy increased by 27 per cent from ₹12,059 crore to ₹15,321 crore during five-year period from 2011-12 to 2015-16. As compared to previous year, the Revenue expenditure of the Indian Navy increased by 6.75 per cent i.e., from ₹14,352 crore in 2014-15 to ₹15,321 crore in 2015-16. The Revenue expenditure of the Indian Navy was mainly incurred on pay and allowances and stores contributing 40 per cent and 27 per cent respectively.

#### **1.5.4 Pattern of Expenditure of Indian Navy during the year**

The pattern of Capital and Revenue expenditure during 2015-16 is indicated below:

**Figure-1.1: Pattern of Expenditure of Indian Navy during 2015-16**



Source: Information provided by Ministry of Defence (Finance) Budget-I Section.

Scrutiny of flow of expenditure revealed that Indian Navy incurred about 15.40 per cent of Capital expenditure in the month of March 2016 and about 27.60 per cent in the last quarter of the financial year, which was within the limit of 15 per cent for the month of March and 33 per cent for the last quarter as prescribed by the Ministry of Finance. The Revenue expenditure of Indian Navy was also within the limits prescribed by Ministry of Finance.

## 1.6 Budget and Expenditure of Coast Guard

Budget of the Coast Guard forms part of the Miscellaneous Grant of the Ministry of Defence. The amount provided for revenue and capital are under the Major Head 2037- 'Customs (Preventive and other functions- Coast Guard Organisation)' and 4047- 'Capital Outlay of Fiscal Services, Customs (Coast Guard Organisation)' respectively. Separate Major heads for Coast Guard expenditure under Ministry of Defence have not been opened.

### 1.6.1 Expenditure of Coast Guard

A broad summary of allotment and expenditure is given in the table below:



**Table-1.6: Expenditure of Coast Guard***(₹ in crore)*

Description		Year				
		2011-12	2012-13	2013-14	2014-15	2015-16
<b>Final Grant/ Appropriation</b>	Capital	1,600	1,565	1,060	1,140	1,500
	Revenue	933	960	1,018	1,295	1,548
	<b>Total</b>	<b>2,533</b>	<b>2,525</b>	<b>2,078</b>	<b>2,435</b>	<b>3,048</b>
<b>Expenditure</b>	Capital	1,575	1,565	1,070	1,142	1,517
	Revenue	926	945	1,048	1,286	1,517
	<b>Total</b>	<b>2,501</b>	<b>2,510</b>	<b>2,118</b>	<b>2,428</b>	<b>3,034</b>

*Source: Information provided by Coast Guard Headquarters*

The total expenditure of Coast Guard ranged between ₹2,118 crore and ₹3,034 crore during the five-year period from 2011-12 to 2015-16. The expenditure increased by 24.96 *per cent* in 2015-16 as compared to the previous year. In absolute terms the expenditure of Coast Guard increased from ₹2,428 crore in 2014-15 to ₹3,034 crore in 2015-16.

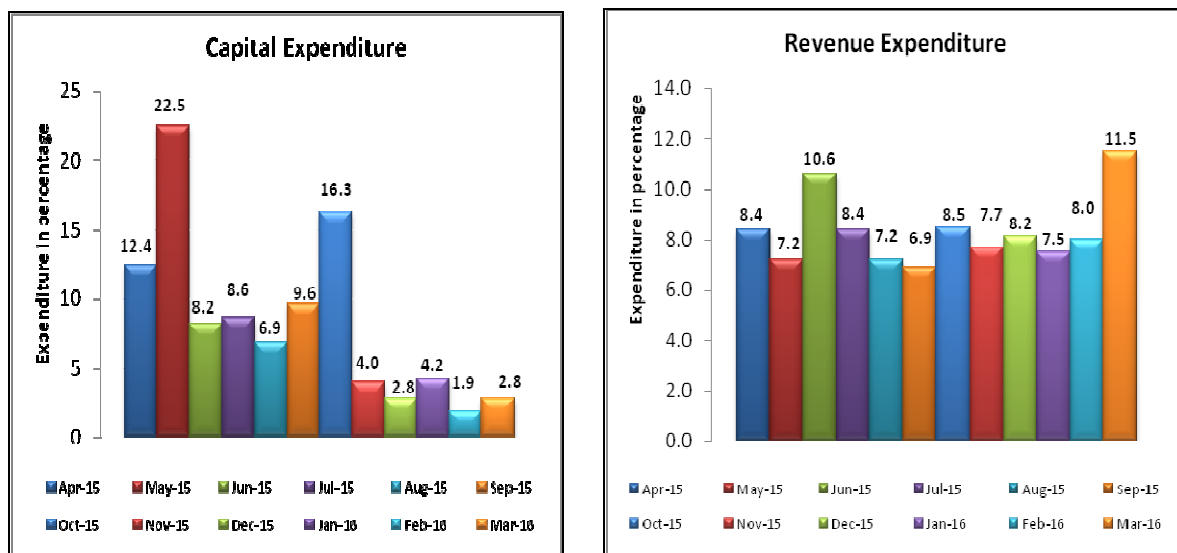
The Capital expenditure of Coast Guard ranged between ₹1,070 crore and ₹1,575 crore during the five-year period from 2011-12 to 2015-16, whereas the Revenue expenditure of Coast Guard has shown an increase of 63.82 *per cent* during the five-year period from 2011-12 to 2015-16 *i.e.*, from ₹926 crore in 2011-12 to ₹1,517 crore in 2015-16.

The Capital expenditure of Coast Guard increased by nearly 32.84 *per cent* from ₹1,142 crore to ₹1,517 crore in the year 2015-16 as compared to the previous year. The Revenue expenditure of Coast Guard increased by nearly 17.96 *per cent* from ₹1,286 crore to ₹1,517 crore in the year 2015-16 as compared to the previous year.

### **1.6.2 Pattern of Expenditure during the year**

Audit examined pattern of Capital and Revenue expenditure during the year 2015-16, which is indicated below:

Figure-1.2: Pattern of Expenditure of Coast Guard during 2015-16



Source: Information provided by Coast Guard Headquarters

Scrutiny of expenditure revealed that Coast Guard incurred about 2.80 per cent of the Capital expenditure in the month of March 2016 and about 8.90 per cent in the last quarter which were within the limit of 15 per cent for the month of March and 33 per cent for the last quarter as prescribed by the Ministry of Finance. The Revenue expenditure was also within the limits prescribed by the Ministry of Finance.

### 1.7 Receipts of the Navy and Coast Guard

The details of receipts and recoveries pertaining to the Indian Navy and Indian Coast Guard during the last five years from 2011-12 to 2015-16 for the services that they provided to other organisations/departments are given in the table below:

Table-1.7: Revenue Receipt of Indian Navy and Coast Guard

Year	₹ in crore)				
	2011-12	2012-13	2013-14	2014-15	2015-16
Receipt and Recoveries in respect of Navy	154.94	285.07	437.89	673.13	328.77
Receipt and Recoveries in respect of Coast Guard	6.73	34.41	27.19	24.60	31.45

Source: Figures of actual receipts as provided by Ministry of Defence (finance) Budget-I and Coast Guard Headquarters

The receipt and recoveries in respect of Navy ranged between ₹154.94 crore and ₹673.13 crore during the five-year period from 2011-12 to 2015-16, whereas the receipt and recoveries in respect of Coast Guard ranged between ₹6.73 crore and ₹34.41 crore during the five-year period from 2011-12 to 2015-16.

The receipt and recoveries in respect of Navy have shown a decrease of 51.16 per cent as compared to previous year *i.e.*, from ₹673.13 crore in 2014-15 to ₹328.77 crore in 2015-16, whereas, the receipts and recoveries in respect of Coast Guard have shown an increase of 27.85 per cent from the previous year *i.e.*, from ₹24.60 crore in 2014-15 to ₹31.45 crore in 2015-16.

## **1.8 Response to Audit**

### **1.8.1 Action Taken Note 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, the Public Accounts Committee (PAC) 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 laying of the Report in Parliament.

Status of outstanding ATNs on Audit paragraphs relating to the Indian Navy and Indian Coast Guard as on 31 March 2017 is shown as under:

**Table 1.8: Status of ATN**

<b>Status of ATN</b>	<b>Navy and Coast Guard</b>
Audit Paragraphs/ Reports on which ATNs have not been submitted by the Ministry even for the first time.	1
Audit Paragraphs/ Reports on which revised ATNs are awaited.	36

### **1.8.2 Response of the Ministry to Draft Audit Paragraphs**

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.

## ***Report No. 20 of 2017 (Navy and Coast Guard)***

Draft Performance Audit on “Inventory Management of Naval Stores, Equipment and Spare Parts in Indian Navy” was forwarded to the Secretary, Ministry of Defence through demi-official letter in November 2016. Similarly, 14 Draft Paragraphs were also forwarded between February and December 2016 drawing attention to the audit findings and requesting a response within six weeks.

Despite the instructions of the Ministry of Finance, no replies to eight Paragraphs out of thirteen Paragraphs including the Performance Audit, included in this Report, were received. Thus, the response of the Ministry could not be included in respect of these Paragraphs.

### **1.9 About the Report**

This report contains a Performance Audit and 12 Audit Paragraphs included in four chapters namely:

- Chapter-II containing a Performance Audit on “Inventory Management of Naval Stores, Equipment and Spare Parts in Indian Navy”
- Chapter-III on issues related to Ministry of Defence- Indian Navy containing eleven Audit Paragraphs.
- Chapter-IV on issues related to Ministry of Defence- Indian Coast Guard containing one Audit Paragraph.