
Defence Audit

Audit of Defence Services is one of the most important audits of C&AG in terms of coverage and materiality. Defence audit has a chequered history as already briefly narrated in Chapter-1. Audit of defence transactions is done on the basis of records produced by the Ministry, the Services and allied organisations. The financial records are obtained from the various Controllers of Defence Accounts (CDA). In addition, the Plans of the three Services and the budget of the Ministry of Defence are relied upon while drawing out the audit strategy. Information available through internet and reputed defence publications helps Audit in discharge of its mandate.

This branch of audit has often drawn maximum attention of the media and Parliament in the post 1990 era for some of the Audit Reports and paras presented to Parliament. In 1989, it was C&AG's Report on Bofors that created a furore in press and Parliament. In 2001, it was C&AG's Report on Kargil War purchases (Operation Vijay). Other Reports that drew widespread attention were: 'Design and Development of Main Battle Tank Arjun*' (Report No.7 of 1998), Development of Multi Barrel Rocket Launcher System* (the Report appeared in 1999) and Aircraft Accidents in Indian Air Force (Report of 1998)*.

The reasons for Defence Audit Reports getting so much wide publicity are not difficult to see. At Rs. 86,000 crore, defence expenditure is the third largest Central Government expenditure, first two being interests and subsidies. Every adult citizen of the country is deeply conscious of defence preparedness and issues involved in this. Any audit observation pointing to failings in this attracts much greater attention than any other report. Star audit

paras on Defence affairs have a great news value. It is to be remembered that Audit Reports on both Bofors and Kargil purchases stirred up a big debate in the media and, of course, amongst politicians even though, as is known, audit reports in themselves are generally drafted in matter of fact language without any bias.

ORGANISATIONAL STRUCTURE

Defence audit wing of C&AG comprises three distinct offices. Army Audit wing conducts the audit of Appropriation Accounts of Defence Services, Army, associated research and development establishments, Military Engineer Services divisions/ formations, related Government sanctions issued by the Ministry of Defence and Border Roads Organisation. This wing is also responsible for the cadre control of the entire defence audit establishment. The Army Audit wing was headed by the Principal Director of Audit, Defence Services at New Delhi till February 1990. In March 1990, it was upgraded to DG level.

Factory Audit wing, headed by the Principal Director of Audit (Ordnance Factories) at Kolkata carries out audit of ordnance factories throughout India, concerned inspection organisations under the Directorate General of Quality Assurance and related government sanctions issued by the Ministry of Defence.

Principal Director of Audit (Air Force and Navy) at New Delhi audits the accounts of Air Force and Navy, associated Military Engineer Services divisions/ formations, R&D establishments and related government sanctions issued by the Ministry of Defence.

The field establishment of Defence Audit (Army) comprises eight offices conducting audit of various Controllers of Defence Accounts and auditee units located in their jurisdiction. Field Offices on the army audit side are called Command Offices and the group officers are called the Command Officers to fit with the organisational structure of the defence services formations under audit jurisdiction of DGADS. There are four field offices each under PDA (AFN) & PDA (OF).

The existing designations of other IA&AS posts of Defence Audit Offices were also revised in March 1990 and instead of Director of Audit, the heads of the Air Force and Navy and factory wings were designated as Principal Director of Audit. A Resident Audit Office under Director of Audit (Navy), Mumbai was opened in Kochi in August 1993 for audit of units and formations located in Southern Naval Command excepting Goa area.

Eleven officers held the charge of the DGADS during 1990 to September 2006 for periods ranging from one month to four years. During the same period, ten Principal Directors held the charge of Principal Director of Audit (Air Force & Navy) for periods ranging from two months to four years and eight Principal Directors of Audit held the charge of Principal Directors of Audit (Ordnance Factories) Kolkata for periods ranging from eight months to over four years during 1990 to February 2007.

Audit of Defence Research and Development Laboratories: The Defence Research & Development Organisation (DRDO) is an inter service organisation under the Ministry of Defence created to serve the scientific and technological needs of the three Services i.e. Army, Navy and Air force. The Scientific Adviser to the Ministry of Defence, in the capacity of head of DRDO functions as Director General of Research and Development overseeing research work in 50 laboratories. The laboratories are grouped under eight Technical Disciplines viz. Aeronautics, Armament, Combat Vehicles and Engineering, Electronics and Computer Services, Life Sciences, Material, Missiles and Naval Sciences and Technology where as DRDO Headquarters and 43 laboratories under it are audited by the Director General of Audit, Defence Services, New Delhi. The remaining seven laboratories that specifically provide R&D support to Air Force & Navy are audited by the Principal Director of Audit (Air Force and Navy), New Delhi.

The audit areas and responsibilities of Defence Audit Offices are being reviewed from time to time. The major change that took place as a result of review was transfer of 116 Military Engineer Services divisions/ formations being audited by the DGADS, New Delhi organisation to the audit jurisdiction of the Principal Director of Audit (Air Force & Navy) and 32 Army Units audited by the latter to the DGADS, New Delhi in November 2003.

The statutory audit of the accounts of receipts and expenditure of Defence Services is carried out by defence audit offices either in Central Test Audit (CTA) or in Local Test Audit (LTA). The responsibility for correct payment and accounting rests with the Defence Accounts Department (DAD) and defence audit offices are entrusted with the task of scrutinising the transactions to see that the payments and accounting have been correct. For this purpose, each office has a CTA section. This section draws up an annual CTA plan for different sections (Pay Section, Transportation Section, Miscellaneous Section, Store Contract Section, Store Audit

Section, Engineering Section, Financial Advice Section, Disbursement Section, Accounts Section, etc.) in each CDA office. Central Test Audit comprises certification audit of all CDAs and concurrent audit on quarterly basis. The local audit of cash and stores accounts and other documents maintained by units and formations, the audit of which cannot be conducted by the Central Test Audit section is entrusted to Local Test Audit parties which carry out such audits and issue Local Test Audit Reports (LTARs) to the officers commanding the units/formations audited with a copy endorsed simultaneously to the CDA concerned. The field offices which issue the LTARs to the CDA are responsible for pursuance of the objections and for reporting important cases to their head office. On the Defence Accounts side, there are 37 Principal Controllers/ Controllers of Defence Accounts. There are twelve Area Account Offices under 7 Principal Controllers/ Controllers of Defence Accounts.

SPECIAL FEATURES OF DEFENCE AUDIT

Due to sensitivity considerations involved, Audit of Defence Services is somewhat different than other audits. The difference is not so much in regard to the audit procedures and systems but mostly in regard to audit response to the concerns of Defence Ministry regarding sensitivity of some audits.

The present C&AG V.N. Kaul observed 'Defence Audit has also to deal with the secretive nature of the functioning of defence and yet fulfil its constitutional obligation through probe and scrutiny. Audit has been able to adopt to these problems well. Secret reviews of Class 'A' equipment and Ammunition inventory of the Army was conducted in 2002. Audit of the secret projects of the DRDO are conducted annually'.

Instructions exist that all files even of secret nature are to be produced to Audit Department, of course, to the officer of appropriate level. This is an old arrangement. If the Ministry of Defence expresses a view that the subject matter of audit is such that publishing the results of audit may jeopardise national interest, C&AG takes appropriate decision whether to restrict his report to the Secretary, Ministry of Defence in such cases from where the remedial action is taken.

Another special feature of Defence Audit Reports is that unlike the Audit Reports of other wings, no press briefs are issued in case of Defence Audit Reports. This practice was introduced by

the present C&AG in 2005. Also, these Reports are not put on C&AG's official website since the year 2006.

A system of Entry Conference and Exit Conference which was introduced by Performance Auditing Guidelines of 2004 was loosely in vogue in Defence Audit even in early 1990s. (As far as Exit Conference is concerned, these were in vogue always when the draft report was discussed with the head of the auditee office before being finalised).

Another distinct feature in Defence Audit, unlike in other wings, is that the head of the concerned auditee organisation would mostly respond to the draft audit paragraphs and even to the IR paragraphs. However, the responsiveness of the Ministry of Defence with regard to draft audit paragraphs has not always been uniformly good. In some years, it has been splendid while in other years poor.

While earlier also some Performance Audit Reports in Defence Audit gave recommendations, the system of giving recommendations in the Performance Audit Report after discussing with the executive was made uniformly applicable in Defence Audit as well after the issue of new Performance Auditing Guidelines.

A special feature was that audit inputs were applied to R&D programmes and the results intimated to the Ministry of Defence for remedial or corrective action even where these were not brought out in the Audit Report. And finally, the engagement of consultant/expert in Defence Audit started from the time of C&AG Shunglu and has now become a formal part of the Performance Auditing Guidelines.

An excellent system of audit—entity interaction was attempted by Audit on the suggestion of C&AG Kaul who, during his visit to Kolkata in 2002 asked Principal Director of Audit (Ordnance Factories), Kolkata, to address or make presentation before the Ordnance Factory Board once a year when special members also attend the Board bringing out key issues. ADAI (Defence) from Headquarters wrote to Chairman Ordnance Factory Board on these lines and after an initial hesitation, the Chairman OFB agreed to this as a special case. PD (OF) made presentation on the salient features brought out by Audit needing attention of the Board during 2003, 2004 and 2005, which was followed by an interactive session with the Board. The advantage of this system was recognised by Chairman of the OFB who acknowledged three positive outcomes of this viz. i) spill-over production came to barest

minimum and at acceptable level ii) the varying prices for the same item in different factories were streamlined and iii) the indirect labour cost was brought in tune with the industry norms within the same group of factories. It seems, however, that this arrangement stopped after 2005 after the transfer of the then PD (OF)¹. However, the PD (OF) does meet the OFB for entry and exit conference on Performance Audit Reports. For example, there was an exit conference between PD and OFB regarding the Performance Audit of High Calibre Ammunition. Similarly, entry and exit conferences were held for the Performance Audit on Procurement of Stores and Machinery and on Chemical Factories and Manufacture/ Issue of 23 mm and 30 mm Ammunition.

MANUALS

Seventh edition of the Manual of the Audit Department, Defence Services was published in 1983. Since then, several far-reaching changes took place not only in the structure of the Audit Department, in the Defence Accounts Department and the Defence Services but also in the methodologies and focus of audit. DGADS published the eighth edition of the Manual in 1994 incorporating all changes upto July 1992. Ninth edition of the Manual (Part 'A', Part 'B') was brought out in two parts and published in 2005. Work relating to Part 'C' of the Manual was in progress. This Ninth edition includes new Chapters on 'Audit Approach', 'Statistical Sampling', 'Risk Assessment', 'Internal Control and Standard' and important orders and instructions issued by various authorities.

Since the existing Chapters in Defence Audit Manual for Air force and Navy proved to be inadequate, an exercise was undertaken to review thoroughly the existing instructions on the subject and bring them in tune with modern day audit practices and requirements. Taking into account all changes introduced upto June 1994, Principal Director of Audit (AF&N) brought out a new Manual in 1995 for systematising and improving the audit of the Air Force, the Navy, the Coast Guard and associated Defence R&D Units.

DEVELOPMENTS IN AUDITING

Audit Plan: Formal audit plans of the nature envisaged in Headquarters Circular of December 1994 were not prepared by Defence Audit presumably because these orders were not made

mandatory for wings other than Civil Audit. In November 2001, the then ADAI (P&T) and ADAI (Defence) had a meeting regarding audit planning in Defence Audit based on the experience and system prevailing in P&T audit. On the basis of inputs available in the audit planning model of P&T and Commercial Audit, DGADS prepared an audit plan in 2002 and sent it to Headquarters in 2003 on the advice of PD (RC) who suggested that it should be sent to Headquarters. The Headquarters were already receiving the audit plan of Principal Director of Audit (Air Force and Navy). Since then, the annual audit plans are a regular feature in the Defence Audit wing. From 2007, a quarterly monitoring report by Headquarters on the audit plan has also been introduced. This is common to all the wings dealing with Union Government audit. The audit plans for the ensuing year contained audit objectives, topics for performance audit, total number of units auditable and number of units planned for audit, party days proposed to be utilised and tentative audit plan for the following year. The audit plan prepared in June 2005 attempted for the first time a risk based audit approach to audit planning by classifying the auditee units under the following three categories:

- (i) High Risk Units
- (ii) Medium Risk Units
- (iii) Low Risk Units

This plan prepared in the context of risk profile of the auditees, was based on the instructions issued from Headquarters. A clarification issued to DGADS by Headquarters in June 2005 was that audit plan should be formulated based on the men in position and not on sanctioned strength which was the prevailing practice in Defence Audit at that time.

However, the DGADS had been reviewing the quantum and periodicity of audit for auditee units under his jurisdiction from time to time right from 1995. These revisions of quantum and periodicity were apparently linked to some kind of risk perception of the auditee units and therefore resulted in increased mandays for some units and reduction in mandays for some others. It must be said, however, that such things got streamlined only from the audit plan of 2005. After discussion with field offices, Principal Director of Audit (AFN) also rationalised the periodicity and quantum of audit of Air Force and Navy units in view of relative role/ importance/ activities/ expenditure, etc. of individual auditee units to make audit more effective and result oriented.

Principal Director of Audit (Air Force and Navy) approved the revised norms in July 2002.

The Strategic Plan for the period 2003–08 of audit for Army, Air Force and Navy and Ordnance factories was prepared by Headquarters and sent to the three Defence Audit offices in January 2003. Since then the audit plans are being formulated in line with this strategic plan. The strategic plan is constantly reviewed and if necessary revised with the approval of ADAI (RC). In fact, DGADS did send a revised strategic plan to Headquarters which was approved in July 2005.

Contract Audit System: The question of creating a scientific database containing a broad profile of all auditee units was recognised in Defence Audit and in March 2002, Principal Director of Audit (Air Force and Navy) instructed his offices to create a database containing a broad profile of all auditee units for reference by local audit parties before their proceeding on audit. The field offices were also instructed in June 2002 to issue a detailed check list to the auditees, requisitioning information on their activities and on expenditure well in advance of the actual audit. The advantage of this data was that before proceeding on actual audit, audit parties would be advised, based on the experience of earlier audits and the information received from auditees, about the focus areas where audit should give more attention during the field audit. However, Defence Audit still has to prepare an electronic data base of the auditees.

An EDP Cell was formed in DGADS office in February 2003 with the following mandate:

- ❖ Capacity building
- ❖ Undertake functions of a nodal office for computerisation
- ❖ Constant updation of data and application software
- ❖ Development of expertise in Information Technology audit
- ❖ Setting up and maintenance of LAN and to ensure data security

Audit of Autonomous Bodies under Defence Department: IDSA was the only autonomous body under the audit jurisdiction of DGADS which was audited under section 14 of the C&AG's (DPC) Act. Blanket sanction of the President of India was obtained in May 2005 to audit 62 Cantonment Boards in the country under section 14(2) as and when they qualify. After much resistance from the Director General Defence Estates (DGDE) and after the intervention of the Raksha Mantri, the audit of Cantonment Boards was taken up from 2006 onwards.

Audit of Border Road Projects in Myanmar was conducted during 1999–2000 & 2000–2001. Audit of BRO project 'Dantak' in Bhutan is being conducted annually since its raising in the year 1960s. Audit of Border Roads Organisation projects in Afganistan and Tazikistan is also proposed to be taken up.

Audit of DPDOs in Nepal: There are about 1.20 lakh Gorkha Pensioners who are being paid in Nepal. The amount paid to them is about Rs. 446 crore per annum (during 2004–05). While the original Pension Payment Order (PPO) details available with Principal Controller of Defence Accounts (PCDA) (Pensions), Allahabad were being audited by DDA, DS, CC, Allahabad, subsequent increases in the pension or changes were done by the Defence Pension Disbursing Officers (DPDOs) who were in Nepal, based on general instructions issued by PCDA (Pensions). It was decided to check in audit the correct application of the instructions issued by PCDA (Pensions) and to ensure that there were no overpayments. Defence Audit Parties went to Nepal for audit of three DPDOs at Kathmandu, Pokhara and Dharan during 2001, 2003 and 2005. The first two audits pointed out overpayments of Rs. 26.19 lakh.

AUDIT SYSTEMS

The Defence Audit follows civil audit system as far as checking of vouchers is concerned. There are CTA sections in all the field offices (Command Offices) who receive the paid vouchers from the Controllers of Defence Accounts offices and these are audited on the basis of a sample selection of one month's vouchers of all varieties. The output of Central Test Audit, however, is not much to boast of and the Audit Report material is generated by local audit parties.

Based on the half yearly programmes of Central Audit (for Central Test Audit staff) and Local Audit (for Local Test Audit parties) prepared by field offices and approved by DG/ PD concerned, the Central Test Audit is conducted in the offices of the Controllers of Defence Accounts (CDA) and Local Test Audits are conducted in local units by audit parties. On completion of audit of a particular section in CDA's office, a Central Test Audit objection statement approved by head of the office is issued to the CDA concerned for comments. Similarly, Local Test Audit parties send a draft LTAR to the head of the office for approval and issue to CDA/ Executive.

After the publication of MSO (Audit)—Second Edition, 2002 and keeping in view Auditing Standards and Manual of Audit Department, Defence Services, DGADS prescribed quality control mechanism for LTARs by introducing the following enclosures to LTARs in the prescribed format in November 2004:

- (i) Top sheets
- (ii) Auditee profile update
- (iii) Work completion certificate and
- (iv) Defence Audit Manual amendment proposal.

Command Officer's Conference: A system of calling the Conference of Command Officers (COs) has been in vogue in the Defence Audit for a very long time—even earlier to 1990. But the Conference in the earlier times was exclusively devoting its time to the discussion on Audit Report material. However, the new direction and orientation to these conferences really started from the Conference of 2004 when it was redesigned and restructured as a three day conference for reviewing the last year's performance and audit planning for the future. It was also used for deliberating and brainstorming on issues of defence management and the changes happening in the defence forces. Various think-tanks on defence, senior officers of Army and MOD, and media persons also interacted during the conferences. For example, in the last conference held in April 2007, the themes covered will indicate the scope of the discussions. These were review of previous year performance in terms of Draft Paras and Performance Audits, planning for coming years transaction audit, strengthening of certification audit in Defence, a session by media representatives to highlight issues of concern in defence requiring consideration in audit engagement, strengthening audit of procurement in defence, aid to management and its role in influencing policies in defence and planning for next years Performance Audits. It also discussed new audit of Cantonment Boards and synergising internal and external audit for better results. The Conference had, apart from top departmental officers as the resource persons, Senior Officers of the Defence also acting as key resource persons (Engineer-in-chief conducted the session on audit as an aid to the management and Controller General of Defence Accounts conducted session on synergising internal and external Audit). Besides, the very notable media persons debated on issues in defence that require consideration in audit engagements. This shift of focus has yielded much better results because it has covered all

the important issues concerning Defence Audit. The feed back received from the DGDAS was that these restructured conferences have made a much greater impact than the previous ones.

DEFENCE PROCUREMENT PROCEDURE (DPP)

Procurement budget of Defence Ministry is huge by any standards. Nearly 55 percent of the Defence budget² is spent on procurement—while nearly Rs. 30,000 crore is on capital acquisition, Rs. 18,000 is spent on revenue procurements including stores, supplies, POL etc. The Defence Ministry formulated a formal procedure for Defence capital acquisitions in 1992. But a proper, comprehensive procedure was laid down first time in 2002. Since then, the procedure has been revised in 2005 and in 2006. In 2006, two DPP were brought out, one called DPP 2006 for Capital Procurement and the other called Defence Procurement Manual for Revenue Procurement. These new procedures are effective from September 2006. DPP 2006 inter-alia laid down procedure for 'Make' decisions relating to development of systems based on indigenous research and design.

The features of the new procedures, as spelt out by Defence Secretary, are to expedite the acquisition process, placing generic requirements of Armed Forces on the website of Ministry of Defence for purpose of vendor registration, increased transparency in the conduct of field trials, provision of level playing field for indigenous vendors vis-à-vis foreign vendors in the evaluation of bids and rate contract for common user items for three years to ensure economy etc.

Most importantly, DPP 2006, according to Ministry, has a separate procedure for the acquisition of defence equipment based on indigenous research and development.

AUDIT OF PROCUREMENT CONTRACTS

Procurement Audit constitutes the most important segment of Defence Audit and therefore, from the very early times, this office has concentrated on developing the skills of the organisation in this branch of audit. The related subject to this is the audit of sanctions. Sanction audit is highly relevant in case of Defence Audit organisation for yet another reason namely building a database for picking up cases for audit. So far, this database is prepared manually and electronic database although contemplated in the

perspective plan of the department has so far not been created in the office of DGADS.

C&AG Kaul, speaking about the audit concern in defence procurements had thus to say 'In the context of defence procurements, concern of Audit is to ensure suitability of the system/procedure to the needs of the services and consequential impact on defence preparedness'³.

Principal Director of Audit (AF&N) was using a computerised contract audit system developed by TCS during 1988 in Dbase III for foreign contracts. In September 2003, an IT systems firm was given a contract by Principal Director of Audit (AF&N) for development of software package on 'Contract Audit System' for high value contracts over Rs. 15 crore concluded by Ministry of Defence, Army, Air Force and Navy. The scope of work also included certain service oriented contracts like consultancy, transfer of technology, etc. The software also covered 'pre-contract events', data relating to contract and 'post contract events'. Software included generation of certain monthly and quarterly reports. Copy of the software was also to be used by the DGADS from July 2004. This system, however, is yet to be put to use in these offices.

A guide for Audit of High Value Defence Contracts was issued by Principal Director of Audit (Air Force & Navy) in April 2005. The guide comprises three sections. Section 'A' provides the summary of Defence Procurement Procedure promulgated by the Ministry of Defence, Section 'B' a check list and Section 'C' identifies certain red flags that would attract attention of an auditor while auditing capital acquisition cases. It was emphasised that the guide would need to be continuously updated. A new comprehensive Procurement Audit Tool Kit for guiding audit of procurements is under preparation by DGADS.

Suo-moto production of high value contracts to Audit: The Ministry of Defence, after a thorough review of the previous procurement procedures and following a series of allegations on gross irregularities and malpractices in procurement system, introduced in September 2000 in consultation with the C&AG and CVC, a standard procedure for a mandatory and time bound scrutiny of all major defence purchase decisions by the C&AG and CVC. This system, which is qualitatively vastly different than any system of scrutiny by C&AG in other departments, has the following main features:

- (a) The Ministry will send (on their own) all files of purchases valuing Rs. 75 crore and above to the C&AG within a month of the conclusion of the contract but not later than three months after conclusion of the contract.
- (b) In supersession of all prevailing orders, practices, details/ case files etc. of such purchases will not be withheld from Audit on the grounds of sensitiveness of the case except with the prior approval of Secretary concerned.
- (c) The C&AG also had an obligation to scrutinize all such referred cases in a time bound manner to render a report thereon to the Government as expeditiously as possible.
- (d) Replies to audit will be given within four to six weeks as per the usual practice.
- (e) A special feature of this system was the examination by Chief Vigilance Officer of all reports rendered by C&AG to ascertain if there is a case for initiating disciplinary/ vigilance/ legal action.

Further if C&AG recommends further scrutiny of a decision from vigilance angle, the Chief Vigilance Officer of Ministry of Defence will refer such cases to the CVC.

After the introduction of the new procedure, files relating to defence deals exceeding Rs. 75 crore are being received by Defence Audit Wing for audit.

It would be relevant here to describe the audit response to the evolution of a standard procedure for a mandatory and time bound scrutiny by C&AG/CVC.

Even though prior to the issue of standard procedure of September 2000 no special scrutiny of procurement cases was in practice, Defence Audit organisation as part of their statutory responsibilities, was regularly calling for the files on defence purchases for audit scrutiny based on the sanctions/copy of contracts received by them. But the drawback was that all sanctions which are required to be endorsed by Ministry of Defence to Audit were not always endorsed as per the procedure. While agreeing to the new system of procurement audit of high value contracts, ADAI (Defence) in response to the proposal for introduction of the standard procedure wrote to the Defence Secretary in July 2000 about the submission of records which are requisitioned and information that is called for without undue delay. He had cited 57 requisitions for further information called for by one audit group that were still outstanding and had been called for during the

years 1990–99. Similarly, 73 files were not produced to Audit during the same period for their scrutiny. In nutshell, the ADAI was impressing upon the Ministry that while streamlining procedures for major contracts was a very correct step but it should be appreciated that audit carried out by the IA&AD was not restricted only to reporting 'major and serious matters to Parliament but also includes Inspection Reports which are issued to various levels within the Ministry of Defence and defence services'.

The ADAI also mentioned about large number of paragraphs which were printed in the Audit reports during the period 1996–2000 without any replies from the Ministry of Defence. These figures indicated that in certain years the non-receipt of replies was as much as 80 per cent. He, therefore, impressed upon the Ministry to follow the existing instructions and implement them in full by producing records to audit in time and also furnish replies to audit queries. In the absence of these, C&AG's Audit Reports were likely to get delayed.

ADAI also, while welcoming the submission of procurement cases of Rs. 75 crore and more to audit within a time frame, clarified that audit scrutiny in no way would be restricted to those cases only. Audit would continue to requisition all procurement files based on its assessment.

An important suggestion made in the letter was that the procedure should include a provision of issue of a certificate at the level of Secretary of the department concerned assuring that all the contracts which were due for audit under the procedure had been sent. This would also incidentally ensure monitoring at the highest level that all the contracts covered by the procedure were produced to Audit in time. This letter was duly responded with a sincere thanks to Audit for bringing out a number of discrepancies/deficiencies vis-à-vis the existing instructions concerning audit of various transactions relating to Ministry of Defence/service headquarters. It promised that appropriate remedial actions will be taken by the Ministry at the earliest possible to overcome the existing deficiencies. In particular, the Ministry asked for the details of paras/files/queries that were pending action so that these could be expedited.

Audit of course has to return the files promptly after the scrutiny. ADAI also pointed out the huge pendency of statutory audit objections from 1977–78 onwards. Ministry of Defence instructed the three Service Chiefs to review the matter and thereafter nominate a senior officer for coordinating the expeditious

liquidation of all pending audit objections in a time bound manner not exceeding three months. However, despite this arrangement, as brought out elsewhere, there still exists huge pendency in outstanding audit objections.

C&AG's Audit Report on Defence Services recently presented to Parliament⁴ has analysed, in its Performance Review titled Defence Capital Acquisition (Army), the new defence procurement system introduced by the Ministry of Defence during the period 2000–06. This review appreciated the substantial changes introduced through DPP 2002, 2005 and 2006 in the acquisition procedure by including Integrity Pact, off set provisions, decisions through collegiate process, vendor registration through internet, time frame for procurement process, etc. However, the Report concludes that efficacy of these reforms was still to be seen. These remarks apparently are based on the audit findings which showed that acquisition planning process still suffered from delays—perspective plans were not finalised timely. It cited that the case of Tenth Five Year Plan for the Army for the period 2002–07 was still not approved as of July 2006 which was the last year of the plan. As regards fulfilment of the capital acquisition plans, the Report demonstrates that percentage achievement of five year Army plans for capital acquisition was very low vis-à-vis planned targets. The achievements/successes during last three five year plans varied from 5 to 60 per cent and it revealed that of the 250 items planned for acquisition in the Tenth Plan, only 96 items were acquired upto March 2006 which was the fourth year of the five year plan.

Similarly, on budget allocation and utilisation for such procurement, Audit found that budget allocation which were lower than the projected requirements of the Army could not be utilised fully and there were shortfalls in the expenditure actually incurred vis-à-vis these allocations during all the four years from 2002–06. This may adversely impact on fulfilment of perspective capital acquisition plans. On the contrary, Audit discovered that there was significant amount of unplanned procurement since several items not included in the Tenth Plan were procured each year. Percentage wise unplanned procurements jumped from 2 per cent in 2003–04 to 43 percent in 2005–06 in terms of value. Lack of coordination in procurement of items which was common to the three services namely Army, Air Force and Navy was observed in many cases. Audit also commented on deficiencies in formulation of General Staff Qualitative Requirements (GSQRs) which are actually user requirements. The result was, the procurement were

delayed. The process of formulation of GSQRs was also defused because the user directorates were doing this without gathering adequate market intelligence and relying sometimes on the manufacturers' brochures only. Such a system obviously restricted number of potential vendors and additionally reduced the scope of offering alternate innovative solutions by vendors. With regard to vendor response, Audit found this to be too low and it also discovered that the identification of vendors in respect of most of the capital acquisition was inadequate. In a damaging comment, Audit pointed out that the process of technical and trial evaluation did not demonstrate objectivity and fair play. In its study of 16 cases, Audit discovered that in seven cases, trials were not conducted as per the trial directives and many of the parameters could not be tested due to lack of testing facilities as a result of which the quality of procurement could not be ensured. It also found that time taken for trial evaluation was unduly long and, what is worse, time taken for preparation of trial evaluation report was even longer than the trials. This was in fact very strange.

Internal lead time was found to be too high in majority of procurements and even when procurement was through Fast Track Procedure, there were still inordinate delays.

Since there were multiple agencies for procurement with dispersed centres of accountability, the result was lack of coordination, defused accountability and delay in procurement. Audit recommended the integrated defence acquisition organisation to be put in place in order to improve the efficiency and accountability of the acquisition system. Apparently, from the audit review, it would appear that DPP though has made several commendable provisions, in practice the capital acquisition system has a long way to go before it could be given a satisfactory chit.

TRAINING IN DEFENCE AUDIT DEPARTMENT

Training to the Defence Audit staff including supervisory staff is conducted at RTIs, iCISA and inhouse. Data given by the DGADS indicates that induction courses for auditors were held in command offices Meerut and Pune. Four such courses for SOs/AAOs were conducted during 1998–2006 by DGADS in his office in New Delhi. While specialised training on DRDO was held in 2003 on Audit of MES/Public Works at Noida and training on certification of Defence Accounts was held in 2004 at RTI, Pune. Training programme on Central Audit was held in iCISA, Noida in 2004 and in DGADS

office in 2005. A course on IT Audit was held at iCISA, Noida during 2006.

Considering that the key audit area of Defence Audit is audit of procurement contracts, it would appear that the training inputs regarding procurement audit and audit of contracts are not commensurate with the key status that it occupies as an activity in the Defence Services. In fact, no special course on procurement audit seems to have been conducted for last many years. A manual on procurement audit is being attempted by DGADS.

An interesting development has been the recognition to sensitize the Defence Services to audit and financial management just as there is a need for sensitizing the auditor to Defence Forces. Towards the former, the Indian Audit and Accounts Department has initiated steps and is organizing training of service officers of the rank of Lieutenant Colonels and Colonels since 2004 at NAAA, Shimla as also iCISA, Noida and the feed back reports are encouraging.

Another redeeming feature receiving attention of late is synergy development between external audit (C&AG's audit) and the internal audit conducted by Defence Accounts Department. Such synergy would ensure the efficient utilisation of audit efforts of both external audit and internal audit. C&AG Kaul had emphasised this aspect while giving the key note address in the International Seminar on defence finance and economics in November 2006.

AUDIT REPORTS

Defence Audit Report is issued in two volumes—a report on Army and Ordnance Factories and other one on Air Force and Navy. Till the Audit Report for the year ended March 1987, there was a single report of C&AG on Defence Audit.

Barring the secretive audit concerning a small portion of expenditure, most of the expenditure of Defence is audited and reported in the normal Audit Reports of the C&AG presented to Parliament. The process leading to the publication of audit paras in the Audit Report is same as for Civil Audit Report. Important paras in the Inspection Reports are culled out for processing as draft para in the case of transaction audit while performance audits are initiated as separate audits and a report on such audit forms the draft report on Performance Audit. Important draft audit paras are discussed generally by the Secretary (Defence) with the ADAI

dealing with the Defence Audit Report. However, most of the paragraphs are discussed with the Heads of the auditable units.

Like in Civil Wing, C&AG submits 3 types of Reports to Parliament on Defence Audit:

- (1) Report on Certification of Appropriation Accounts
- (2) Report on Transaction Audit or Compliance Audit as it is now called
- (3) Performance Audit

(1) C&AG certifies Appropriation Accounts of the Defence Services but the comments on Appropriation Accounts are contained in C&AG's Report (Civil) No.1 on Union Government Accounts. This change came in the year 2003—prior to that the comments of C&AG on Appropriation Accounts of Defence Services were part of the Defence Audit Report on Army and Ordnance Factories.

(2) C&AG's report on Transaction audit, as in other wings, is issued (as distinct from Report on Performance Audit) as an exclusive volume since Audit Report for the year ended March 2005 in respect of both the Reports viz. Army and Ordnance Factories and Air Force & Navy.

The floor money value for a transactions audit para to be included in the Audit Report was raised to Rs. 20 lakh in 2006 from the earlier ceiling of Rs10 lakh. In practice, most of the Paras are of much bigger money value. A look at the Audit Reports for the year ended March 2001/ March 2002 reveals this. For example, in Audit Report on Army and Ordnance Factories for the year ended March 2001, out of 62 Paragraphs on transactions audit, the highest value para was of Rs.16. 32 crore and the lowest money value para was Rs. 82.85 lakh. Next year's report had the highest value for audit para at Rs. 607.43 crore while the lowest value para was of Rs. 30.48 lakh.

The consolidated money value of the paras in the Audit Reports of 3 years ending 2006 Report, is given below:

Year	DGADS		PDA (OF)		PDA (OF)	
	No. of paras	Money value (Rs. in crore)	No. of paras	Money value (Rs. in crore)	No. of paras	Money value (Rs. in crore)
2004	19	82.72	16	35.19	18	86.94
2005	24	195.33	9	35.75	23	599.78
2006	18	38.97	11	25.40	18	1115

(3) Defence Audit Reports have traditionally produced very strong Performance Audit Reports which is quite understandable in view of huge expenditure it audits.

Before 2005, when present C&AG demarcated Audit Reports into Transactions Audit Report and Performance Audit Report, Performance Reviews on Defence Audit were included in the single volume of respective Report viz. Army and Ordnance Factories and Air Force & Navy. Occasionally, however, standalone Reports were also brought out. These Reports were always considered of great importance.

FOCUS AREAS IN AUDIT REPORTS⁵

Audit output surveyed over a period of 16–17 years beginning 1990, would reveal the more important focus areas of Performance Audit/ Transaction Audit.

The thrust areas in the Report relating to Army and Ordnance Factories are Defence acquisition and procurements, various aspects of Ordnance Factories like production planning, manufacturing, provisioning of stores and machinery, inter factory demands etc. The other aspects generally covered in this Report either every year or intermittently are manpower, armament & ammunition, research and development, inventory management, quality assurance and inspection, MES dealing with works and contracts, border roads organisation, canteen stores department, cantonment boards.

Comments arising from audit of Border Roads Organisation were brought as part of Defence Audit Reports in early 1990s. Earlier the paras relating to this organisation featured in Civil Reports even though audit was conducted by Defence Audit wing.

The thrust of audit and therefore audit reports is to help the defence forces to always be in a state of preparedness. Audit effort and its reports are geared to achieve help in this objective whether directly or indirectly.

But within the various aspects detailed above, audit is dominated by procurement cases. Every year, paras are there on procurement. This is not surprising since Defence Service spent as much as Rs. 15,000 crore on purchases by Army alone. Some of the important paragraphs/Performance Reports on this theme are briefly described below:

Audit Report 1991–92 brought out a Para on 'Infructuous expenditure on development of radar (Para No. 13 of Report No.

8 of 1993) which was not working satisfactorily but public sector undertaking which developed the same was not willing to undertake modifications to make it usable in low priority areas. The undertaking had been paid Rs. 1.40 crore as advance. Para 20 in the same Report brought out design flaw/manufacturing defect in components of two types of ammunition costing Rs. 10.38 crore for Army/BSF out of which components costing Rs. 78.04 lakh had to be destroyed and ammunition costing Rs. 45.07 crore could not be utilised in the absence of components, affecting operational preparedness. C&AG's Report for 1992-93 brought out an audit para on 'Establishment of an Indigenous Tankodrome' (Para 15) which was to provide operational practice facilities to the personnel of armoured regiments for firing from tank guns on the electronically controlled moving and static targets, etc. Audit findings were taken note of seriously by the Ministry who promised, apart from other things, penalty to the agency responsible for the failure. Another Review of great value was 'An interim Anti-Tank Ammunition Project' (Para 28). In his Report of 1993-94, C&AG had two interesting paras on this subject namely 'Import of Defective Barrels' (Para 24) and 'Abnormal delay in the repair of imported equipments' (Para 26) as well as 'Non utilisation of an imported equipment' (Para 27). In the same Report, C&AG brought out a Review of 'Indian Small Arms System (INSAS)' (Para 40) and two reviews on the Ordnance Factories namely Heavy Alloy Penetrator Factory, Trichy (Para 41) and Ordnance Factory, Itarsi (Para 42). In his Report of 1994-95, there was a performance review on 'Production of Artillery Training Ammunition' (Para 31). A para on 'Computerisation in Ordnance Factory organisation' (Para 32 Report No. 8 of 1996) included in this Report is detailed below:

As a continuation of ongoing process of computerisation, Ministry of Defence sanctioned a project for installing one mainframe computer at OFB and one mini computer in each of its 36 factories and two in one factory. Hardware and software costing Rs. 7.55 crore were installed at OFB and in ordnance factories by March 1991. In addition, large number of personal computers were also purchased. However, 38 mini computers and the mainframe computer were yet to be installed through Remote Area Business Message System as per design. Out of the total package of 17 interconnected modules of software procured at a cost of Rs. 1.69 crore, 15 have not been fully operational more than three and a half years after the period of implementation support by CMC

was over in March 1992. As a result, realisation of intended benefits by way of reduction of inventory, work-in-progress and the cost of production remained a far cry.

The Report of 1995–96 had a very good Performance Review on ‘Infantry Combat Vehicles’ (Para 35). In his Report for 1996–97, a Performance Review that created a good deal of media attention as also Parliament attention was ‘Design and Development of Main Battle Tank-ARJUN’ (Para 26) as well as another Review on ‘Development of Mini Remotely Piloted Vehicle’ (Para 27). In his Report of 1997–98, a Review on ‘Development of Multi Barrel Rocket Launcher System’ (Pinaka) (Para 23) was projected by C&AG. In Report of 1998–99, another very effective performance review on ‘Overhaul of Infantry Combat Vehicles and Engines’ (Para 19) was brought out. This Report also contained a paragraph on ‘Indigenous manufacture of 155 mm ammunition’ (Para 45 of Report No. 7 of 2000) which is as follows:

Army placed demands between August 1990 and March 1999 on OFB for 2.37 lakh shells (7 types), 1.19 lakh fuses (4 types), 1.29 lakh primers and 2.51 lakh propellants (4 types) of 155 mm ammunition but ordnance factories supplied only 2.23 lakh shells of four types during 1992–99. Three types of shells had not been developed as of March 1999. Similarly 0.38 lakh fuses, 0.59 lakh primers and 1.18 lakh propellants had been supplied during the same period. Delayed and reduced supply was due to delay in development and creation of production facilities at a factory as an imported machine valuing Rs. 29.36 crore had not been commissioned. Even with the supplied components only 0.38 lakh shells could be assembled as complete rounds. The reduced supplies led to import of ammunition valuing Rs. 188.10 crore.

In the Report for 1999–2000, an interesting audit para was ‘Loss due to Cavitations/Cracks in High Explosive filling of shell’ (Para 23). The Report of 2000–01 had an interesting review on ‘Delegation of special financial powers to GOC-in-C to meet the urgent and immediate requirements of counter insurgency operations and internal security duties’ (Para 18). Amongst other points brought out in the para on the irregularities committed in the use of special financial powers, there was a case relating to sub-standard stores which had adverse impact on counter insurgency duties because of its implication. This consisted of irregularities in purchase of three items i.e. Bullet Proof Patka, Long Distance Satellite Terminal and Epicoated Barrel. The defects identified in Audit in the case of first item were: there was no protection from top and lateral

side, heavy weight of the Patka was the main problem which caused headache and giddiness and the impact was that it failed to provide proper security cover to troops engaged in CIOP duties. The second item was faulty and non-functional while the third one had cracks in pointing and was not fit for second filling. The implication of these two defective items was also grave namely in the absence of equipment at number two, it was not possible to achieve a degree of effective communication system and in the case of third, the implication was in terms of deterioration in condition of ATF stored therein and consequent cancellation of sorties to forward area.

In the Report for 2003–04 (No. 6 of 2005), a Review on 'Working of Army Base Workshops' was brought out. There were several paras on acquisition and the reviews like 'Non utilisation of Radio Receiver sets' (Para 6), Procurement of Defective Transmission Reception Units (Para 23), Delayed Purchase and Insignificant Utilisation of Equipment Procured under Fast Track Procedure (Para 4) which was basically a commentary on the sad state of affairs of the demining equipment supposed to be procured under Fast Track Procedure had several holes. Even though the Fast Track Procedure was meant for a quicker and speedy delivery of the demining equipment, the contractor was not given a specific short term delivery schedule and instead he was generally asked to deliver at the earliest. PAC came heavily on the fact that against the original period of four months, the contractor was given nine months to deliver the equipment. The Committee was of the view that in such circumstances, equipment could very well have been procured under normal procedure itself since the department hardly showed the urgency that ought to have been shown under a Fast Track mechanism. The Committee also found fault with the evaluation of the Technical Evaluation Committee and more surprisingly, the PAC found that the contract executed with the supplier did not contain any provision for life span of the equipment although all demining equipment are stated to have a specified shelf life. The overall effect of all the mismanagement of this contract by the Defence Ministry was that the equipment which were required urgently for demining mine fields were actually received much later than what was contemplated in the contract and even after the delayed delivery by six months over the original schedule, only 50 percent of the ordered equipment was actually delivered. Result, there was hardly any progress in the demining work since out of 2,78,300 mines proposed to be recovered, only 1182 mines which is merely 0.42 per cent of the total work were recovered

using the demining equipment and remaining mines were recovered manually. PAC holds that Ministry would learn right lessons from this experience and take adequate care to prevent recurrence of similar lapses.

While new Performance Auditing Guidelines were being drafted, PDA(OF) offered to carry out a Performance Review on 'Performance Audit of the Manufacture of High Calibre Ammunition in Ordnance Factories' (Report No. 15 of 2005) as per new guidelines after risk analysis. In fact, the risk analysis adopted by him was circulated to various field audit offices. The paragraph in brief as per the Audit Report is:

- ❖ Despite significant requirement of ammunition, Army placed insufficient orders on the Ordnance Factory Board (Board). The Board, while allotting production targets to various factories did not include the entire demand. This led to underutilisation of plant and machinery on the one hand and import of ammunition by the Army on the other.
- ❖ The Board failed to monitor the variation in prices of ammunition fixed at the beginning of the financial year with reference to the value of production. Consequently, the prices charged to the Army were less than the actual cost by 11 to 44 per cent during 1999–2004.
- ❖ Army was saddled with three variants of unserviceable 125 mm ammunition valued at Rs. 706 crore awaiting rectification/ replacement for four to eight years. This necessitated import of the ammunition worth Rs. 317 crore by the Army during 1999–2003. Besides, various established ammunition and components valued at Rs. 235 crore were rejected by the Quality Assurance Agencies during 1999–2005. This resulted in import of components valued at Rs. 46.89 crore during the same period by the assembling factory.

Audit Report gave six recommendations to streamline the existing system. This Performance Audit also included a comment on fictitious transactions which is mentioned below—this was an often used practice in the Ordnance Factory organisation:

Fictitious transactions to avoid surrender of funds: A wrong practice followed in ordnance factories was showing the items which were still under production as having been issued affecting the accuracy, reliability and completeness of Annual Accounts. The value of such items commented upon in Paragraph 40 of Report No. 7 of 2002

was Rs. 514.60 crore. In the Performance Audit Report No. 15 of 2005 relating to manufacture of high calibre ammunition, value of such item commented upon was Rs. 1746 crore. C&AG Kaul in his key note address in International Seminar on Defence Finance & Economics (November 2006) had mentioned this serious deficiency in the internal control system and pointed out that the system should be made sensitive to manipulations.

Audit Report, Defence Services on Air Force and Navy: It contains, as the name suggests, audit findings on the Air Force and Naval establishments including Coast Guards. The sub themes here also, are, often similar to the other Report viz (in case of Navy) acquisitions, works services, provisioning etc. Research and Development gets a separate chapter in this Report too. Some of the significant paras/ performance reviews in this Report are mentioned below:

Audit Report for the year 1993–94 had a performance review on 'Induction of an aircraft' (Para 4). The review highlighted deficiency in squadron strength due to delay in ferrying of aircraft procured from abroad, significant shortfalls in flying effort, delay in setting up repair facilities, non induction of imported weapon system resulting in aircraft being vulnerable to emerging electronic threat, gross under-utilisation of mission simulator for training of pilot. Para 34 in the same Report on 'Delay in fabrication and supply of a target simulator' brought out use of risky option of utilising real targets for training since the versatile acoustic targets fabricated after a delay of five years by a Research and Development Laboratory had not been handed over. The Audit Report for the year 1994–95 contained a review on 'Development and manufacture of a trainer aircraft' (Para 6) which highlighted not only time and cost overrun in its manufacture by a PSU but also its deficient performance regarding further modifications for imparting proper training. It also contained two other paragraphs on 'Delay in operational deployment of imported systems' (Para 21) and 'Delay in development-cum-production of a system (Para 39) which were examined by PAC. Audit Report for 1997–98 contained two reviews on 'Development of an Airborne system' (Para 27) highlighting deficiencies vis-à-vis project endurance, speed, altitude and detection range of the Airborne Surveillance Platform for early warning (AWACS) programme under development which crashed in flight trials. The programme for indigenous development of the system was not pursued after this

crash. The Ministry stated in March 2001 that import of three AWACS had been approved. Another performance review in this Report was on 'Light Combat Air Craft'. Audit Report for the year 1998-99 contained a review on 'Acquisition of SU-30 aircraft' (Para 2) and 'Project Seabird' (Para 17). The completion of project sea bird conceived to meet deficiency in infrastructure, congestion in existing naval bases and anticipated naval strategy was rescheduled to 2005 against original date of completion of 1995. First contact for marine works was completed after 14 years of sanction of project. There was huge cost overrun. The project was again reviewed by Audit in Report No. 4 of 2006 (paragraph 3.5). The Navy expects that all facilities will be commissioned by mid 2006. Audit commented that in the present scenario, the base was unlikely to be fully functional until 2006. Further, environment management will need to be accorded high priority to ensure that the adverse impact on the fragile coastal ecosystem is contained to the barest minimum.

Audit Report for the year 2000-01 had some important paragraphs on procurement. These were 'Procurement of Unreliable fuses' (Para 8) worth Rs. 54.52 crore ignoring problems faced in earlier supply, 'Defective contract leading to fraudulent payment' (Para 10) of US \$ 489,970 for which no responsibility had been fixed even after 4 years and 'Delay in development and production of indigenous mines' (Para 22) leading to continued use of vintage mines of doubtful effectiveness by Navy seriously compromising operational preparedness. 2001-02 Audit Report highlighted 'Mismatch in procurement of bombs and components' (Para 8) necessitating alternative arrangements that were relatively less effective and reliable, 'Award of contract in violation of CVC guidelines' (Para 3) and 'Procurement of Unsuitable Vehicles' (Para 12).

Audit Report 2002-03 in Para 4.1 relating to 'Modernisation of a submarine' commented on inadequate planning and tardy procurement for modernisation of SSK submarine (cost : Rs. 800 crore) leading to delay in modernisation rendering the submarine unavailable for two and half years apart from extra expenditure of Rs. 9.39 crore.

Para 2.2 in Audit Report for the year 2003-04 commented on non-acquiring of operational role equipment for Dornier Aircraft (cost: Rs. 188 crore) even after nine years of approval which limited the utilisation of aircraft to mere surveillance as against the

envisaged role of maritime reconnaissance and anti submarine warfare.

During the year 2006, Air Force and Navy Report was brought out in two separate volumes for transaction Audit paragraphs and performance audits. The former had a paragraph on 'Procurement of Unmanned Aerial Vehicles' (Para 2.2) at Rs. 567 crore in the wake of the Kargil Review Committee recommendation which remained unutilised since receipt during December 2002 to March 2004 due to injudicious selection of operational sites and non-completion of infrastructure facilities in time. Report No. 4 of 2006 contained three Performance Reviews on i) Licensed manufacture of an aircraft, ii) Maintenance of an aircraft fleet in Indian Air Force and iii) Project Management in Navy.

Report No. 5 of 2007 relating to transaction audit had an important para on 'Delay in replacement of obsolete radars in Air Force Stations' (Para 2.1). Procurement process in this case did not follow prescribed procedures and ten radars (cost: Rs. 251 crore) received between March 2005 and August 2006 remained uninstalled due to non-completion of work services. Air Bases continued to operate flights with obsolete radars.

The Performance Audit Report (No. 5 of 2007) contained three performance reviews on the following topics:

- (i) Operation and Maintenance of an aircraft fleet in the Indian Air Force
- (ii) Provisioning and Procurement activities at HQ Maintenance Command, Base Repair Depots and Equipment Depots
- (iii) Management of Equipment in Naval Dock Yards, Mumbai and Visakhapatnam

The Audit Report relating to Performance Audit at serial no. (ii) above commented that despite Government sanction of 1995 for transfer of procurement activities to Headquarters Maintenance Command (HMC) and the Depots, the actual transfer had been meagre as only four per cent of the total budget allocations were given to the latter. Headquarters Maintenance Command could not complete the provision review in prescribed time in 73 per cent of cases. It procured items at rates higher than the Director General Supplies and Disposals (DGSD) rate contracts resulting in avoidable expenditure of Rs. 2.33 crore. Only 17 per cent of procurements were based on open tenders and large number of Aircraft on Ground (AOG) demands for spares of aircraft could not be cleared within the due time showing that provisioning for

AOG suffered from shortcomings. Thus, benefit from transfer of procurement responsibilities to Headquarters Maintenance Command and depots remained elusive due to limited and uncoordinated devolution.

AUDIT PARAS WHERE CONSULTANTS' SERVICES WERE USED

In late 1990s and beginning of a new millennium, the emphasis in Audit Reporting in Defence Audit shifted from carrying out individual or part audits of a system/ organisation to a total evaluation of concerned system/organisation to get a much better perspective of outcomes and results. To operationalise this new emphasis, a shift from the previous policy took place. This was engagement of subject experts/consultants for the Defence Audit work. Three examples of such reviews which were carried out with the help of these experts are:

- ❖ Review on Inventory Management in Ordnance Service (Audit Report No. 7A of 2000)
- ❖ Review on Inventory Management in Indian Navy (No. 8A of 2002)
- ❖ Review on the Director General of Quality Assurance (No. 18 of 2005)

For all these reviews which were on the total system/ organisation, the services of experts, well versed in the relevant field, were utilised. The engagement of consultants was for comprehensive services. The scope of work as defined in the agreement included providing assistance in framing audit objectives, audit thrust areas, in preparing guidelines for the review, in selection of units for audit, identification of documents to be studied and audited, framing of audit questionnaire, preparation of audit plans, review of progress of work every six weeks, review on operational audit and guide the audit teams and eventually in the finalisation of draft review. These audit reviews, earned a great name, for example the review on Inventory Management in Ordnance Services (Report No. 7A of 2000) had 68 recommendations made by Audit and it is creditable that 51 of these were accepted by Ministry of Defence and Army Headquarters for implementation. Such a system would eventually be much more useful for audit impact than anything else. In 2002, the Principal Director of Audit, Air Force and Navy took the help

of a consultant to finalise the Audit Report on Inventory Management in Indian Navy. The report was placed in Parliament in November 2002 and it carried a comprehensive account of predominant range of inventory holdings—naval stores and equipments and spare parts handled by the naval logistic systems. The standalone report brought out in 2005 (No. 18 of 2005) on Director General of Quality Assurance—Army is yet another example of good use of the services of a consultant. In the case of Performance Audit of DGQA, 23 out of 25 recommendations were accepted by Ministry of Defence/ DGQA.

It is clear that the system of engaging expert consultants in the audit work in Defence Audit has proved quite a success.

RESPONSE OF THE AUDITEE TO LOCAL TEST AUDIT REPORTS

The number of outstanding objections has been steadily increasing over the years since 1991, when it was 7261 to 9225 in 2006. ADAI (Defence) had in July, 2000 written to Defence Secretary, *inter alia*, about the pendency of 8779 statutory audit objections for settlement mentioning that the oldest of these objections related to the year 1977–78. Ministry of Defence requested Chiefs of the Staff of the Army, Navy and Air Force to review the matter at their level in the first instance and thereafter nominate a Senior Officer at the Service Headquarters for coordinating the expeditious liquidation of all pending audit objections in a time bound manner not exceeding three months. The Ministry also requested for sending a monthly report regarding the progress made in liquidating pending objections to Financial Adviser, Defence Services with copies to Ministry of Defence and Controller General of Defence Accounts. Nothing much has come off this going by the pendency of such objections in 2006.

EXECUTIVE RESPONSIVENESS

A table depicting year-wise number of audit paragraphs printed in the reports of Army and Ordnance Factories, Air Force & Navy alongwith paragraphs printed without Ministry's reply is given at Annex-I.

As reflected by the table, the response of the MoD to the draft paras during the period 1992–2006 has been very poor in some years while not so in some others. It shows some kind of variation in responsiveness. However, there is no overall trend visible except

that while the report on Army and Ordnance Factories received excellent response in some years, and DPs relating to the ordnance factories have received far better response than Army in the year after 2003, the responsiveness in case of Air Force and Navy has been uniformly poor.

FOLLOW UP ON PAC REPORTS

Apart from their recommendations relating to regularisation of excesses over voted grants and paragraphs relating to follow up on Audit Reports, the PAC examined 28 Paragraphs and brought out their Reports containing recommendations. During 1990 to 2005, the Public Accounts Committee placed 31 original/ action taken reports in Parliament as a result of in-depth examination of paragraphs/ performance audits relating to Defence. Based on the Action Taken Notes furnished by the Ministry, Action Taken Reports (ATRs) on original Reports of the Committee were placed in Parliament on all the Paragraphs except on a DRDO paragraph.

IMPORTANT PARAGRAPHS

Some of the important Audit Paragraphs featured in Audit Reports for Army and Ordnance Factories as well as in the Report for Air Force and Navy are discussed below:

ORDNANCE FACTORIES

Engine Factory, Avadi: A project sanctioned for Rs. 166.44 crore in May, 1984 for production of 'A' number of engines annually for Tanks and Infantry Combat Vehicles scheduled for completion by February 1989 had not been fully completed. The scope of civil works was reduced. However, there was cost overrun of Rs. 24.50 crore as compared to the reduced scope of the project due to increase in the cost of plant and machinery because of delay in completion of the project. The delay resulted in continued import of engines / finished materials / complete knocked down kits valued at Rs. 52.48 crore till March 1992. However, due to reduction in the annual requirement of engines by the Army, the facilities created at a cost of Rs. 153.91 crores would be utilised at only 50 per cent of capacity. Although diversification activities were taken up, nothing concrete had materialised till the finalisation of Audit Paragraph.

The accounts prepared by the Controller of Accounts did not yield data to serve as measures of efficiency or for financial control as the Engine Factory was not treated as a separate entity for purposes of accounts but as a section of another factory for preparation of accounts.

(Para 3.5 of Report No. 8 of 1993)

Manufacture of defective parachutes: Parachutes of 8.5 metre dia provided with cotton / nylon loops could not bear the prescribed load at the time of supply dropping from an aircraft. In July 1987, Army Headquarters had, therefore, asked the Ordnance Parachutes Factory (OPF) manufacturing these parachutes to provide metallic 'D' rings in lieu of cotton / nylon loops. However, lack of co-ordination at various levels and lapses in taking timely action to modify the parachutes resulted in manufacture and issue of 2,44,628 defective parachutes costing Rs. 50.15 crore upto August 1991. The actual loss due to failure of these defective parachutes could not be furnished. However, loss due to failure of parachutes in one user unit alone worked out to Rs. 1.39 crore. Ministry of Defence advised Army Headquarters to hold an enquiry into the matter and fix responsibility for the lapse.

(Para 29 of Report No.8 of 1995)

Infantry combat vehicles: 745 Infantry Combat Vehicles (ICV BMP-I) were imported during 1976 to 1982 for induction in Army but facility for production of ammunition for ICV BMP-I had not been established fully and the combined effort of four ordnance factories failed to indigenise the production of ammunition in nine years even after an expenditure of Rs. 9.45 crore.

Indigenous production of the improved version of the Infantry Combat Vehicle (ICV BMP-II) had also not materialised fully due to mismatch in the production/ availability of different components. The ordnance factories were able to supply only 395 ICV BMP-II against the scaled down requirement of Army for 600 vehicles during 1992-96. Similarly, against requirement of 11.69 lakh rounds of ammunition, ordnance factories were able to supply only 6.37 lakh rounds, assembling a large portion out of partially or fully imported completely knocked downs. There was delay in setting up of facility for indigenous production of armament for which an expenditure of Rs. 87 crore was incurred. Only 61 cannons were produced with imported CKDs in four years from 1992-93, which necessitated import of 275 cannons at Rs. 31.59 crore. Even after

investment of Rs. 742 crore in setting up of facility for production of ICVs, armament and ammunition, full potential had not been realised affecting adversely the modernisation plan of the Army.
(Para 35 of Report No.7 of 1997)

MANPOWER

Recruitment and training of Army Officers: Despite increasing deficiency in officers cadre in Army from 22 per cent in 1990 to 28 per cent in 1994, no plan was formulated to make good the shortage. The actual induction was not sufficient even to cover the average annual wastage. After incurring an average expenditure of around Rs. 1.36 lakh on each student during their schooling of seven years in Sainik Schools and Military Schools, only 3.66 to 6.81 per cent of students joined National Defence Academy (NDA).

Shortfall in utilisation of designed training slots was 32 and 78 per cent in Officers Training Academy (OTA) and in Army Cadet College (ACC) respectively. Although both NDA and ACC undertake graduation courses, unutilised slots in NDA was adequate to cover the total number of trainees in ACC. Training of ACC cadets in NDA would have improved capacity utilisation of NDA with consequent savings.

Savings of Rs. 3.12 crore per annum were anticipated on merger of OTA with Indian Military Academy (IMA). Even after an expenditure of Rs. 1.75 crore on special repairs and renovations of buildings at IMA for this purpose, OTA had, however, not been merged with IMA .

Repeat graduation of graduate service personnel selected for training in ACC resulted in avoidable expenditure of Rs.1.49 crore besides delay in their induction.

(Para 21 of Report No.8 of 1996)

Recruitment and training of Airmen: Planning weaknesses in Air Headquarters led to persistent excess recruitment of Airmen in a few trades, while there were deficiencies in others. Recruitment of more than authorised strength in some trades involved a financial implication of Rs. 12.92 crore during 1992-94. Moreover, flouting the approved ratio of airmen to civilians in favour of the former entailed an avoidable expenditure of Rs. 3.92 crore in one year alone. Non-availability of firing range for one year compelled four training institutes to complete training of 146 Airmen without any firing practice and 3248 with partial firing practice. The

deficiency of training aids in training schools ranged between 5 and 92 per cent, which resulted in compromising the quality of training. One of them imparting training on servicing of aircraft did not possess a serviceable aircraft and another imparting training on five types of air defence radars had only three of them. One of the schools continued to impart limited training on surveillance radar equipment at other unit due to non-installation of the radar because of non-completion of civil works for two years.

(Paragraph 5 of Report No. 9 of 1996)

Infructuous expenditure of Rs. 2.63 crore on invalidation of recruits: Between 1999 and 2004, 1608 recruits declared medically fit at the time of their enrolment by Recruiting Medical Officers (RMOs) were subsequently declared medically unfit during second medical examination. Out of these, 1083 recruits were invalidated on grounds of diseases which existed even before enrolment but could not be detected by RMO. Apart from creating doubt about the quality of medical examination, this resulted in infructuous expenditure of Rs. 2.63 crore on pay, allowances and ration of these recruits till their invalidation.

(Para 3.3 of Report No.6 of 2005)

ARMAMENT AND AMMUNITION

Induction of an Aircraft: In order to fill the gap in the force level of Indian Air Force and to enhance its operational capability certain number of twin engined aircraft alongwith spares, related equipment, weapons and spare engines costing Rs. 1124.72 crore were imported between 1986 and 1990. The aircraft were inducted into the squadron from 1987. A few more aircraft and equipment costing Rs. 721 crore were imported during 1990.

Audit scrutiny revealed that:

- ❖ The aircraft had intensive problems in operation and maintenance since its induction due to premature failure of engines, components and systems, 74 per cent of the engines costing Rs. 326 crore available in the fleet including those procured as reserves failed prematurely within five years and had been withdrawn till July, 1992. This had reduced the fleet availability by 15 to 20 per cent and had an adverse impact on the operation and maintenance of the aircraft fleet. This led to a decision to restrict the flying efforts and thereby compromising the operational and training commitments.

- ❖ There were significant shortfalls in the performance of the aircraft fleet resulting in shortfalls in operation and training efforts. The shortfall ranged between 20.21 and 64.58 per cent in respect of combat aircraft and 58 and 83.51 per cent for trainers during 1987–91.
- ❖ There was mismatch between induction of the aircraft and establishment of its repair facilities. Though the aircraft was inducted in 1987, the facilities for its repair / overhaul was expected to be set up only by end of 1994. Till that time the engines would continue to be sent to the manufacturers abroad for repair. This resulted not only in outflow of substantial foreign exchange but also excess turn around time and reduced the availability of engines. Also by the time facilities were set up, more than 50 per cent of the total technical life of engines was over. Due to delay in setting up of repair facilities, three repair contracts for repair of 156 engines at a cost of Rs. 180.49 crore had been concluded till January, 1992.
- ❖ Non-availability of radar components resulted in grounding of aircraft fleet. Five aircraft were grounded for a period of over six to twenty months and another two aircraft were lying non-functional since September–October 1991. Unserviceability of computers also affected the operational capabilities of the aircraft fleet. Due to high rate of unserviceability, computers worth Rs. 2.50 crore had to be imported.
- ❖ The data processing unit imported at a cost of Rs. 99.52 lakh was lying unused since its receipt in August 1990.
- ❖ Expenditure of Rs. 75 lakh incurred on import of nose wheel guards that became necessary due to design deficiency or material failures could not be recovered in the absence of contractual provision.

The PAC recommended (1995) that in the light of experience in the induction of aircraft, all possible corrective / remedial steps should be taken to prevent occurrence of such difficulties in future with a view to ensuring that the defence requirements are met timely, effectively and without any compromises and incurring of extra expenditure of sizeable magnitude as in the present case is avoided.

(Para 6 of Report No. 9 of 1993)

Delay in procurement of simulators: Inordinate delay of over eight to ten years in procurement of tank simulators had deprived the Army a cost effective way of imparting training to its tank crew.

Anticipated savings of Rs. 123.52 crore per annum could also not be achieved for want of requisite simulators.

(Para 11 of Report No. 8 of 1996)

Design and development of pilotless target aircraft: The delay in development of pilotless target aircraft (PTA) not only compelled the services to import PTA valuing Rs. 23.42 crore, but also defeated the objectives of providing the services with PTA. PAC emphasised that expedient measures be taken to see that the development of the engine for PTA is completed at the earliest followed by its production so that the service reap the advantage of operating fully indigenous PTA. Ministry stated that PTAE-7 engine fitted with turbine roots were flight cleared by certifying agency and were flown successfully during May 2002. The test established that the engine could meet all the requirements of PTA upto 6.5 km altitude.

(Paragraph 30 of Report no. 8 of 1997)

Aircraft accidents in Indian Air Force: IAF lost a large number of aircraft due to technical defects. Sixty seven per cent of the total aircraft lost in 1996–97 were due to technical defects against 28 per cent in 1991–92. 82 out of 187 accidents occurred due to technical defects.

The PAC noted that even after a lapse of almost 8 years the Ministry was yet to finalise the warranty clause with HAL in respect of the aircraft (Advanced Jet Trainer) and components manufactured/ overhauled by them. The Committee emphasised that necessary steps be taken for the expeditious finalisation of the proposed warranty clause with HAL and the Committee be informed of the outcome within a period of three months.

Recommendation of the PAC had been accepted by the Ministry. The Ministry informed that the terms and conditions governing warranty for HAL's products / services to IAF were finalised and orders had been issued by Ministry of Defence on 11 August, 2006.

(Para 7 of Report No.8 of 1998)

Licensed manufacture of an aircraft: The contract signed in December 2000 between the original equipment manufacturer (OEM) and Hindustan Aeronautics Limited for licensed manufacture of an aircraft 'A' by the latter provided for payment of the entire licence fee in advance though the manufacture of 140 aircraft was envisaged in phases over 14 years.

There was no provision for supply of technical documentation by the OEM duly translated into English which led to expenditure of Rs. 41.64 crore. The contract also did not ensure complete transfer of technology.

There was no cost advantage in manufacturing the aircraft indigenously. The average price per aircraft manufactured by HAL was likely to be Rs. 28.60 crore more than that of the imported aircraft for the first block of 34 aircraft.

Government approval was obtained at the 2000 price level for a total amount of Rs. 22122.78 crore for 140 aircraft. The DPR of 2002 estimated the total cost at Rs. 34755.90 crore which was further revised to Rs. 39224.09 crore in July 2005. Even these estimates were open ended with possibility of further escalation.

The creation of repair and overhaul facilities and dedicated service support centre for aircraft 'A' were behind schedule, necessitating continued dependence on the OEM.

(Chapter I of Report No. 4 of 2006)

RESEARCH & DEVELOPMENT

Design and Development of Advanced Light Helicopter: Government signed a ten-year collaboration agreement with foreign firm 'A' in September, 1970 for design and development of an Armed Light Helicopter as a successor to the Cheetah and Chetak helicopters in the 1980s. The project was assigned to a public sector undertaking (PSU). Air HQ had proposed a change from single to twin engine configuration in August, 1977 and an agreement with firm 'B' was signed in July, 1984 at Rs. 36.04 crore (amended to Rs. 39.19 crore in December, 1985). A naval version of the helicopter was required for use by the Indian Navy. In April, 1980 Army HQ emphasised that they required two types of helicopters, one for attack role and the other for air assault and logistic support role. The helicopter was renamed Advance Light Helicopter (ALH) and was planned to be inducted in service in 1986–87.

Audit Scrutiny of the progress of the project with reference to the requirements projected by the services as also the performance of the collaboration agreements, current status of the project and impact of delays revealed the following:

- ❖ Agreement with firm 'A' was allowed to remain operative till September, 1980 even after change in the configuration instead of foreclosing it by invoking provisions to this effect. This

resulted in an avoidable payment of Rs. 10.75 lakh to the firm from 1977 onwards.

- ❖ Lapse of nearly four years in conclusion of the second collaboration agreement in July, 1984 after expiry of the first agreement in September, 1980 resulted in revenue expenditure of Rs. 7.56 crore on pay and allowances of technicians and acquiring of tools under the first agreement including collaboration fee of Rs. 61.95 lakh paid to firm 'A' being rendered largely redundant.
- ❖ Development and manufacture of ALH mooted as early as 1970 had not taken off even after a lapse of 20 years. The ALH presently under development was unsuitable for multi role requirements due to its size and weight and led to the decision of developing only utility version. This deviation defeated the very purpose of going in for a single design multirole ALH. The delay in availability of ALH particularly with attack role capability, apart from denying a suitable weapon system to Air Force, led to continued deployment of the available helicopters for roles for which they were not designed.
- ❖ Unsuitability of ALH being developed for attack role, led to formulation of a fresh Air Staff Requirement. However, no work had been started. Feasibility study carried out by PSU was still under discussion between Air HQ and the PSU.
- ❖ Tardy progress of the project resulted in revision of the cost of design and development of ALH from Rs. 27.36 crore in 1976 to Rs. 67.87 crore in 1984 and to Rs. 251.90 crore in 1990. The cost of ALH estimated at Rs. 35 lakh in 1971 was revised to Rs. 70 lakh in 1979 and to Rs. 9 crore in 1991. Its induction was expected to commence only after 1994–95 that too with diluted utility role.
- ❖ Despite clear provisions in the agreement with firm 'B' for payments only on completion of respective milestones, overpayment of Rs. 29.18 crore was made for three additional milestones without their physical completion.
- ❖ Due to delay in development of ALH, Navy had to stretch the existing resources accepting certain degree of reduction in the performance level and Army was unable to deploy the helicopters in all the needy formations.

The Public Accounts Committee (PAC) noted that from the very inception the aim was to develop a multirole helicopter with different equipment fit for attack, utility, air observation post and

other roles including training but vital changes in design during development had a bearing on its multipurpose utility. The Committee strongly deprecated (1994) the manner in which the project was allowed to undergo general deviations from its original perception at various stages. The Committee took a serious view (1994) of the manner in which the project developed and recommended that the reasons for the inordinate delay in the execution of this project should be thoroughly analysed at the highest level and remedial steps should be taken to ensure that the deficiencies experienced in the execution of this project are obviated in the future defence projects.

(Para 5 of Report no. 9 of 1992)

Design and Development of Main Battle Tank (MBT)—Arjun: MBT project, sanctioned in May 1974, envisaged bulk production by April 1984 so as to eliminate dependence on foreign countries for Armoured Fighting vehicles. The tanks were to be in service during 1985–2000. Army had, however, not even completed the pre-production trial runs on a fully integrated Pre-Production series tank and clearance for bulk production had not been given by the Army. Though 24 years had passed since commencement of the project, power pack, gun control and fire control system etc. consisting nearly 60 per cent of the cost of the tank were based on imported supplies.

The actual expenditure till the closure of the development project in March 1995 went upto Rs. 307.48 crore against the initial estimated cost of Rs. 15.50 crore only.

Ministry of Defence (MOD) sanctioned two supplementary projects costing Rs. 41.98 crore in September 1995/ January 1997 for product support and modification to MBT without CCPA's approval. Trials of prototypes carried out by Army revealed major deficiencies, yet Ministry gave clearance for production of pre-production series tanks without first sorting out the deficiencies. 15 pre-production series tanks failed to meet even the bottom line parameters of the users during trials. In view of MBT's large size and weight special wagons were being designed. Use of special wagons would entail 150 per cent more charges for transportation. Despite Army's serious reservations about MBT in its present form, MOD sanctioned the manufacture of 15 tanks under limited series production at Rs. 162 crore without obtaining CCPA's approval.

PAC (1988–89) had, inter alia, recommended keeping unremitting vigil on the progress of the project for its expeditious

completion and also to ensure that the expenditure was contained within the sanctioned estimate. The Committee (1991–92) were pained to observe that the time by which the bulk production of such an important weapon system would commence could not be anticipated with any degree of certainty. PAC (1999–2000) noted (i) the steep increase in the cost of project from Rs. 15.50 crore to Rs. 307.48 crore, (ii) that the time frame fixed for the project was never adhered to and was revised from time to time and (iii) user evaluation of prototypes and PPS tanks offered for trials by DRDO from time to time were beset with numerous problems. The Committee were informed that the first Regiment was expected to be equipped with MBT from the year 2002 and two Regiments were planned to be equipped by 2007. PAC (2003–04) noted that not a single tank had rolled out from Heavy Vehicle Factory and this would have serious adverse impact on the entire planning in respect of equipping the Army.

This paragraph featured in the prestigious Janes Defence Weekly of 15 July, 1998 highlighting continuing technical deficiencies and poor operational mobility of MBT.

(Para 26 of Report No. 7 of 1998)

Development of Multi Barrel Rocket Launcher System: Multi Barrel Rocket Launcher System 'Pinaka' is a weapon for destroying / neutralizing enemy troops concentration areas, communication centres, etc. and for laying mines by firing rockets from several warheads. Ministry had sanctioned competence build-up projects for the Pinaka in early eighties with the plan to induct regiments equipped with this modern artillery warfare system from 1994. Ministry issued sanction in December 1986 to develop the system at Rs. 26.47 crore excluding the cost of manpower. The Project was to be completed by December 1992. As of 1998, Defence Research and Development Organisation was nowhere near accomplishing this target. The warheads and all the three vehicles necessary for launching the rockets viz. launcher, replenishment and command post vehicles had not been developed even after 11 years of sanction by the Ministry. Against the requirement of eight types of warheads for the rockets, only three were developed, of which one was not acceptable to Army and another was only a dummy.

The development and selection of launcher vehicle had not been completed. The vehicle required to load and replenish two salvos within four-five minutes in the launcher, needed up to 40 minutes to load one salvo. The development of command post

vehicle was also delayed due to selection of a chassis, which failed to match the mobility of the launcher.

Out of 29 General Staff Qualitative Requirements set by Army, only seven were met during the trials. Some of the Qualitative Requirements not fulfilled related to critical aspects such as range, area of neutralisation, fire power, loading time of salvo and deployment time. More importantly, since the system was not able to achieve the desired range, it was likely to be vulnerable since it will have to operate within a close range of enemy targets.

The delay in the development compelled the Army to continue to depend upon their existing outdated system whose range was much less compared to that envisaged for 'Pinaka'.

DRDO had not developed various critical components of the system despite an expenditure of Rs. 42.25 crore.

Ministry had intimated to PAC in May 2004 that the case for induction of Pinaka was put up by them to the Cabinet Committee on Security and it would take three years (after approval) to complete production and induct two regiments in the Services. From the replies furnished by the Ministry to PAC, it was noticed that many parameters as per GSQR were not achieved but shown as achieved on the basis of acceptance of Steering Committee. The expenditure incurred on the project was Rs. 55.39 crore including Rs. 11.09 crore on development of propellant by a laboratory.

(Para 23 of Report No. 7 of 1999)

Light Combat Aircraft

- ❖ The then existing fleet of combat aircraft in 1980s was expected to deplete significantly during 1990s due to phasing out of the ageing aircraft. Government approved a project for design and development of a Light Combat Aircraft in 1983, which could replace a major portion of the ageing aircraft in the 1990s. Even at the end of 1998, it had not crossed the development stage. Its production and induction into the Air Force remain only a distant possibility. The development project was behind schedule by over eight years.
- ❖ The development of the airframe by Aeronautical Development Agency Bangalore and 'Kaveri' engine by Gas Turbine Research Establishment Bangalore had been delayed badly. The technology demonstrator was expected to be flown sometime during 1999 and the final clearance was not expected before

2005. Thereafter, the time taken to establish production facility was likely to take the induction further beyond 2005.

- ❖ Indigenous development of vital sub-systems viz. multimode radar, flight control system and digital engine control system were also behind schedule, despite engagement of foreign consultants.
- ❖ The airframe developed by Aeronautical Development Agency was deficient in vital parameters of aerodynamic configuration, volume and most importantly, the weight.
- ❖ Due to delay in development of Light Combat Aircraft the Air Force was compelled to embark on upgradation of MiG Bis aircraft at Rs. 2135 crore.
- ❖ The estimated cost of Rs. 2188 crore of Phase-I alone had already overshoot the initial estimate of Rs. 560 crore by about four times. Full Scale Engineering Development of the aircraft was to be undertaken in a phased manner to demonstrate confidence levels in critical technology areas before making major investments in multiple prototype manufacture. Ministry explained in February, 1999 that delay in conducting first flight of first technology demonstration was the main reason for not seeking sanction of Phase II.

(Para 28 of Report No. 8 of 1999)

Procurement and utilization of plant and equipment in DRDO: Defence Research and Development Organisation (DRDO) provides scientific and technical aid to the Armed Forces through design and development of new and sophisticated equipment to meet operational necessity and achieve self-reliance in defence requirements. A review on the procurement and utilisation of plant and equipment by DRDO was undertaken in 15 out of 50 laboratories/ establishments as they spend 45 per cent of their budget towards procurement of plant, equipment and stores. The review revealed the following:

- ❖ Abnormal delays in installation of six machines valuing Rs.13.78 crore
- ❖ Under utilisation of four equipments valuing Rs.5.60 crore
- ❖ Four equipments valuing Rs. 3.21 crore were lying unutilised
- ❖ Eight machines valuing Rs. 1.75 crore meant for specific projects were received at the fag end/ after closure of the projects
- ❖ An equipment valuing Rs. 1.60 crore was procured beyond the scope of the project

- ❖ Assets valuing Rs. 4.89 crore were installed at Mishra Dhatu Nigam 11 years back but the cost had not been realised

DRDO agreed with the recommendations of Audit made on this performance audit. PAC also reiterated audit's recommendations.

PAC felt that since substantial portion of DRDO fund is spent on purchase of materials, a foolproof procurement planning and effective utilisation of plant and equipment needed to be ensured to derive maximum value for money. Since availability of equipment is critical for completion of projects, this will ensure their timely completion within the projected cost. Identification and disposal of surplus items have to be made a regular and time bound exercise to realise optimum sale value. Machines remaining idle needed to be reviewed on a regular basis to take immediate action for repair. Creation of central data base of prospective suppliers accessible to all laboratories/ establishments needs to be made a prioritised task.

(Para 5.1 of Report No.6 of 2004)

INVENTORY

Review of Inventory Management in Indian Navy: A comprehensive audit review brought out the following:-

- (i) There was non-standardisation and large proliferation of equipment and systems which rendered material support to Navy tedious and led to accumulation of larger inventories with associated carrying cost.
- (ii) Initial provisioning was beset with inadequate inventory related inputs into the logistics system.
- (iii) There was lack of proper feedback and analysis leading to non-availability of timely and accurate equipment / stores. Provisioning Process at NHQ was characterised by gross delays.
- (iv) Lack of adequate technical specifications in shipbuilding programmes pose major difficulties and delays in subsequent support by logistics and maintenance agencies.
- (v) System for revising and linking Budget for initial provisioning of Base and Depot (B&D)spares to actual cost of ships or their equipment, is tardy with excruciating delays in revision of sanctions.

- (vi) Prospective Planning Inputs to provisioning process through Refit Planning Procedure (RPP) have failed to achieve its objective due to poor follow up by the supply chain, inaccuracy of forecasts by Dockyards and lack of systematic post-refit analysis by Material Organisations (MOs) and dockyards.
- (vii) Adhoc provisioning at depots and over provisioning at initial stages resulted in overstocking.
- (viii) The existing system of identification and segregation of 'Non-Moving' inventory and weeding out 'surplus' items was deficient in that disposal thereof was not planned and monitored in a time bound manner.
- (ix) Recent efforts made with the Inventory Management Automation through the ILMS introduced in 1997-98 though a trendsetter have also not yielded the desired results as the system is beset with various deficiencies relating to functional specifications, database design, lack of focus in spare parts management, integration between systems and system response.
- (x) There is no concept of management of cost in the Naval Inventory Management System, resulting in lack of 'cost consciousness' amongst store managers. The Inventory Management system is lacking in a trained cadre of Inventory Managers. Service officers endeavour to learn on the job, civilian officers are poorly equipped with insufficient training and motivational inputs. Training upgrades for all categories of personnel are lacking.

Out of 67 recommendations made by Audit, Ministry of Defence accepted 45 fully and 10 partially.

(Report No. 8A of 2002)

INSPECTION

Procurement of Defective sleeping bags: This para concerns the procurement system of Defence Ministry in regard to purchases for troops stationed at Siachin. The para brought out specially the acts of commissions and omissions of the Director General of Quality Assurance of the Ministry of Defence in procuring sub-standard sleeping bags for the use of troops based in Siachin. None of these bags was found usable by them. As a result, all of them were issued for restricted use at lower altitudes.

The various acts of commissions and omissions are briefly listed below:

- ❖ Even though the Ministry was alerted against the quality of sleeping bags before the inspection of first lot of such bags, the Ministry failed to alert inspecting staff in this regard. As a result, the inspector certified the bags and that too without reference to the sample bag which was never produced to the inspecting team. Resultantly, first four-inspections were done without reference to the sample bags. Even after the Master General of Ordnance intimated the Ministry about the inferior specification of the bag, the Ministry did not communicate the rejection of the lots to the suppliers.
- ❖ Despite Army Headquarters and the Ministry being aware of inferior quality of sleeping bags, the letter of credit was renewed on the reasoning that the supplier would be told to rectify the mistake (central stitching of outer bags). The fact, however, was that all the bags had been supplied by the supplier by that time and therefore, the condition mentioned above was meaningless. Surprisingly, despite the user directorate's refusal to accept the consignment, Ministry had extended the letter of credit which facilitated its encashment.
- ❖ Enquiry conducted by the Deputy Secretary of the Ministry castigated the inspectors who cleared the first-three lots and the team which cleared the fourth lot despite availability of sample with them. The enquiry also blamed the concerned officers for not authenticating the sample.
- ❖ The case was further messed up by the Ministry in their failure to challenge the jurisdiction of French Court of Law which had given stay order to the Bank. To make the matter worse, the Ministry appointed an arbitrator for defective supply and the Ministry also did not claim liquidated damages of Rs. 1.80 crore.

The PAC who examined this case and took evidence of the Ministry got further information by scrutiny of some files which they obtained and found that financial irregularities like extension of letter of credit thrice was done without the concurrence of the Finance Division. The PAC found that comparative cost analysis was a hollow exercise without any tangible basis. The Committee was amazed that a vital element like size and specifications of the sleeping bags was not drafted in the tender document. The Committee was very critical of the inspection system which cleared the three lots without comparing the sample while the fourth lot

was cleared even though sample was available and did not match the sample. This was not the simple negligence it was a major failure of internal control. The Committee was strongly of the view that functioning of DGQA required a thorough review and revamping to ensure that the quality assurance parameters are not compromised. The Committee was also very unhappy that sealed samples were not authenticated by the designated authority. The Committee was most unhappy for release of payment to the firm despite user Directorate finding the sleeping bags defective and unacceptable. The Committee concluded that the manner in which the contract was executed by the Ministry gave an unmistakable impression that the intention was always to accommodate the foreign supplier under any circumstances regardless of the quality of bags procured and financial loss to the government. The Committee were shocked to find from the records that while the firm gone bankrupt and supplied inferior quality of bags for which the Ministry was seeking cancellation of the contract, at the same time they were negotiating another deal with the firm. The Committee, therefore, concluded that quite clearly the role of the Ministry in the entire deal was questionable and recommended that the issue be entrusted to an independent agency for thorough investigation.

(Para 17 of Report No. 7 of 1999)

ANNEX-I

Year	Report No.	Total No. of Paragraphs in the Report Army + OFs	Paragraphs printed without Ministry's reply Army + OFs	Report No.	Total No. of Paragraphs in the Report for Air Force and Navy	Paragraphs printed without Ministry's reply Air Force and Navy
1990	12	74+46	8 + 34	11	56	9
1991	8	45+50	3 + 21	9	43	8
1992	8	56+34	6 + 14	9	44	1
1993	8	34+34	1 + 3	9	50	nil
1994	8	46+38	5 + 9	9	34	10
1995	8	43+34	14+ 3	9	34	17
1996	8	34+33	14+15	9	38	21
1997	7	40+35	28+27	8	30	15
1998	7	54+22	33+10	8	32	15
1999	7	35+21	24+ 5	8	26	8
2000	7	30+18	25+ 8	8	19	2
2001	7	31+26	25+16	8	23	9
2002	7	24+25	21+18	8	19	10
2003	6	26+14	12+14	7	19	10
2004	6	19+16	9+10	7	18	14
2005	6	24+ 9	18+ 9	7	23	14
2006	4	18+11	11+11	5	18	5

NOTES: CHAPTER-8

* These cases are discussed at the end of the chapter.

¹ S. Prabhu

² The total Defence Budget for the year 2005-2006 was Rs. 86299 crore

³ C&AG's Key Note Address in the International Seminar on Defence Finance and Economics held in November, 2006

⁴ Chapter 1 of Report for the year ended March 2006 No. 4 of 2007 (Performance Audit) presented in Parliament on 14 May 2007

⁵ A more detailed version of Paras of Audit Reports marked* is at the end of the Chapter/ Appendix 'B'.

LIST OF KEY EVENTS

1 January 2000	Agreement concluded by Director (P) of C&AG's office with M/S 'Generals Combine' for study of 'Inventory held by Director General Ordnance Services'.
10 February 2000	Ministry of Defence requested ADAI (Defence) to conduct special audit of emergency procurement of items for Kargil related operations, etc.
22 September 2000	Ministry of Defence issued instructions for mandatory and time bound scrutiny of major defence purchases valuing Rs. 75 crore and above in consultation with C&AG.
27 February 2001	C&AG for the first time sanctioned audit of defence pensions being paid in Nepal.
25 July 2001	Ministry of Defence stated that audit study on 'Inventory management in ordnance' was sharply focused and very useful.
10 January 2003	C&AG decided that audit comments on Appropriation Accounts (Defence Services) would be included in Audit Report No. 1: Union Government—Accounts of the Union Government
25 February 2003	Formation of EDP cell in DGADS office.
3 April 2003	Headquarters office introduced the system of receipt of audit plans from DGADS.
18 July 2003	Chairman Ordnance Factory Board agreed to make a provision for presentation by PDA (OF) before the full Board bringing out key issues at least once a year followed by discussion, if necessary
6 November 2003	Transfer of audit of 116 Military Engineer Services divisions/ formations being audited by DGADS to PDA (AF&N) and 32 Army units being audited by PDA (AF&N) to DGADS.
8 July 2004	PDA (AF&N) developed software for audit of defence contracts valuing Rs. 15 crore and more.
18 November 2004	For achieving quality control, DGADS prescribed an information forwarding Memo containing top sheet, auditee profile update, completion certificate, etc.
31 March 2005	PDA (AFN) issued a guide for audit of High Value Defence contracts.
26 May 2005	Ministry of Defence entrusted audit of 62 Cantonment Boards to DGADS under Section 14(2) of DPC Act.
14 June 2005	Headquarters office intimated DGADS that audit plans should be formulated based on the men in position and not on sanctioned strength.

16 June 2005	DGADS categorized auditee units into High risk, Medium risk and Low risk units.
16 August 2005	C&AG decided that there should be no press notes on Defence Audit Reports in view of security concerns.

DOCUMENTS

1

Copy of Banbit Roy, Joint Secretary (P&C), Ministry of Defence, D.O. No. 734/JS(P&C)/2000 dated 10 February, 2000 addressed to Shri S. Lakshminarayanan, Addl. Deputy Comptroller and Auditor General (Defence)

Dear Shri Lakshminarayanan,

As you are aware, there have been several allegations of irregularities in the procurement of defence equipment in the recent past in Parliament as well as in the media and other quarters. During the course of the Short Duration Discussion on Defence Procurement Procedures in the Rajya Sabha on December 23, 1999, an allegation was made by an Hon'ble Member of Parliament that Rs. 30,000 crores and more of excessively and wrongly bought spares, including spares for submarines at Cochin, were lying as junk in various Army, Air Force and Navy depots. The Hon'ble Member had further suggested that the C&AG investigate whether the value of these spares was Rs. 30,000 crores or Rs. 40,000 crores. Another Member of Parliament had strongly supported that call for scrutinizing this allegation. Similarly, allegations have been made regarding irregularities in the emergency procurement of items for Kargil related operations. The allegations also merit thorough scrutiny by the C&AG of all these procurements. Allegations have also been made in regard to the transfer of technology aspect in major procurement decisions during the last 15 years where transfer of technology was contracted and paid for but technology did not get actually transferred and indigenous production was therefore not commenced.

2. In light of the above, Ministry of Defence would request that a Review/Special Audit be conducted on the above three areas in order that the allegations are subjected to a thorough and time bound scrutiny by the Comptroller and Auditor General of India with a view to ascertaining the facts.

3. The Ministry of Defence would greatly appreciate if the C&AG of India could kindly agree to its request to conduct a Review/Special Audit on the above mentioned identified areas where allegations have been made. We would like to assure that the Ministry of Defence would be extending its full cooperation to facilitate this Review/Special Audit.

With kind regards,

Yours sincerely
Sd/-
(BANBIT ROY)

Shri S. Lakshminarayanan,
Addl. Deputy Comptroller and Auditor General (Defence)
LII Block, Brassey Avenue,
North Block,
New Delhi-110001

2

Copy of Government of India, Ministry of Defence, South Block, New Delhi letter No. 3(3)/2000—PO (Def) dated 22 September, 2000

Sub.: Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence purchase decisions by the C&AG and CVC.

The undersigned is directed to refer to D.O. Letter no. Rep ©/69-2000 dated 21st July 2000 from Shri S Lakshminarayanan, ADAI (Def) and the Ministry of Defence, JS (P&C)'s D.O. letter of even number dated 21st September 2000 on the above mentioned subject and to inform that in accordance with the suggestions received from the C&AG and the CVC, the Government has since issued the revised procedure for mandatory and time bound scrutiny of all major Defence related purchase decisions issued by Ministry of Defence in this regard which is enclosed. Further in pursuance of the observations of ADAI (Def) in his D.O. letter under reference, instructions have been issued by Ministry of Defence for expeditious liquidation of Audit objections. Copies of the instructions issued in this regard are also enclosed.

Sd/-
(K.L. SHARMA)
Deputy Secretary (Def. Plg.)

To
C&AG
(Kind Attn: Shri S. Lakshminarayanan, ADAI (Def))

MINISTRY OF DEFENCE

Sub: Evolution of a Standard Procedure for a mandatory and time bound scrutiny of all major Defence related purchase decisions by the Comptroller and Auditor General of India and the Central Vigilance Commission

In view of the fact that allegations, direct or indirect of irregularities and corruption in procurements for meeting the requirements of the Armed Forces, both in respect of equipment already procured and even in cases where final decisions are yet to be taken, continue to figure from time to time in the debates in the Parliament, the media, the communications received from the Honorable Members of Parliament and other quarters, the Raksha Mantri had on 4th February' 2000 interalia directed that a standard procedure be evolved for a mandatory and time bound scrutiny by the C&AG/CVC of all major defence related purchase decisions to be taken in future.

2. In compliance of the above directions of the Raksha Mantri and after consultation with the C&AG and the CVC, it has since been decided that all decisions taken by the Ministry of Defence/Service Headquarter/ISOs etc. relating to major defence procurement/purchases/award of works etc. of a value of Rs. 75 crore and above would be subjected to a time bound scrutiny/audit by the C&AG in accordance with the following procedure.

- a) The Ministry of Defence will furnish details of all purchase/procurement decisions/award of works of a value exceeding Rs. 75 crores taken by Government/Ministry of Defence/Service Headquarters to the C&AG along with relevant files normally within a month but not later than three months after conclusion of the contract for scrutiny/special audit by the C&AG. Cases of delay in submission of the relevant details/files beyond three months will be brought to the notice of the concerned Joint Secretary. In addition, all cases of delay in submission of such details along with relevant files in respect of procurements/purchases/award of works etc. made under the delegated powers by the Service Headquarters would also be brought to the notice of the concerned Service Chief by the PSO concerned.
- b) In supersession of all existing order, practices, details/cases files of such cases will not be withheld from audit on the ground of the sensitiveness of the case except with the prior approval of the Secretary concerned.
- c) The C&AG will have all such decisions referred to them scrutinized in a time bound manner by their officers and render a Report thereon to the Government as expeditiously as possible. Considering the nature of the transaction and the complexities involved, the Audit authorities may require such further clarifications as considered expedient by them which shall be promptly replied to by the Ministry of Defence. In all cases, such clarifications/replies would be furnished to Audit within a period of four or six weeks positively after approval by the Joint Secretary concerned and concurrence by the Finance Division. In cases, where in view of the sensitivity of the Audit observations/findings and where the concerned Joint Secretary deems it necessary, these observations and replies thereof may also be submitted to other concerned senior officers at the level of Additional Secretary/ Secretary in the Ministry of Defence.
- d) Besides examination by the concerned wings, all reports rendered by the C&AG on these cases will be scrutinized by the Chief Vigilance Officer, Ministry of Defence to ascertain if there is any case for initiating further disciplinary/vigilance/legal action in the matter. Within one month of the receipt of the report from the C&AG, the CVC shall submit the highlights of cases in which further inquiries need to be conducted from vigilance/legal/disciplinary angle for perusal by the Secretary concerned and the Minister.
- e) In cases, where the C&AG recommends further scrutiny of any particular decision from the vigilance/legal angle or where the Government considers it necessary to do so, the Chief Vigilance Officer, Ministry of Defence shall make a formal reference to the CVC in the prescribed format for initiating necessary disciplinary/vigilance/legal inquiries/action by the CVC, CBI or other agencies as deemed appropriate by the CVC. Such references to the CVC shall be forwarded within a period of three months from the date the C&AG's Report becomes available to the Government for making references to the CVC, the CVO shall obtain further details, if any required from the concerned wing of Ministry of Defence or the Service Headquarters, as the case may be. Cases of delay in references being

made to the CVC would be required to be brought to the notice of the Secretary by the concerned CVO.

- f) The Ministry of Defence shall thereafter initiate expeditious legal/disciplinary action in accordance with the existing procedure in all such cases where the CVC after perusal of the cases recommends such action. The Central Vigilance Commission shall be apprised of the action taken by the Government on the advice rendered by the Commission in the individual cases in a time bound manner.

3. The above procedure is in addition to the existing provisions/instructions relating to scrutiny by Audit or pursuance of cases by the CVC and in no manner supersedes the same. Further, the C&AG may at their discretion decide to incorporate their findings on these major transactions in the Audit Report.

Sd/-

(T.R. Prasad)

Defence Secretary

M of D I.D. No.3(3)/2000-P.O.(Def)
dated 21st September 2000

3

Ranjit Issar
Joint Secretary (O)

DO No. 8752/JS(O)/2001
Dated 25th July, 2001

Sub.: Study on the Inventory Control Systems of Ordnance Services and Management of Air Force Inventory

Kindly refer to DO letter dated 13th July, 2001 (copy enclosed) from Shri. S. Lakshminarayanan, Addl. Deputy Comptroller Auditor General (Defence) to Defence Secretary containing therein a proposal to take up a study from 1st August, 2001 on the following two subjects related with the Army:

- (i) Management of Ammunition Inventory in the Army
- (ii) Management of Inventory of A vehicles and Artillery equipment.

2. You would kindly recall that a study had been conducted by the C&AG on the Inventory Management in Ordnance Depots which was sharply focused and very useful. The present proposal would also be helpful to the Army and it is in this connection that I am requesting you to kindly issue instructions to the concerned officers to extend full cooperation and produce records/books as well as information and replies to the queries raised by the study team during the course of the study.

Yours sincerely,
Sd/-
(Ranjit Issar)

Lt. Gen Vijay Lal, PVSM, AVSM, ADC
DGOS, Army HQrs
New Delhi

Lt. Gen MPS Bhandari, PVSM, AVSM, ADC
DG Artillery, Army HQrs
New Delhi

Copy to Shri.S Lakshminarayanan, Additional Comptroller and Auditor General
(Defence)

4

No. 38 Rep(C) 137-2001 (Vol. II)
Dated 10 January 2003

Sub: Merging the Report on the Postal Department with the Report No. 2:
Union Government—Transaction Audit Observations.

Comptroller and Auditor General of India has decided that while the audit observations transactions of the Postal Department will be included in Report No. 2: Union Government—Transaction Audit Observations, audit comments on Appropriation Accounts (Postal Services) will feature in Audit Report No. 1: Union Government—Accounts of the Union Government. Accordingly, the office of the DGA-P&T may please send the approved material in respect of transaction audit and comments on Appropriation Accounts to be included in the respective Audit Reports to Report (Central).

2. It has also been decided that the audit comments on Appropriation Accounts (Defence Services) will also be included in the Audit Report No. 1: Union Government—Accounts of the Union Government. The office of the DGA-DS may please send the approved audit comments on Appropriation Accounts for inclusion in Audit Report No. 1 to Report (Central).

Principal Director (RC)

Copy to:

1. Director General of Audit, Central Revenues, New Delhi
 2. Director General of Audit, Post and Telecommunications, New Delhi
 3. Director General of Audit, Defence Services, New Delhi
 4. Principal Director (SCS)
 5. Principal Director and Adviser (Report Central and States)
 6. Guard File
- Copy to PS to ADAI (RC) for information of ADAI (RC)

5

Copy of Comptroller & Auditor General of India, 10, Bahadur Shah Zafar Marg, New Delhi—110002, D.O. No. 196/73-Rep(c)/2002 dated 03 April 2003 addressed to Shri B.K. Chattopadhyay, Director General of Audit, Defence Services, L-11 Block, Brassey Avenue, New Delhi—110 001

Dear

Kindly refer to your office letter No. 4385/ECPA/120/2003/Vol. II dated 25 March 2003 regarding preparation of an Audit Plan for 2003-04. We had discussed this issue on telephone today and you had also opined that an audit plan should be formulated. I would request you to kindly forward the Audit Plan of your office at your earliest convenience. We have already received the Audit Plan from PD (AFN).

Yours sincerely

Sd/-

(H. Pradeep Rao)

6

Copy of D.K. Dutta, D.G.O. F & Chairmain, Ordnance Factory Board, D.O. No. General/BS dated July 18,2003 addressed to Shri T.G. Srinivasan, ADAI (RC)

Dear Shri Srinivasan

Kindly refer to your D.O. Letter No. 146 Rep©/37/2003 dated 2nd July, 2003 on participation of Principal Director of Audit in full Board Meeting.

Ordnance Factory Board was constituted in 1979 based on the recommendation of an Expert and High Powered Committee. The extant rules on the conduct of the business of the Board, approved by the Ministry of Defence, do not permit participation by other than full time nominated Board Members defined in the order of MOD. However, I would made a provision for presentation by Principal Director of Audit before the full Board for brining out the key issues at least once a year and this may be followed by discussion, if necessary

With regards,

Yours sincerely

Sd/-

(D.K. Dutta)

7

Office of the Director General of Audit,
Defence Services
Office Order Part I No. 71
Dated: 18th November 2004

ORDER

The submission of Local Test Audit Reports (LTAR) alongwith an informative forwarding memo for quality control has been examined in the light of issuance of MSO (Audit)—Second Edition 2002 and Auditing Standards and Manual of Audit Department, Defence Services etc. Accordingly, it is ordered that each draft LTAR will have to be accompanied by a Top Sheet in form DGADS-100, Auditee Profile Update in form DGDAS-101, Work Completion Certificate in form DGADS-102 and Defence Audit Manual amendment proposal in Form DGADS-103 whose formats are given as Annexure to this order. It is also ordered that Auditee identity No. and SUS No., if applicable, should be mentioned in all reports and returns like half yearly programme, audit progress quarterly report etc.

This order is effective for all Local Audit undertaken on or after 1st January 2005.

Sd/-
(Pravindra Yadav)
Deputy Director (HQrs)

No. 7597/A. Coord/106/20012002
dated 18th November 2004

Copy to :

1. SPS to DG
2. Performance Audit to DDA (H)/DA®/DDA(A)
3. All Command Officers O/o DGDAS
4. Sr. AO/Admn. (Local)
5. AO /Coordination (Local)
6. All Audit Groups in HQrs. For information
7. Office Order File
8. Guard file

8

Government of India, Ministry of Defence Letter No. 9/1/2004- D (Q&C) dated 26 May, 2005 addressed to Director General of Audit, Defence Services, L-11 Block, Brassey Avenue, New Delhi- 110001 and copy to others

Sir,

Whereas according to the provisions contained in section 14(2) of the Comptroller and Auditor General's (DPC) Act, 1971 as amended in March, 1984, the Audit of Autonomous Bodies can be taken up with the prior approval

of the President of India if the assistance received by the Body from the Government is not less than Rupees one crore.

2. I am directed to convey the sanction of the President for entrusting the audit of 62 Cantonment Boards across the country to the Directorate General of Audit permitting them to carry out the audit of Cantonment Boards as and when they attract the aforementioned provisions.

3. This issues with the approval of Finance Division vide ID No. 782/QB/05 dated 28.04.05.

Sd/-
(A.K. Upadhyay)
Joint Secretary to Government of
India

9

Copy of C&AG's U.O. No. 492 Rep©/20-2001 dated 16 August 2005 addressed to Director General of Audit, Defence Services, New Delhi-Shri B.K. Chattopadhyay, DG Principal Director of Audit,(Air Force &Navy) New Delhi-Shri S.K. Bahri, PD Principal Director of Audit, Ordnance Factory, Kolkata-Shri S. Prabhu, PD

Sub: Press release for Defence Audit Reports

It has been decided that there should be no press notes on Defence Audit Reports in view of security concerns.

Sd/-
(J.P. Tripathi)
Sr. Administrative Officer(RC)

10

Copy of the Director General of Audit Defence Services, L-11 Block, Brassey Avenue, New Delhi. Letter No. 10487/A. Coord/142/COC-Conf/2003-04 dated 16 June 2005 addressed to the field offices and Sr. Audit Officer of the Headquarters.

Sub: Categorization of auditee units based on risk assessment and review of Audit Plan for transaction audit.

The case regarding categorization of auditee units based on risk assessment and proposals received from field offices in this regard was examined in this office. Based on the proposals made by CO's and its further examination in this office, the auditee units have been categorized into High Risk and Medium Risk units as per statement attached. The auditee units which are not covered in the enclosed list will fall under the category of Low Risk units. The list will be reviewed periodically.

The audit plan for the year 2005-06 from July, 2005 to June 2006 may please be drawn up in accordance with classification as per enclosed list.

The audit plan along with following information may please be sent to this office by 27th June positively so that consolidated Audit Plan is got approved before its actual implementation from 1st July 2005:

- (i) Actual available mandays.
- (ii) Mandays provided for performance audit.
- (iii) Mandays provided for certification of Audit
- (iv) LTA Party programme

Encl: As above

Sd/-
(D.K. Chopra)
Dy. Director of Audit
Defence Services

GLOSSARY OF ABBREVIATIONS

AWACS	Airborne Warning and Control System
CCPA	Cabinet Committee on Political Affairs
CDA	Controller of Defence Accounts
CKD	Complete Knocked Down
CMC	Computer Maintenance Corporation Ltd.
DGQA	Director General of Quality Assurance
DPDO	Defence Pension Disbursing Officer
DPP	Defence Procurement Procedure
HAL	Hindustan Aeronautics Limited
HMC	Headquarters Maintenance Command
ICV	Infantry Combat Vehicle
IDSA	Institute of Defence Studies and Analysis
IMA	Indian Military Academy
INSAS	Indian Small Arms System
LCA	Light Combat Aircraft
LTAR	Local Test Audit Report
MBT	Main Battle Tank
MOD	Ministry of Defence
NDA	National Defence Academy
OEM	Original Equipment Manufacturer
OPF	Ordnance Parachutes Factory
PCDA	Principal Controller of Defence Accounts
PTA	Pilotless Target Aircraft
RMO	Recruiting Medical Officer
RPP	Refit Planning Procedure