# Report of the Comptroller and Auditor General of India

**for the year ended March 2001**

## Review of Procurement for OP VIJAY (Army)



## Union Government (Defence Services)
## No. 7A of 2001

# PREFATORY REMARKS

This Report for the year ending March 2001 has been prepared for submission to the President under Article 151 of the Constitution. It relates to the expenditure on procurement of stores for the Army for OP Vijay.

# OVERVIEW

Ministry of Defence relaxed extant procedures to quickly secure supplies for Operation Vijay launched in May/June 1999. Of the purchases aggregating Rs.2175.40 crore, connected papers for 123 contracts worth Rs.2163.09 crore have been reviewed in this report with the following results.

Nearly all the supplies were either received or contracted and received well after cessation of hostilities and therefore in no way supported the operations. Supplies valued at Rs.2150 crore were received after the cessation of hostilities in July 1999, of which supplies valued at Rs.1762.21 crore were received after January 2000, 6 months after cessation of hostilities. Supplies valued at Rs.1606.26 crore (75 percent) were contracted after the cessation of hostilities in July 1999.

In 35 cases detailed in the report relaxation of rules and procedures led to the Government knowingly paying Rs.44.21 crore more for certain items, ordering supplies worth Rs. 260.55 crore which did not meet qualitative requirements, being saddled with shelf life expired ammunition aggregating Rs.91.86 crore and purchases in excess of authorisation/requirement aggregating Rs.107.97 crore. Besides, ammunition worth Rs.342.37 crore was contracted for import on grounds of operational emergency even though it was being produced in ordnance factories/ PSUs. Further more, delays at various stages of processing the cases hindered timely deployment of stores aggregating Rs. 199.42 crore. Thus, while critical supplies of clothing, ammunition and arms could not reach the troops during the operation, an amount of Rs.1046 crore almost half of the total, entirely in foreign exchange, was spent fruitlessly, breaching established principles of propriety.

Presented 11.12.2001

# Review of procurement for OP VIJAY (Army)

## 1 Introduction

In response to recommendations made by the Public Accounts Committee in its 187th Report (1989) regarding the procedures to be followed at various stages of defence procurement, Ministry of Defence issued an order in March 1992 prescribing the major steps to be undertaken. The procedure envisages defence preparedness through procurement as per technically optimum requirement, optimum value for money through competitive procurement,restriction of import dependence through mutual consultation with the Department of Defence Production and Defence Research and Development Organisation (DRDO) and the transparency expected in public expenditure. Without relaxing the requirements of this procedure, to ensure expeditious procurement of only those items of stores specifically required for OP Vijay launched in May 1999 to deal with Kargil intrusions, Ministry issued orders in June 1999, modifying the payment terms such as not insisting upon the vendors to execute Performance Bank Guarantee and payment through 'Letter of Credit' on despatch of stores instead of advance payment against bank guarantee.

## 2 Scope of Audit

In the context of allegations of irregularities in emergency procurements for Kargil operations, the Government of India requested for a special audit of the Kargil related purchases made during the calendar years 1999 and 2000. Based on this request the audit decided to:

(a) assess the efficiency, economy and effectiveness of the defence procurement system in an emergent situation, and

(b) identify the major cases of irregularities.

As per information furnished by the Government, 129 contracts aggregating Rs 2175.40 crore related to Kargil operations for the Army. Of these, files pertaining to 123 contracts entailing expenditure of Rs 2163.09 crore were made available for Audit upto June 2001.

## 3 Macro analysis

### *3.1 Negligible receipts during the operation*

Audit scrutiny of 123 cases revealed that stores aggregating Rs 1762.21 crore, constituting 81 per cent of the total expenditure, materialised only after January 2000 and beyond i.e., 6 months after the operation was over (July 1999). These included critical items of special clothing such as woollen socks, multi purpose boots, gloves, sleeping bags, bullet proof jackets etc. and critical ammunition apart from operational equipment. Confirmed reports of receipt before cessation of hostilities were available only for 5 items aggregating Rs 10 crore. These included tyres, radio sets and batteries. After excluding confirmed cases of delayed deliveries, receipts before 31 July 1999 could have taken place in another 5 cases aggregating Rs 7.49 crore. In sum, stores valuing not more than Rs 17.50 crore, less than one per cent, were received before the operation came to an end.

### *3.2 Majority of the contracts concluded after the operation was over*

The month wise breakup of conclusion of the 123 contracts audited is as follows :

| MONTH | NO. OF CONTRACTS | VALUE (Rs in crore) |
|---|---|---|
| May 1999 - July 1999 | 55 | 556.83 |
| August 1999 – Nov 1999 | 35 | 984.56 |
| Dec 1999 – May 2000 | 33 | 621.70 |
| **TOTAL** | **123** | **2163.09** |

The table reveals that only 55 contracts aggregating Rs 556.83 crore were concluded before the cessation of hostilities. The rest, aggregating Rs 1606.26 crore, 75 per cent of the total, were signed only later. Of these, 33 contracts aggregating Rs 621.70 crore, almost 30 per cent of the total, were concluded after 1 December 1999, i.e. more than 4 months after the operation was over.

### *3.3 Long lead time*

Further more, delivery schedules stipulated in the contracts were too long to meet the operational requirement. The details in this regard for all the 123 cases are as follows:

| Delivery Schedule | Under 90 days | 91-120 days | 121-150 days | 151- 180 days | Over 180 days |
|---|---|---|---|---|---|
| No. of cases | 41 | 21 | 9 | 16 | 36 |
| Value (Rs In crore) | 234.51 | 263.03 | 97.10 | 76.92 | 1491.53 |

Contracts concluded after the outbreak of hostilities with a lead time of more than 90 days were unlikely to meet operational requirements. Almost 90 per cent of the contracts concluded for OP Vijay fall in this category. Detailed scrutiny also revealed that deliveries were scheduled to commence before 31 July 1999 only in respect of 20 items aggregating Rs 159 crore.

### *3.4 High incidence of first time orders*

Another factor that contributed to long lead time and other lapses in performance was an extremely high incidence of first time orders during OP Vijay. Test check revealed that in 15 cases aggregating Rs 700 crore constituting one third of the total procurement, orders were placed on the vendors for the first time. In an emergency situation a reasonable expectation would be to place orders on proven suppliers.

### *3.5 Excessive reliance on imports*

Of the 123 contracts audited, only 28 aggregating Rs 169.30 crore (8 per cent by value) were for indigenous stores, the rest being for imports.

### *3.6 Bench mark prices not available*

Audit scrutiny of the case files also revealed that in most cases last purchase prices were neither available in file nor taken into account by the Price Negotiations Committee (PNCs). Wherever Professional Officers Valuation was adopted for ascertaining the reasonableness of the prices they were at such great variance from final prices that these did not provide a basis for reasonableness of suppliers' prices.

### *3.7 Material departures from the defence procurement procedure*

Apart from the foregoing, several deviations from the Defence procurement procedure were noticed as under:

(a) In 22 cases, aggregating Rs 514.04 crore, stores procured did not conform to the qualitative requirements of the Army.

(b) In 34 cases, aggregating Rs 656.74 crore, stores were procured in excess of authorisation and requirements.

(c) In 12 cases, aggregating Rs 157.71 crore, contracts were concluded with vendors other than the lowest. The extra expenditure on this account worked out to Rs 21.16 crore.

(d) In 6 cases, stores indigenously available were imported at a total cost of Rs 79.10 crore.

### *3.8 Ministry's response*

The Ministry of Defence, during formal discussion of the draft report , submitted that even though the process of procurement was initiated in the context of OP Vijay, there was a continuing need to equip the armed forces in view of the then prevailing situation. They attributed the long lead times to the peculiar nature of defence procurement including the limited number of vendors.

## 4 Major Irregularities

Test Check revealed 24 cases involving an expenditure of Rs 1388.91 crore constituting 64 per cent of the total value of the procurement audited where material departure was made from the procedure on the grounds of urgent requirement for OP Vijay. Audit scrutiny, however, revealed that the excuse of Kargil was cited to push through procurements that would otherwise have been scrutinised more closely. These cases are detailed in the succeeding paragraphs.

### *4.1 Hand Held Thermal Imagers*

Against a requirement for 208 Hand held thermal imagers (HHTIs) projected (June 1999) for immediate procurement for OP Vijay, a contract was concluded on 1 February 2000 with a foreign firm, Thompson CSF Optroniq, France for US$ 9,587,686 equivalent to Rs 41.95 crore. The contract was finalised with the firm even though another contract had been concluded earlier with another foreign firm ELOP, ISRAEL in March 1999 for supply of 208 HHTIs with a Transfer of Technology (TOT) designating Bharat Electronics Limited (BEL) as the production agency. An amount of US$ 2.08 million, equivalent to Rs 9 crore, had been paid towards the TOT. The decision to avoid taking advantage of the TOT was taken by the Government in August 1999 on the grounds that BEL had not yet established their facility and the bid of Thompson CSF Optroniq, France was lower than that of Elop Israel.

Audit scrutiny however, revealed that:

(a) Though the bid of Elop Israel for a total amount of US $ 9,333,460 was lower than that of Thompson, an amount of US$ 1.07 million was loaded to it on account of additional spare parts , special testing tools, training material, documentation etc. This was done despite the commercial offer of Elop specifying that procurements made under the earlier contract of March 1999 would adequately take care of these requirements. Furthermore, while drawing up the Comparative Statement of Tenders (CST), the amount of US $ 1.15 million quoted by Thompson CSF Optroniq France for 1 set of spares for 100 equipment was not converted to the full amount for 208 units. By contrast, the bid of Elop, Israel had clearly specified that the set of spares was for all the 208 units. These two adjustments resulted in unfair advantage of US$ 2.22 million to Thompson resulting in its bid becoming lower by US$ 0.70 million.

(b) Before the contract was actually concluded (February 2000), BEL had reported to the Ministry (January 2000) its ability to supply HHTIs at the lowest price commencing delivery within 2 months at the rate of 40 HHTIs per month. Even though the contract with Thompson stipulated complete delivery within 4 months the 208 HHTIs were received only by November 2000 by which time BEL would also have supplied the entire quantity. No operational advantage was therefore gained by forsaking assembly /manufacture at a PSU for which TOT fee of Rs 9 crore had already been paid.

Therefore, adjustments in drawing up the CST deprived the lowest bidder from getting the order and resulted in excess expenditure of Rs 3.01 crore. In the process the Army carries equipment from two different sources with consequent enhanced maintenance and spares costs and effort. Furthermore, not availing the benefit of the facility installed at BEL resulted in rendering the Rs 9 crore spent on TOT infructuous without any operational advantage.

In reply the Ministry stated(August 2001) that:

(a) Thompson had clarified vide letter dated 26 August 1999 that the Equipment Support Package (ESP) in their offer was for 208 and not for 100 units of HHTI.

(b) The bid of Elop was loaded because the Army Headquarters insisted that the ESP required for additional 208 would be same as for the 208 units contracted earlier.

(c) Order was placed on Thompson because TOT at BEL had not yet commenced.

The reply is not tenable on the following grounds:

(a) The commercial bid from Thompson opened on 24 August 1999 in the office of AS(O) clearly indicated that the cost included was for one set of spares recommended for 100 equipments. Any subsequent clarification given after knowing the commercial offer of the competitor and having a bearing on their total price is violative of the tenets of competitive bidding and ought to have been ignored.

(b) Elop had very clearly specified in their commercial bid that :

  (i) Based on their experience, the quantity of spares required to support an additional 208 systems is significantly less than required for the first 208 systems.

  (ii) The test equipment contracted in the earlier order would easily support the additional quantities.

  (iii) Training and documentation already procured with the earlier contract would satisfy the requirements of the RFP.

Loading their bid by US $ 1.07 million on account of these items was , therefore, unjustified.

(c) As regards TOT, the Ministry is referring to the circumstances in July1999 when they took a decision to issue RFPs. However, by January 2000 the situation had changed and BEL had reported its ability to supply HHTI.

Incidentally, in October 1999 , one of the vendors (SAGEM SA France) to whom request for proposal (RFP) was issued, offered their new state of the art (third generation) equipment at 30 per cent lower than their earlier price. The Army HQ recommended (November 1999) that the bid need not be considered as the product had not been trial evaluated and the procurement process had to be concluded. The Government accepted this advice.

### *4.2 Terminally Guided Munitions (Krasnapol)*

Against an urgent requirement projected in May 1999 by the Army Headquarters for OP Vijay, a conditional contract was concluded in August 1999 with KBP Tula, Russia for supply of 1000 terminally guided munitions (TGMs) and 10 laser designators at a cost of US dollar 34.75 million, equivalent to Rs 151 crore. The condition for further trial and evaluation was imposed as the usefulness of the equipment for mountainous terrain had not been established in the trials held in February and March 1999. Even though the subsequent trials conducted in October and November 1999 did not establish beyond doubt that the TGMs would serve the purpose in mountainous terrain, as required by the General Staff Qualitative Requirements (GSQRs) and stipulated in the approval accorded by the Cabinet Committee on Security, the Ministry cleared the contract for execution in February/March 2000.

Audit scrutiny revealed that the series of tests held including those in October and November 1999 had established that:

(a) TGM suffered from limitations regarding range, angle and precision in high altitude areas.

(b) was incompatible with the 155 mm gun in respect of certain charges.

(c) the effectiveness of the laser system would be restricted in certain circumstances.

In fact Army Headquarters had themselves stated in March 2000 that the TGM would be able to engage only 25 to 30 per cent of the targets in the Kargil sector.

Notwithstanding the failure of the munition to meet the GSQRs during test and evaluation, the contract was cleared for execution on the grounds of operational urgency in February/March 2000.

In response the Ministry stated(August 2001) that the contract was cleared after a detailed analysis which confirmed employability of Kransapol Ammunition in mountainous terrain, within the design limitations of the ammunition, to a large extent. The Ministry also stated that the procurement action for TGM had started earlier and OP Vijay only gave it an impetus.

The reply is not tenable as:

(i) The Army Headquarters had confirmed in March 2000 that only 25-30 per cent of the targets would be engaged by TGM in the Kargil Sector. Formation Commanders had also , after the November 1999 trials, held that the ammunition would be partially useful in high altitude areas and should therefore be used only selectively in such areas. It is therefore difficult to accept that "TGM was employable to a large extent in mountainous terrain." Infact while soliciting the approval of the RM the Ministry had clearly stated that "the Army is aware of the limitations of its use in the mountainous areas and yet are in favour of its induction into service. Ministry may therefore have no objection in agreeing with Army HQ recommendations for its induction".

(ii) The case prepared for Cabinet approval in July 1999 was based entirely on enhancing the efficacy of OP Vijay by procuring the ammunition and laser designators as sector stores for Northern Command in view of the current situation. The conditional approval as well as the conditional contract signed thereafter also indicate that the munition was approved only with Kargil in mind . Therefore, the contention that OP Vijay was a mere impetus is not supported by facts. On the contrary, it appears that OP Vijay was but an excuse for pushing through a procurement that otherwise may not have qualified.

### *4.3 Bullet Proof Jackets*

Contracts with three firms were concluded between July and August 1999 for 40,000 Bullet Proof Jackets (BPJ) including 20,000 for OP Vijay at a total cost of Rs 51.65 crore. Contrary to the established procedure of placing the order only on the lowest bidder, the quantity was divided between three vendors on the ground that the entire lot was required by August 1999 which the lowest bidder was unable to supply. A further departure was made from the CVC guidelines, in that, orders on the firms other than the lowest viz. RBR, UK and SGI Mehler were placed at higher prices (81 per cent and 80 per cent higher respectively).

Audit scrutiny revealed that the deviation from the established procedure was not justified due to the following reasons:

(a) Of the 20,000 BPJs projected for OP Vijay by the Army HQ only 11,000 were required for high altitude use. As such, insistence on the entire delivery in August 1999 was not necessary.

(b) The actual deliveries of BPJs by all the three firms were received in the depot between 10 October 1999 and 26 June 2000 against the compressed delivery schedule of July to September 1999.

Therefore, placing orders on two firms at prices higher than the lowest bid entailed unjustified additional expenditure to the extent of Rs 15.77 crore.

In response the Ministry stated (November 2001) that the prices of RBR, UK and SGI Mehler were higher because of their superior quality and delivery for all the 40,000 bulletproof jackets were required in August 1999 to meet requirement other than high altitude. The reply is not tenable as the jackets offered by L1(Tata Advance Material Limited) fully met the technical specifications of the Request for Proposal. Acceptance of higher prices for any superior quality much above specifications is not an acceptable procurement practice. Moreover, the Army HQ had asked for only 11,000 jackets by 31 August 1999, In any case the basic purpose of splitting the order was never realized.

### *4.4 Anti Material Rifles*

Ministry concluded a contract in July 1999 with Mechem, Denel, South Africa for supply of 100 Anti Material Rifle (AMR) and 1 lakh rounds of ammunition (14.5mm and 20mm) at a total cost of US dollar 5.4 million equivalent to Rs 23.22 crore. Even though it fell short of the range specified in the GSQR by 24 per cent and there was no assurance regarding performance of the 20mm ammunition which had only been designed for altitudes upto 6500 ft, the equipment was selected in view of the operational urgency. The rifles also did not have a carrying handle, open sight system and a compatible night sight which were recommended for inclusion in the contract by the Army Headquarters.

Audit scrutiny revealed that acceptance of the equipment could not serve the operational requirement of OP Vijay as the first delivery of 6 rifles scheduled within 15 days of the signing of the contract actually came only in December 1999, several months after the operation was over. Another 35 rifles with 1 lakh rounds of ammunitions came only in March/May 2000. The balance came later.

Audit scrutiny further revealed that the modifications pertaining to night sight and carrying handle were never made in the contract. Inspection of the rifles in June 2000 revealed that they had been supplied without the open sight system and that the conversion kit for the 14.5 mm lacked accuracy. The rifles were, therefore, not cleared for issue. The Ministry stated (August 2001) that the AHQ had informed them that the DGQA had cleared the AMRs in November 2000.

### *4.5 Flame throwers*

To meet urgent requirement of the weapon for operations, Army HQ proposed in June 1999 procurement of 600 disposable flame throwers. The proposal also indicated that 600 more flame throwers were required under the ninth Army plan.

In response to Ministry's enquiries KBP Tula Russia offered (June 1999) to supply the weapon at unit rate of US $ 3600 for an order of 600 throwers and at the rate of US $ 3500 for an order of 1200 numbers.

Ministry urgently concluded a contract in June 1999 for 1200 flame throwers at US $ 3500 each with delivery schedule in two lots of 600 pieces each aggregating US $ 4.2 million equivalent to Rs 18.22 crore by two months from the date of signing of the contract.

Audit scrutiny revealed that a delegation of the Army witnessed a live demonstration of the weapon conducted by the firm as early as in September 1995. In its evaluation report, the delegation had observed, among other things, that target engagement could not be analysed beyond 350 metres vis a vis the 1000 metres range claimed by the firm in its technical offer, the firing could be conducted only during day light as no night-sight device was developed and "the terminal effect could not also be assessed as there was no incendiary effect". The Scientific Adviser to RM had also brought to the notice of the Defence Secretary ( November 1995) that the DRDO representative in the delegation had reported that during the demonstration of September 1995, 14 weapons were fired at a range of 200 metres and none of the shots hit the targets at that range. However, the delegation recommended procurement of the weapon only as a one time buy, suggesting future requirement be met from indigenous source by its development and production. Accordingly 300 flame throwers were procured in September 1996 as a one time buy.

Against these recommendations of the delegation, the Ministry at the instance of Army Headquarters decided to go ahead with further procurement of flame throwers at a total cost of Rs 18.22 crore even though it did not meet operational requirement. The delivery commenced only after August 1999 thereby being non - available during the operation.

### *4.6 Ammunition for T-72 tanks*

Raksha Mantri approved in June 1999 import of 26,000 rounds of ammunition for T-72 tanks at a total cost of US $ 27.17 million equivalent of Rs 116.83 crore from Israeli Military Industries Limited, Israel as a one time measure for meeting the requirements in the'prevailing situation'

Audit scrutiny of the papers leading to the approval revealed that the procurement action for this ammunition had been initiated in August 1997. In fact trials of the ammunition from this new source had been conducted a year earlier in August 1996. A final decision in the case was delayed due to the following considerations:

(i) The ammunition was already under production in an Ordnance Factory. In fact the Ordnance Factory Board had indicated to the Government that they would be able to supply 31000 numbers during 1997-98 and 40,000 from the following year subject to getting the indents in advance.

(ii) The Chief Controller R&D had confirmed to the Government that the existing Mark 1 version manufactured by the Ordnance Factory met the stated performance level of the Israeli ammunition and Mark 2 version was in an advance stage of development which would be better.

(iii) An option clause for additional quantity of 26,500 rounds was already available in the supplementary agreement concluded (October 1997) with RVZ, Russia. The tanks were also of Russian origin. The fresh Request For Proposal (RFP) was also issued to them alongwith the others in October 1997. Their response was rejected on the grounds that it was received in an open condition and addressed to Director(O) rather than JS(O), even though their ammunition was already tried and in service.

(iv) Excluding the bid of the Russian firm the Government was left with only two offers, of which one was rejected on technical grounds. The Army Headquarters initially (December 1997) requested that the other offer of the Russian firm may also be considered, their ammunition being in service and to avoid a single tender situation. However, a year later, they recommended placement of order on the Israeli Firm in view of its superiority. In fact, the Army HQ also began recommending TOT for indigenous manufacture of this ammunition in view of its superiority.

(v) The negotiations with the Israeli firm on their offer received in October 1997 began only in May 1999. Negotiations on transfer of technology were not fruitful as the firm refused the critical transfer pertaining to tungeston rod.

(vi) Sufficient funds were not available in the BE 1999-2000 under the relevant head for purchase of this ammunition.

Operation Vijay and the relaxation in procedures enabled Government to urgently conclude the contract on 2 July 1999 for delivery of 2800 rounds within two months and another 7000 within six months for US $27.17 million equivalent to Rs 119.55 crore even though deployment of T-72 tanks was not possible in high altitude.

The actual delivery of the first 2800 rounds, however took place only on 14 December 1999.

### *4.7 Ammunition*

In view of the urgency of procurement of various ammunitions projected by the Army Headquarters (June 1999) for OP Vijay, the Government concluded two contracts in August 1999 and December 1999 with RVZ, Russia for various types of ammunition at a total cost of US $ 92.62 million equivalent to Rs 402.76 crore. The contract stipulated, among other things, that the ammunition supplied by industry was to be new, unused and of current production and those from stock held by the Ministry of Defence of the country was to be fit for service having a residual life of at least three years. The seller was also to guarantee the quality and proper functioning of the ammunition for a period of 12 months from the date of arrival at Indian Port.

The guidelines followed by the Directorate General of Quality Assurance (DGQA) were however overlooked while finalizing the contract. As per these guidelines, shelf-life of four types of ammunition included in the contract, valued at US $ 17.11 million equivalent to Rs 74.59 crore, had already expired at the time of conclusion of the contract as detailed below:

| Description of Ammunition | Year of production | Shelf-life as per DGQA guideline | Date by When shelf-life expired | Quantity (in lakh) | Value (in US $) |
|---|---|---|---|---|---|
| 12.7 mm Cartridges | (i) 1980-85<br>(ii) 1986-89 | 7<br>7 | 1987-92<br>1993-96 | 13.30<br>13.30 | 1,562,750<br>1,562,750 |
| 125 mm Rounds | 1990 | 7 | 1997 | 0.05 | 4,145,000 |
| Fuses B-429 | 1976-79-94%<br>1980-6% | 7 | 1983-86<br>1987 | 0.36 | 972,000 |
| 130 mm VOF/RVC | 1976-91<br>1988-91 | 7<br>7 | 1983-1998<br>1995-1998 | 0.30<br>0.15 | 5,700,000<br>3165000 |
| **Total** | | | | | **$17107000** |

Furthermore, 13.30 lakh rounds of 12.7 mm cartridges supplied by the supplier were of vintage older than that specified in the contract. Army HQ raised a provisional quality claim against the supplier involving Rs 6.72 crore which is still (October 2001) under negotiation.

Contrary to its own guidelines regarding shelf life, the DGQA after conducting chemical analysis and dynamic proof in February 2000 declared 30,000 rounds of 130 mm VOF/RVC (value US $ 5.7 million) serviceable for a period up to April 2003, irrespective of the year of production ranging from 1976 to 1991.

Ministry stated (October 2001) that after confirming the chemical stability of the samples, the DGQA had given a provisional life of 3 years initially keeping in view that they were of different vintages and were expected to give residual life of 3 years as per the contract. Further increase in residual life would be ascertained after undertaking chemical test and proof. The tenability of the response is to be seen in the context that the prescribed shelf life of 7 years had already expired at the time of contract. Further more in respect of 130 mm VOF/RVC the DGQA were not able to apply a statistical plan for check proof due to large number of lots as well as large variation in quantity from lot to lot. The sample findings in this case are therefore, not likely to be reliable.

### *4.8 Universal variable time Fuses*

Against a requirement projected by the Army (June 1999) for OP Vijay, a contract was concluded with Electronics Corporation of India Limited (ECIL) in October 1999 for 67,000 Fuses for 155 mm guns and 400 fuze setters at a total cost of Rs 81.59 crore. The Fuses were to be imported/assembled from components imported from a South African firm. Approval of the Defence Secretary, the competent financial authority, was obtained based on the technical offer of ECIL which indicated that the Fuses would not be of a vintage earlier than 1994. As per the contract the delivery was to begin in October 1999.

After failing to adhere to the time schedule, the firm made a request in November 1999 for supply of one category of Fuses (M 8513) of 1989 to 1992 vintage being held by the South African Army as against the 1994 vintage indicated in the technical offer. The approval was communicated to the firm in May 2000.

Audit scrutiny revealed the following:-

(a) The technical offer from the firm had indicated that the fuse (M 8513) would have a minimum shelf life of 10 years without deterioration when stored under controlled "arsenal magazine storage condition" i.e. 21 +/- 2 degree Celcius and relative humidity not greater than 60 per cent and six month when stored in open terrain. However, based on the submissions made by ECIL during negotiation the contract indicated shelf life of fifteen years. Therefore, in terms of the technical offer, the 6,118 fuses of 1989 and 1990 vintage proposed (November 1999) to be supplied had completed their shelf life and the balance 8882 fuses would be completing their shelf life within the next two years.

(b) In fact even before the Ministry accorded the approval to the proposal, the firm supplied 15,000 Fuses of 1989-90 vintage in December 1999 and 95 per cent of the contracted amount for these fuses (Rs 17.27 crore) was paid to them. The Government was only able to withhold the balance 5 per cent and negotiate it as a discount.

(c) The interest of the Government was sought to be protected by obtaining a corporate bank guarantee worded in very general terms stipulating that the company would undertake to perform its obligations under the contract. No signed corporate guarantee was, however, available in the records of the Ministry furnished to audit in April 2001. In this context is is pertinent to note that ECIL is a company wholly owned by the Government of India and the final obligation would ultimately vest in the Government itself.

(d) While the original approval was accorded by the Defence Secretary, being the competent financial authority, the decision for accepting fuses worth Rs 17.27 crore of such vintage was taken by the Joint Secretary (O) himself.

In any case, the first lot of ammunition fuses of the old vintage came only towards the end of December 1999. Since the operation was over this merely resulted in transfer of old fuses from the stock of South African Army to the Indian Army at a cost of Rs 17.27 crore to the Consolidated Fund of India.

### *4.9 Illuminating ammunition for 155 mm gun*

Against a requirement projected by the Army Headquarters in June 1999, the Government concluded a contract with Denel PTY, South Africa in January 2000 for 7300 rounds of illuminating ammunition at a total cost of US $ 11.98 million equivalent to Rs 52.47 crore. Audit scrutiny revealed that:

(a) At the time of the induction of the 155 mm gun in 1986, illuminating ammunition of only 18 KM range had been procured. The requirement was changed in 1997 to 24 KM range which was available only with a South African firm making it a single vendor situation.

(b) As against the rate of US $ 1440 per round inclusive of TOT, contracted in 1997, the Government contracted a rate of US $1641 in January 2000 (without TOT). The escalation of 14 per cent over two years in dollar terms with no claim for transfer of technology appears high and partly attributable to the weak negotiating position because of a single vendor situation.

(c) In follow up to the TOT contracted in 1997, the Ordnance Factory Board had taken steps to create facilities for manufacture of the South African 24 km model and reported in August 2000 that they could start production by December 2000. However, no indent was placed on them.

(d) Although the requirement was projected in June 1999, the contract was concluded only in January 2000 with the delivery scheduled to commence from May 2000.

### *4.10 Special ammunition for 40 mm L – 70 gun*

Against an urgent requirement projected by the Army Headquarters in June 1999 for OP Vijay , a contract was concluded on 9 February 2000 with Simmel Difesa, Italy for 100,000 rounds of 40 mm Pre Fragmented Proximity Fuse (PFPF) ammunition and 10,000 round AP(T) ammunition at a total cost of US $ 38 million equivalent to Rs 166.44 crore.

Audit scrutiny revealed :

(a) that such large quantity was cleared for import even though an amount of US $ 2 million had been paid towards TOT to the same company in February 1999. The Ordnance Factory Board had reported in August 1999 that subject to import of

CKDs they would be able to supply 20,000 rounds in 1999-2000 and 50,000 rounds in 2000-2001. There was a saving of US $50 per round if imported in CKD condition.

(b) Fresh order was placed on the Italian company even though they had not completely delivered till July 1999 against the contract of 1997 scheduled to be completed by January 1998.

The contract was finally concluded only in February 2000 with scheduled delivery to commence almost 6 months later (including 3 months for obtaining export licence), and to be completed by 23 months. Therefore, by March 2002 the Army would have 100,000 imported ammunition and equal quantity from OFB (assuming full capacity utilisation). The reasonableness of this quantity is to be viewed against the total induction of 50,000 of PFPF ammunition in the 5 years since the trials begun in 1994-95.

### *4.11 Multi purpose boots*

Orders were placed on two foreign firms for 52,775 pairs of multipurpose boots in July/October 1999 at a total cost of SFR 10.56 million equivalent to Rs 30.37 crore to meet the urgent requirement of OP Vijay and normal deficiency. While procurement action for 16,775 pairs had already been initiated and negotiations held with a single approved vendor Aptech Advanced Protective Technologies, Switzerland prior to OP Vijay, an additional requirement of 36,000 was projected for which a new supplier's product was inspected and approved on 7 June, 1999. An order for 35075 pairs was placed in July and October 1999 on this new firm viz. Asolo Italia SPA, Italy for deliveries from July to November 1999. Even though the procedure stipulates procurement directly from original equipment manufacturers, no information regarding the manufacturing capacity of the new firm was available with the Government.

Although the boots of the new firm were stated to have been evaluated, on delivery it was noted that their sizes were smaller than the standards of the Indian Army. Consequently sizes 5 and 6 turned out to be too small for any adult use rendering 3438 pairs procured at a cost of Rs 1.85 crore completely useless. Furthermore, 700 pairs of size 12 costing Rs 0.37 crore were also procured from the same firm even though these had been declared unfit for use being of odd size.

This procurement was careless and became unusable.

In response the Ministry stated (September 2001) that sizes 5 and 6 of Asolo would be used for issue to Assam, Gorkha and Garhwal regiments. The tenability of the reply has to be seen in the context that size 5 and 6 of Asolo were equivalent to army standard sizes 3 and 4 which were not stocked or indented by the Army and MGO Branch had in October 1999 clearly stated that Asolo 5 and 6 would be too small to fit any soldier.

### *4.12 Aluminium Caskets*

A contract was concluded in August 1999 with Buitron and Baize, USA for 500 aluminium caskets and 3000 body bags at a total cost of US $ 1.5 million equivalent to Rs 6.55 crore. Even though this was not a complex item, the bid was obtained only from one firm without considering the possibility of indigenous and other sources. While the vendor name and the specifications of the casket were obtained earlier in 1994 from the Commander of the Indian forces deployed at Somalia, the price per casket could be negotiated only to US $ 2,500 equivalent to Rs 1.09 lakh as against the US $ 172 reported by the Commander.

Despite this being a new purchase, no acceptance test and evaluation was carried out. There was also no indication either in the record of the minutes of the Price Negotiating Committee (PNC) or scrutiny in the Ministry that the reasonableness of the cost with reference to the material used had been conducted. The procurement was expedited in view of the urgent need to airlift bodies from the Kargil sector.

Audit scrutiny revealed that:

(a) In December 1999, the firm requested for an amendment to the contract for increasing the weight of the casket from 18 Kg to 55 Kg. While the Government was still deliberating on the request (March 2000) it supplied 150 caskets towards which a 90 per cent payment of US $ 337,500 equivalent to Rs 1.47 crore was released. The entire lot of caskets was subsequently rejected during inspection on grounds of being overweight and welded rather than die pressed. These had been kept in stock as of June 2001.

(b) The supplier had indicated that 75 per cent of cost was towards the material used (aeronautical grade aluminum). The price paid would convert to a rate of Rs 45.31 lakh per tonne of aluminum which is at least 10 times more than the rate being paid presently by Hindustan Aeronautical Limited for importing the highest grade aluminium. Furthermore, as per the price bulletin brought out by the London Metal Exchange, the price of High Grade Aluminium on 9 August 1999 was US $ 1440 per tonne equivalent to Rs 63,360. It is obvious that the rate quoted by the firm was highly inflated.

The transaction achieved little, other than to benefit the supplier. In response, the Ministry intimated(August 2001) that after the caskets supplied were found to be too heavy the contract was cancelled, performance bond furnished by the vendor was encashed and decision taken not to pay the balance 10% of the cost of these stores.

### *4.13 Automatic Grenade Launchers*

A contract was concluded with KBP Tula, Russia (July 1999) for 300 Automatic Grenade Launchers and three lakh grenades at a total price of US $ 11.99 million equivalent to Rs 52.13 crore. The offer had been evaluated prior to OP Vijay against an indent of 225 Automatic Grenade Launchers. The procurement action was expedited and the number increased to 300 in view of OP Vijay.

The equipment had fallen short of the GSQRs claimed range in respect of the following: -

(a) Maximum range
(b) Maximum rate of fire
(c) Magnification of optical sight
(d) Non - availability of bore sight

(e) Absence of Channels for ammunition belt

(f) Target mechanism got harder during indirect firing

(g) No facility to replace barrel which would render the launcher useless after 6000 rounds.

The Army HQ had recommended in May 1999 that the equipment could be inducted subject to fulfilling the claimed range, GSQRs condition for magnification and provision of night scope.

The contract was urgently concluded in view of OP Vijay after obtaining the approval of the RM for deviation from GSQR in June 1999. While the range and rate of fire operations stipulated in the contract were as per the recommendations of the Army HQ, no stipulation was made for modification regarding magnification and provision of night scope. The facility for barrel replacement was also overlooked. Even though the delivery schedule envisaged commencement after 2 weeks of receipt of payment to be completed within 10 weeks, the delivery began only in October 1999 after 3 months of the conclusion of the contract. The items were cleared for issue only in June 2000.

In response the Ministry stated (November 2001) that it is not always possible to get equipment fully matching the GSQRs which are formulated keeping in view the futuristic developments. The deviation from the GSQRs were approved by RM.

### *4.14 AK-47 Ammunition*

To meet the urgent requirement for OP Vijay the Ministry concluded a contract (July 1999) with RA Romtechnica, Romania for supply of 22.5 million rounds of ammunition of AK-47 rifles at the rate of US $ 103 per 1000 rounds aggregating Rs 9.20 crore. In April 1999 another firm from the same country had offered to supply the ammunition at US $ 90 per 1000 rounds. This firm had also brought to the notice of Ministry that it was the original manufacturer of the ammunition to the extent of 98 per cent of the ammunition manufactured in their country and submitted a letter (May 1999) from their Government in support of this claim. Without verifying the veracity of the claims made by the firm or using the rate offered as a negotiating benchmark the Government concluded the contract in July 1999 citing the operational requirement of OP Vijay. The Army Headquarters also intimated (June 1999) that Military Attaché in Russia would take 4 to 6 weeks to collect information about the actual manufacturer.

The urgency to conclude the contract did not yield operational advantage as the ammunition was received in the depot in March 2000.

### *4.15 Gloves*

A contract was concluded in June 1999 for supply of 6,254 pairs of Gloves with Camp SPA, Italy at a total cost of US $ 372,363 equivalent to Rs 1.60 crore. The Gloves of this firm had been recommended (November 1998) for one time procurement based on trial evaluations of the gloves offered by four firms during 1997 and 1998. A decision was also taken that the palm grip needed to be made of more durable material for which 8 pairs of modified gloves had also been sent for approval trials in June 2000. In the meanwhile another contract was concluded with the same firm for supply of 46,554 pairs (Rs 10.22 crore) of unmodified specifications on 5 July 1999 on the ground that the gloves were required for use in the Kargil sector. The contract stipulated delivery starting August 1999 to be completed by October 1999. The LC was also opened on 22 July 1999.

Audit scrutiny revealed that the urgency shown in concluding the contract was not carried forward when the supplier proposed in August 1999 to use a fabric of a colour different from the one used in the trials. After dithering over the matter, the Government delayed conveying its approval till 23 December 1999. The gloves were supplied only thereafter in December 1999 – January 2000. As of May 2001, only 15,935 gloves had actually been issued to the troops.

Ministry stated (May 2001) that the troops had to continue using DRDO supplied gloves held in stock. In this context it is pertinent to note that the proposal for import of gloves was taken up because the Northern Command had lodged a defect report in 1996 on the DRDO supplied gloves citing reduction in warmth and seepage of snow/water from the stitching. Therefore, the troops had to make do with defective gloves during OP-Vijay.

### *4.16 Software upgrade for Digital Photogrammatory System*

In order to enhance efficacy during OP Vijay, a contract was concluded (January 2000) with Rolta India, at a total cost of Rs 19.57 crore for upgradation of hardware and software of the 19 Digital Photogrammatory systems procured earlier. This cost included Rs 9.80 crore towards upgradation of software. Audit scrutiny revealed that all these systems were under a maintenance contract for five years signed in 1996 in terms of which the seller would make available to the buyer all technical improvement as and when announced. The contract also envisaged that the software upgradation was to be supplied at no extra cost. In terms of this provision no payment was due towards upgradation of the software. This was overlooked while finalizing the contract resulting in excess payment of Rs 9.80 crore.

In reply, the Ministry stated that the software supplied under the new contract were new software needed for enhancing functional requirement. This is not tenable as all software upgradation was to be supplied at no extra cost.

### *4.17 Under Barrel Grenade Launchers*

In order to meet the urgent requirement of OP Vijay a contract was concluded in August 1999 with Kintex SCH, Bulgaria for supply of 3600 Under Barrel Grenade Launchers (UBGL), 3600 AK-47 rifles, one lakh grenades and spares/accessories at a total cost of US$ 4.30 million equivalent to Rs 19.68 crore. The UBGL offered by the firm did not fulfil the GSQR stipulation of compatibility with the AK-47 rifles in service. The order for 3600 AK-47 rifles at a cost of Rs 1.90 crore had to be included so that the UBGL of this firm could be put to use during OP Vijay.

Audit scrutiny revealed that an offer from another firm Rometechnica, Romania was rejected on the ground that it would not be compatible with all rifles in service even though one lakh AK-47 rifles of this company were already in service. Purchase of UBGL from this manufacturer would have saved the cost of additional purchase of 3600 AK-47 rifles.

### *4.18 Spares for 155mm gun*

For meeting the urgent requirement of spares for 155mm FH 77B gun, Ministry concluded a contract with Celsius Weapon System AB, Sweeden in August 1999 for supply of 489 items at a total cost of SEK 186 million equivalent to Rs 97.65 crore.

Of this, SEK 143 million (equivalent to Rs 75.08 crore) was to be adjusted towards recovery of exuded HE 107 shells supplied earlier by the original supplier of these guns. Audit scrutiny revealed that the rates incorporated in the contract were much higher than the rates offered by the firm in June 1999 which were valid on the date of the contract. This resulted in additional expenditure of Rs 6.73 crore as under.

| Sl. No. | Part No. | Nomenclature | June 1999 Rate | Contracted Rate | Difference | Quantity | Difference in total contracted cost (SEK) |
|---|---|---|---|---|---|---|---|
| 1. | 1155271 | Distribution box power unit C-11 | 2,44,566 | 2,78,805 | 34,239 | 20 | 6,84,780 |
| 2. | 1146007 | Torque Mortor | 3,79,554 | 5,69,331 | 1,89,777 | 10 | 18,97,770 |
| 3. | 1133663 | Pump | 1,00,531 | 1,46,775 | 46,244 | 05 | 2,31,220 |
| 4. | 1140805 | Pressure Vessel (EU) | 56,083 | 90,293 | 34,210 | 05 | 1,71,050 |
| 5. | 1149416 | Pressure Vessel | 74,561 | 85,002 | 10,441 | 18 | 1,87,938 |
| 6. | 1149442 | Cylinder(EU) | 1,47,746 | 1,68,430 | 20,684 | 20 | 4,13,680 |
| 7. | 1149472 | Suspension Unit(EU) | 1,04,274 | 1,22,001 | 17,727 | 25 | 4,43,175 |
| 8. | 1149477 | Laying Value(EU) | 1,49,684 | 1,91,595 | 41,911 | 10 | 4,19,110 |
| 9. | 1149878 | Control Panel C31 | 9371 | 10,214 | 843 | 18 | 15,174 |
| 10. | 1156267 | Rammer | 4,97,914 | 6,22,393 | 1,24,479 | 20 | 24,89,580 |
| 11. | BO-2007014069 | Brush kit | 571 | 594 | 23 | 50 | 11,50 |
| 12. | PHIL-RT 651005 | Leveling Device | 11,92,948 | 17,69,037 | 5,76,089 | 10 | 58,33,186 |

The reasons for allowing rates higher than those quoted by the firm were not available in the records.

The contract was poorly negotiated in that the firm informed the Ministry that in respect of 43 items of spares (other than the twelve items listed above) there were errors in the rates on the higher side, proposing reduction in the rates and the contract sum by SEK 18.34 million (equivalent to Rs 9.61 crore). Accordingly, Ministry issued amendments to the contract.

Such slipshod scrutiny of the contract and poor negotiations could not yield any operational advantage as the spares could not materialize before March 2000 and November 2000.

### *4.19 Rubber Hoops*

To meet the urgent operational requirement of OP Vijay the Ministry decided to import 1600 rubber hoops for T-55 tanks in July 1999 due to anticipated delay of 9 to 12 months in supply against indigenous orders. A contract was accordingly concluded on 7 August 1999 with Tatra Sipox, UK for import of 1600 rubber hoops at US $302 each equivalent to Rs 13116 aggregating Rs 2.1 crore.

Audit scrutiny revealed that the contract was signed even though Central Armoured Fighting Vehicle Depot had requested on 28 July 1999 not to conclude the contract for imports as indigenous supply was expected to commence. Supplies from indigenous source started in August 1999. The imported supplies, on the contrary, materialized only after February 2000. Furthermore, the rate of indigenous rubber hoops was only Rs 9,150 per piece cheaper by Rs 63.45 lakh for1600 units.

Army Headquarters stated in March 2000 that the procurement was processed on the basis of the indent made by the depot. The reply was silent as to why the request of the Depot based on the indigenous availability, received prior to conclusion of the contract, was ignored.

### *4.20 Kolos Tyres*

To meet the urgent operational requirement of OP Vijay, Central Ordnance Depot Mumbai raised an indent (June 1999) of tyres for Kolos Tatra vehicles. Ministry concluded a contract in December 1999 for import of 3250 Kolos tyres from Tatra Sipox at a cost of US $ 0.865 million equivalent to Rs 3.37 crore.

Audit scrutiny revealed that the Ministry ignored the vetting comments of Controller of Quality Assurance (Vehicle) (September 1999) that tyres made by MRF were technically superior and import be made only if critically required.

The economy of the import was decided by comparing US $ 273 per tyre (Rs 11,875.50) offered by the foreign vendor with the rate of Rs 12,177.46 from the indigenous source. They overlooked that the price of the indigenous vendor included 30 per cent excise duty and four per cent Central sales tax which would in any case be Central Revenue. Net of taxes, the 3250 indigenous tyres would have been cheaper by Rs 83.33 lakh.

Despite the critical need no urgency was apparent in the process. The Ministry cleared the import on August 1999 but the price Negotiation Committee meeting was scheduled only for 13 September 1999. This was postponed to 14 October 1999 to give sufficient time to the vendor to attend the meeting. After the PNC meeting of 14 October 1999 Ministry gave its approval only on 1 November 1999 and the contract was concluded on 7 December 1999. Letter of credit was opened only on 2 February 2000 and supplies effected during March-April 2000.

### *4.21 Spares for Combat Engineer Tractors*

Against an indent of July 1996, Ministry concluded a contract with Royal Ordnance (Weapon and Ammunition), UK in January 2000 for 644 items of spares for Combat

Engineer Tractors at pound sterling 439,810.33 equivalent to Rs 3.18 crore. Audit scrutiny revealed that this was done without reviewing the justification for procurement of bin-samples of spares included in the contract even though these tractors were due to be phased out by 2003.

Out of 644 items contracted, 475 items were meant to provide only Bin samples. The quantities of these items was one or two. The value of these items was pound sterling 231,000 equivalent to Rs 1.57 crore. The delivery schedule in the contract was 10 months after the effective date of contract. As such supplies were expected only at the end of 2000. Thus, even unnecessary and non-emergent requirements were pushed through OP Vijay procurement.

Contrary to earlier stand the Ministry stated in October 2001 that there was no plan of phasing out the tractors in near future.

### *4.22 Surveillance Radar (Short Range)*

Under an existing contract (December 1998) with ELTA, Israel 150 radars were to be supplied at a unit price of US $ 103,000. Delivery under this contract was to commence from October 1999. To meet the urgent requirement of OP Vijay, the Army HQ projected a further requirement of 20 radars in July 1999. Ministry called for quotations in September 1999 for supply of 20 radars with a delivery schedule of 6 to 8 weeks. The higher unit price of US $ 112,500 quoted by the same foreign firm for the shorter delivery period, was accepted and a contract for total cost of US $ 2.3 million equivalent to Rs 9.86 crore was concluded in February 2000. Conclusion of a contract at a higher price for compressed delivery schedule to meet the urgent requirement of 20 Surveillance Radars (Short range) for OP Vijay was not justified as the radars were supplied only in August 2000 (3 Numbers) and January 2001 (17 Numbers) by which time deliveries under the earlier contracts were to have commenced.

Apart from accepting a higher price (Rs 83 lakh for 20 radars), the decision to continue with the additional procurement of 20 radar at a total cost of Rs 9.86 crore appears imprudent.

### *4.23 Special Woolen socks*

In view of the urgent requirement of OP Vijay Ministry concluded two contracts in June and July 1999 with Aptec Advanced Technologies AG, Switzerland for supply of 3.06 lakh pairs of special woolen socks at a total cost of SFR 1.37 million equivalent to Rs 5.86 crore.

The contracts specified that the socks should conform to military specification of Royal Marine Commando Equipment and Clothing for Arctic regions and high altitude operations. The contracts also specified that wool content vis-à-vis polyamide of the socks should be 80:20. On arrival of the consignments in November 1999, Director General Quality Assurance inspected the socks and rejected the entire quantity due to variance in wool and polyamide content. DGQA also observed that in the absence of specifications in regard to 'quality of wool' in the contract and that used by the supplier in the manufacture, they could not determine the thermal insulation effect of the socks. They could only suggest field trials. Consequent upon this rejection, Ministry insisted upon the supplier for replacement. The firm contested the rejection on the grounds that the socks supplied by it conformed to military specification of Royal Marine Commando equipment for Arctic regions and high altitude operations, which permitted a tolerance of -+ 3 per cent. The firm also pointed out that it had supplied in the past for several years socks of the same wool and polyamide content and the same were accepted. Under these circumstances, the Ministry could not enforce any penalty even though recommended by a special committee constituted for the purpose which amongst others included Director General Quality Assurance. Ministry stated that the requirement for OP Vijay had to be met from existing reserve stock by limiting the numbers of socks per soldier.

This indicates that despite this item being critical the Army HQ/Ministry had not completely firmed up its technical requirements and there was inconsistency in its quality standards.

### *4.24 Sniper Rifles*

Army HQ had projected in June 1998, procurement of 600 sniper rifles 7.62mm with night vision device so as to enable the troops in extracting optimum operational advantage. The procurement was taken up on priority in view of OP Vijay and a contract was concluded with RVZ, Russia for 400 rifles at a cost of Rs 9.54 crore , in August 1999. No night vision device was , however, provided in the contract on the ground that the price of rifle with day vision device was considerably lower than that with a night vision device . Audit scrutiny revealed that the Ministry concurrently accorded approval for procurement of 400 similar night-vision devices from a PSU at higher cost. The negotiated rate quoted by the firm for the night vision device was Rs 1.67 lakh per piece whereas the rate contracted by the Ministry was Rs 2.07 lakh per piece resulting in unnecessary additional expenditure of Rs. 1.60 crore.

## 5 Cases of delayed purchases

Timing was a critical parameter in making procurements for OP Vijay. Administrative or avoidable delays are therefore a matter of great concern. Illustrative cases of delay are detailed in the succeeding paragraphs.

### *5.1 Charging/Generating sets*

A proposal was mooted by the Army HQ in June 1999 for procurement of different capacities of generating/charging sets to meet the urgent requirement of on- going operations. In departure from the normal procurement of rugged sets, it was proposed to acquire commercial models. In view of the urgency of the operation a special dispensation was also obtained in July 1999 from exempting trial evaluation.

However, the 9 contracts in respect of the above proposal were finalized at a total cost of Rs 28.15 crore only after February 2000, much after the operation was over. The Ministry stated in May 2001 that the laid down procurement procedure had to be followed from sanction stage to placement of order which involved considerable time and the immediate operational requirement was met from the reserved stocks. The reasonableness of the 7 to 10 months after sanction in finalisation of contracts and the tenability of the reply has to be viewed in the context that most of the charging and generating sets were commercial models and available indigenously.

### *5.2 Anti Bunker Weapon System*

Against a requirement projected by the Army HQ (June 1999) to enhance its troops' capabilities , theMinistry concluded a contract on 30 June 1999 with Instalza, South Africa for supply of 1200 disposable anti-bunker weapon system at a total cost of US $ 1.66 million equivalent to Rs 7.15 crore. In terms of the contract, the firm had to offer the weapon systems for inspection at its premises within six weeks from the date of signing of the contract and immediate delivery and shipment in one lot thereafter.

Two days after signing the contract the firm indicated that the stores could be despatched by air and it would extend all co-operation to deliver the goods by air after receipt of instructions from the Ministry. Accordingly, Ministry amended the clause regarding mode of despatch from 'Ship' to 'Air'on 8 July 1999 The firm intimated the readiness of the goods for despatch, duly inspected by its authorities in August 1999. However, the firm expressed apprehension on airlifting the goods as they fall under 'dangerous category'. The freight agent also intimated (September 1999) the Ministry about its inability to obtain requisite clearance from the country of origin and the other countries involved. Consequently, Ministry amended the contract in regard to mode of despatch on 7 October 1999, reverting back to 'Ship'. Eventually, the goods arrived on 11 December 1999 , 4 months after being ready for despatch.

Ministry stated in August 2000 that the delay occurred due to factors beyond its control. The reply is not tenable because the delay took place due to inadequate advance action by the Ministry , having failed to ascertain if the goods could be air lifted before amending the contract.

### *5.3 Battle field surveillance Radar (Medium Range)*

A contract was concluded (September 1999) with Bharat Electronic Limited for procurement of 45 Battle field surveillance Radar (Medium Range) at a total cost of Rs 69.76 crore through transfer of technology from ELTA, Israel.

Audit scrutiny revealed that the process for induction of these radars have begun as early as in May 1996 when technical bids had been invited and trial evaluation conducted. Three radars one each of Thomson CSF, France, ELTA, Israel, RACAL, UK had been evaluated for this purpose of which the radar of Racal was rejected and the other two fell short of GSQRs. The radar of ELTA, Israel ranking second in the trial evaluation was finally selected in June 1998, their bid being lower by Rs 1.76 crore after obtaining relaxation of GSQR parameters. The contract could however be concluded only in September 1999. As per the time schedule the first radar was to be delivered only in November 2000. However no radars were delivered till April 2001 even though an amount of Rs 46.20 crore had been approved for payment. Thus, more than five years had elapsed since the equipment was originally tried.

### *5.4 Radio sets*

As a part of the on going procurement for OP Vijay the Army Headquarters placed an order on 5 June 1999 on Bharat Electronics Limited, Bangalore for supply of 70 Radio sets – STAR V- together with spare parts and accessories at a total cost of Rs 2.38 crore. The contract, however, stipulated delivery only by 30 April 2000.Bharat Electronics expressed in April 2000 its inability to adhere to the delivery schedule and requested extension of time up to 31 March 2001. In the meanwhile, Army Headquarters released initial advance payment of Rs 47.56 lakh and progressive additional 65 per cent advance of Rs 1.55 crore in February 2000 to the firm. Stores required for operational purposes were received by the Depot in June 2000.

### *5.5 Underslung cargo nets*

To meet the urgent requirement of OP Vijay the Ministry concluded a contract in July 1999 with Brid Port, UK for supply of 3600 numbers of under slung nets at a total cost of pound 12,60,000 equivalent to Rs 8.65 crore. The firm was also to supply a carrying bag made from synthetic fabric for storage and transportation of these underslung cargo nets. As per the contracted delivery schedule , 300 sets were to be supplied during August and September 1999. However, supplies commenced only in October 1999 and were completed by April 2000.

In May 2000, Army HQ indicated that the carry bags supplied with the nets were not acceptable being of inferior quality. The matter remained under correspondence with the firm who finally agreed to replace the bags as acceptable to the Army. No clearance had, however, been communicated to the firm till January 2001. None of the nets procured at a total cost of Rs 8.65 crore were issued for use.

### *5.6 155 mm Red Phosphorous Ammunition*

Against an urgent requirement projected by the Army Headquarters (17 June 1999) for 155 mm red phosphorous ammunition to gain advantage of incendiary effect in addition to smoke screen in the ongoing Kargil operation a contract was concluded (August 1999) with Denel, a South Africa firm for 9,000 rounds at a total cost of US $12.69 million equivalent to Rs 55.1 crore. A technical delegation had visited South Africa in June/July 1999 and cleared the firm as a single vendor. The contract also envisaged free transfer of technology to be finalised with the Ordnance Factory Board.

Even though the ammunition was projected as required for OP Vijay, the contract concluded on 20 August 1999 stipulated delivery of 1000 rounds only four months after the export license was obtained and the balance from 6 to 9 months. The first lot of 1200 rounds were received at the Central Ammunition Depot, Pulgaon only in June 2000, 10 months after the operation was over and the inspection had not been completed as of October 2000.

The Ministry intimated that the delay has been caused primarily due to problems in getting ships through the Ministry of Surface Transport for the consignments. Audit scrutiny revealed that this issue had been raised by the supplier during negotiations (July 1999) and steps could, therefore, have been taken in advance to arrange emergent transportation of atleast the first consignment. Alternatively, the problem in shipping should have been considered before deciding to source this ammunition which was required urgently.

### *5.7 Hand Held Mine Detectors*

The requirement of mine detectors for OP Vijay projected in June 1999 by the Army headquarters could not be met. Audit scrutiny revealed delays at various stages.

(a) Even though the indent was raised in June 1999, indicating requirement for OP Vijay , bids were invited only in July 1999, negotiations held in August 1999, and the contract for supply of 1800 mine detectors at a cost of DEM 4.26 million equivalent to Rs 10 crore concluded in October 1999, well after the operation was over.

(b) The supply was to be effected 4 months after opening of LC but the Government delayed opening of LC by two months.

(c) Although the supply was completed by February 2000 , the inspections were not carried out till June 2000 on the plea that the firm's representative did not participate in the inspection even though no such provision was envisaged in the contract.

Ministry intimated (May 2001) that 812 detectors were issued by October 2000 and another 100 from December 2000 to February 2001.

### *5.8 Tyres for 155mm towing vehicles*

Against an urgent requirement of OP Vijay, the Army HQ concluded a contract in December 1999 for 349 tyres for towing vehicles for Bofors gun at a total cost of US$ 127636.28 equivalent to Rs 0.55 crore. The contract stipulated opening of letter of credit for payment to the supplier within 30 days of sellers notification of readiness of consignment and supplies were to be made within 90 days of opening the letter of credit. The letter of credit was opened on 29 February 2000. The supplies against the contract materialized only in July 2000, without the 'O' rings required for fitment of tyres that too after the Operation-Vijay was over.

Consequently, Central Ordnance Depot, Mumbai held the tyres as of July 2000 without any issue for want of 'O' rings. The depot awaited instruction from Army HQ in this regard.

The Ministry stated in October 2001 that COD, Mumbai did not place indent for 'O' rings since no demand existed and issues of tyres were made from July 2000.

### *5.9 Sleeping bags*

In view of the urgent requirement for OP Vijay an RFP was issued on 15 June 1999 to four vendors for supply of 42000 sleeping bags to be delivered from July to September 1999. Only two firms responded within the stipulated 6 days. After negotiations, the PNC recommended splitting of the order; 32,000 on the lowest bidder (Aptec) and 10,686 on the other bidder at the same price to ensure timely supply. However, at the request of the lowest bidder the contract for the entire quantity was concluded (20 July 1999) with him at Rs 8681.25 per sleeping bag aggregating Rs 37.06 crore. The delivery schedule was amended to 20,000 by September 1999 and the balance in October 1999 and November 1999. As against this, only 5000 sleeping bags were received on 27 September 1999. The entire supply was completed only by December 1999. Thus they failed to serve the need for OP Vijay. In fact, as on September 2000, 10,000 bags were held at Central Ordnance Depot (COD), Kanpur and another 13,843 at, COD Delhi Cantt. Thus 23,843 sleeping bags purchased at a cost of Rs 20.69 crore for OP Vijay were lying in stock.

## 6 Redundant purchases

A critical requirement for an efficient and economical procurement system is that it should curtail unnecessary procurement. The defence procurement system provides internal controls in the form of authorised scales, indent reviews, budgetary planning etc. Even though none of these were relaxed for OP Vijay, some redundant and excess purchases were cleared. Illustrative cases are detailed in the succeeding paragraphs.

### *6.1 Special clothing and mountaineering equipment*

A study team constituted in May 1995 recommended in January 1996 revision of authorization of special clothing, Ski and mountaineering equipments for Northern Command, Eastern Command and for the Army HQ reserve. Accepting the recommendations of the study team the Government issued orders in November 1998, for the revised authorizations. The quantities authorized for the two commands was to cater for the troops deployed in regions where these special clothing and mountaineering equipments are required. The Army HQ reserve was to cater for unforeseen contingencies.

Audit scrutiny of procurement of 16 items of special clothing and mountaineering equipment during the period June to September 1999 for meeting the urgent requirements of OP Vijay, disclosed that these items were procured in excess of the total authorization laid down by the Government. The value of excess quantities procured was Rs 95.15 crore, which included Rs 94.76 crore in foreign exchange. Excess procurement resulted in holding of stock at COD Kanpur/Detachment COD Kanpur 2.4 to 3.8 times the authorized Army HQ reserve in respect of five items test checked as detailed below :-

| Item | Authorised AHQ reserve | Actual Stock | No. of times | Stock position on |
|---|---|---|---|---|
| Sleeping Bag | 8354 | 23843 | 2.85 | 8 September 2000 |
| Snow Goggles | 8354 | 28125 | 3.36 | 28 February 2001 |
| Spare Glass for goggle | 4177 | 10690 | 2.55 | 28 February 2001 |
| Rock Piton | 1253 | 4828 | 3.85 | 28 October 2000 |
| Boot crampon | 1253 | 2978 | 2.37 | 28 October 2000 |

In response the Ministry stated (September 2001) that additional quantities were procured to meet the requirement of OP Vijay and this surplus stock was only due to early cessation of hostilities. Proposal for enhancing authorisation is under preparation.

### *6.2 High speed data modem for man pack radio sets*

To meet the urgent requirement of OP Vijay the Army HQ, projected (June 1999) immediate procurement of 500 man-pack radio sets to replace the existing HF sets which were cumbersome and without data transmission and anti jam features. After technical evaluation of the offers of two foreign firms , a contract was concluded in June 1999 with Tardirancom Israel for supply of 500 radio sets and accessories at a total cost of US $ 10.68 million equivalent to Rs 45.93 crore in two versions, viz, 400 sets with basic modem (in-built) and 100 sets with high speed data modem.

Scrutiny of the papers leading to conclusion of the contract revealed that the firm had in its quotation of June 1999 recommended that for practical applications of the Army, radio sets with basic modem, which was in-built in the sets, would suffice as the fast modem would be required only for special data applications, apart from being cost-prohibitive. Director of Quality Assurance (N) had also come to the conclusion in February 1999, after technical evaluation of the system of both the versions conducted in January 1999, that high speed data modem would not have relevance in the man-pack role.

Nevertheless, the Ministry contracted for 100 radio sets with high speed data modem at an additional expenditure of US $ 0.43 million equivalent to Rs 1.85 crore.

Sudha Rajagopalan

**New Delhi**
**Dated** 19 NOV 2001

**(SUDHA RAJAGOPALAN)**
**Director General of Audit**
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**Countersigned**

V. K. Shunglu.

**New Delhi**
**Dated** 19 NOV 2001

**(V.K. SHUNGLU)**
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