

## CHAPTER IV: MINISTRY OF DEFENCE- INDIAN COAST GUARD

### 4.1 Irregular payment of ₹5.23 crore as Foreign Exchange Rate Variation to a shipyard

**Indian Coast Guard authorities made a payment of ₹5.23 crore to M/s Goa Shipyard Limited, Goa as Foreign Exchange Rate Variation due to misinterpretation of contractual provisions.**

As per Defence Procurement Procedure (DPP) 2011, the exchange rate variation (ERV) clause is not applicable, in case delivery period for imported content is extended unless the reasons for extension are attributable to the buyer.

In pursuance of the Government of India, Ministry of Defence sanction (May 2012), Coast Guard Headquarters (CGHQ), New Delhi concluded a contract (May 2012) with M/s Goa Shipyard Limited (GSL), Goa for construction and delivery of six Offshore Patrol Vessels (OPVs) at a cost of ₹1,979.61 crore. The ERV provision in conformity to the DPP-2011 was incorporated in the contract. Accordingly, M/s GSL, Goa placed two purchase orders (POs) (August 2012) on M/s Wartsila, France at a cost of €1,637,455<sup>1</sup> each, for procurement of an item 'Stern Gear'<sup>2</sup> for construction of two OPVs with deliveries in September and December 2013, extended thrice and twice respectively. The Stern Gears were delivered in April 2014 and M/s GSL, Goa levied liquidated damages (LDs) on the firm for the delays.

Audit noticed (March 2016) that as per the POs, payment was to be made to M/s Wartsila, France in two stages viz; Stage-I and Stage-II i.e., 10 and 90 per cent respectively and M/s GSL, Goa (between March 2014 and June 2014) paid M/s Wartsila, France an amount of €1,391,836.75 each against the two purchase orders (Stage-II payments) for the 'Stern Gears' as per the prevailing foreign exchange rate (FE was between ₹80.17 and ₹85.01 per Euro). As the base exchange rate fixed in the contract was ₹66.44 per Euro, M/s GSL, Goa raised a claim on Indian Coast Guard (ICG) for reimbursement of additional

<sup>1</sup> € is symbol for Euro currency

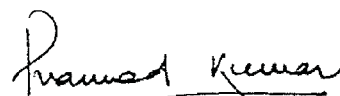
<sup>2</sup> Stern Gear- is a critical equipment, which enables propulsion of a vessel/ship.

₹4.58 crore (Stage-I and Stage-II payments), owing to ERV. The actual payment made by the ICG to M/s GSL, Goa against this claim was ₹4.50 crore. Audit sought (March/August 2016) reasons for this payment as the delays in supplying the 'Stern Gears' were attributable to the firm and payment of ERV was in deviation from terms of the contract. Audit also found that payment of ERV of ₹0.73 crore (Stage-I) was made by the ICG to M/s GSL, Goa for remaining four vessels.

CGHQ, New Delhi, accepted (October 2016) the contention of audit and stated that the interpretation of the ERV clause by the Coast Guard Refit and Production Superintendent (CGRPS), Goa was not in line with the intent of the contract and accordingly, CGRPS, Goa had been directed (October 2016) to recover ERV wrongly reimbursed to Ms GSL, Goa. They further, stated that ERV bills against Stage-II presented by M/s GSL, Goa against the other four vessels were also not being cleared for payment.

Thus, incorrect interpretation of contractual clause by the ICG led to an overpayment of ₹5.23 crore<sup>3</sup> to M/s GSL, Goa on account of ERV.

The matter was referred to the Ministry (December 2016); their reply was awaited (March 2017).



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**New Delhi**

**Dated: 4 May 2017**

**Countersigned**



**(SHASHI KANT SHARMA)**

**Comptroller & Auditor General of India**

**New Delhi**

**Dated: 5 May 2017**

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<sup>3</sup> ₹5.23 crore = ₹4.50 crore + ₹ 0.73 crore