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ABNORMAL DELAY IN EXECUTION OF ORDNANCE FACTORY PROJECT NALANDA

MINISTRY OF DEFENCE

PUBLIC ACCOUNTS COMMITTEE 2011-2012

FIFTY-THIRD REPORT

FIFTEENTH LOK SABHA

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

FIFTY-THIRD REPORT

PUBLIC ACCOUNTS COMMITTEE
(2011-2012)

(FIFTEENTH LOK SABHA)

ABNORMAL DELAY IN EXECUTION OF ORDNANCE FACTORY PROJECT NALANDA

MINISTRY OF DEFENCE

Presented to Lok Sabha on 30.3.2012
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सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

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SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*

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*Elected w.e.f. 29th August, 2011 *vide* the vacancy occurred *vice* Smt. Jayanti Natarajan appointed Minister w.e.f. 12th July, 2011.

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2010-11)

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

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3. Dr. Baliram
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12. Shri K. Sudhakaran
13. Dr. M. Thambidurai
14. Shri D. Venugopal
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Rajya Sabha

*16. Vacant
17. Shri N. Balaganga
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22. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*

*Vacancy occurred *vice* Shri Ashwani Kumar has been appointed as Minister of State w.e.f. 19th January, 2011.

COMPOSITION OF SUB-COMMITTEE-I OF THE PUBLIC ACCOUNTS COMMITTEE (2010-11)

Shri Bhartruhari Mahtab — *Convenor*

MEMBERS

Lok Sabha

2. Shri Naveen Jindal — *Alternate Convenor*
3. Dr. K. Sambasiva Rao

Rajya Sabha

4. Shri Kalraj Mishra

INTRODUCTION

I, the Chairman, Public Accounts Committee (2011-12) having been authorised by the Committee, do present this Fifty-third Report (Fifteenth Lok Sabha) on **'Abnormal Delay in Execution of Ordnance Factory Project Nalanda'** based on Paragraph No. 6.3, Chapter VI of C&AG Report No. CA 4 of 2008 and Chapter II of C&AG Report No. 15 of 2010-2011 relating to the Ministry of Defence.

2. The above-mentioned Reports of the Comptroller and Auditor General of India was laid on the Table of the House on 14th March, 2008 and 20th August 2010 respectively.

3. Taking cognizance of the inordinate delay on the part of various Ministries/ Departments in furnishing the Action Taken Notes on the Non-selected Audit Paragraphs/Chapters/Reports within the stipulated time-frame, the Public Accounts Committee (2010-11) took up the subject for detailed examination and report. A Sub-Committee was specially constituted for the purpose. In due consultation with the Audit, it was decided to examine the position in respect of the Ministry of Defence alongwith some other Ministries/Departments.

4. In the process of the scrutiny of the Audit Paragraphs/Chapters/Reports pending with the Ministry of Defence, the Sub-Committee-I came across certain pending Paragraphs/Chapters on very important issues and considered it prudent to examine and report the same alongwith the Non-Compliance issue. Accordingly, the Sub-Committee-I took up the above-mentioned Paragraph of the respective Audit Report for in-depth examination.

5. The Sub-Committee-I took evidence of the representatives of the Ministry of Defence on 18th February, 2011. The Committee considered and adopted this Report at their sitting held on 22nd March, 2012. Minutes of the sittings form Appendices to the Report.

6. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report.

7. The Committee thank the Sub-Committee for their efforts in examining the subject in detail.

8. The Committee would also like to express their thanks to the officers of the Ministry of Defence for tendering evidence before the Sub-Committee and furnishing information that the Sub-Committee/Committee desired in connection with the examination of the subject.

9. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
28 *March*, 2012
8 *Chaitra*, 1934 *(Saka)*

DR. MURLI MANOHAR JOSHI
Chairman,
Public Accounts Committee.

REPORT

PART I

I. INTRODUCTORY

The Finance Accounts and the Appropriation Accounts of the Union Government are audited yearly by the Comptroller and Auditor General of India (C&AG) in accordance with the CAG's (Duties, Powers and Conditions of Service) Act, 1971. As per Article 151 of the Constitution, the reports of the the C&AG stand referred to the PAC for their scrutiny after being laid in the the Parliament. The table given below shows the number of Audit Reports presented during each of the last three years and the number of Audit Paras contained therein.

Sl. No.	Year	No. of Audit Reports Tabled	No. of Paras
1.	2008	21	1701
2.	2009	17	1725
3.	2010	26	1265
Total		64	4691

2. As it becomes practically impossible for the Public Accounts Committee to examine each and every Audit Report, the Committee adopt a selective approach and take up relatively more important Reports/Chapters/Paragraphs for in depth examination at the beginning of their term every year. The Report paragraphs not selected for examination by the Committee are dealt with by means of a procedure whereby the Ministries/Departments are required to furnish the remedial/corrective Action Taken Notes to the Committee through the Ministry of Finance (Department of Expenditure).

3. As there was inordinate delay on the part of the Ministries/Departments in furnishing the remedial/corrective Action Taken Notes, the Committee in their 105th Report (Tenth Lok Sabha) had recommended that with effect from 31st March, 1996 the Action Taken Notes on all the Paragraphs of the Reports of the C&AG, which are not formally taken up by the PAC for examination, should be furnished to the Committee within four months of the laying of the Audit Reports.

4. During 2000-01, *vide* their 9th Report, the Committee decided that the remedial/ corrective Action Taken Notes furnished by the respective Ministries/Departments should be categorized by the Audit under three broad heads namely, **"accepted", "partially accepted",** and **"not accepted"**. In subsequent developments, the Committee

also decided that a brief on those Action Taken Notes which are categorized as 'not accepted' should be furnished by the Office of C&AG, clearly indicating the reasons for such categorization as well as the points of difference between the Audit and the Ministry/Department concerned. The Remedial Action Taken Notes and briefs on 'non-accepted' paras are then circulated to the Members of the Public Accounts Committee and after their consideration these Notes reach the stage of finality.

5. Even after putting this elaborate system in place, it came to the notice of the Committee that various Ministries/Departments have not been able to stick to the timeline of four months as recommended by the Committee and have erred in furnishing the remedial/corrective Action Taken Notes within the stipulated time-frame. As per the information furnished by the Ministry of Finance (Department of Expenditure) who have set up a Monitoring Cell for assimilating and coordinating the data from various Ministries, as on 25th June, 2010, a total no. of 4191 paragraphs were pending with various Ministries/Departments.

6. Against this backdrop, the Committee took up the subject of 'Non-Compliance by the Ministries/Departments in timely submission of ATNs to the Audit Paras of C&AG of India' for detailed examination during the year 2010-11. A Sub-Committee was constituted to examine the matter, prepare separate Reports on each erring Ministry/Department concerned and place the same before the Main Committee for their consideration. In the process, the Sub-Committee obtained Background Notes/ Preliminary materials and written replies from the Ministries/Departments concerned. The Sub-Committee also took separate evidence of the representatives of the respective Ministries/Departments.

II. PENDENCY OF AUDIT PARAS OF THE MINISTRY OF DEFENCE

7. This Report pertains to the remedial/corrective Action Taken on the Audit Paragraphs pending with the Ministry of Defence. According to Audit, a total of 3462 audit paras were pending with the various Ministries as on 31.05.2010 on which corrective/remedial Action Taken Notes were due. Out of these, a total 187 were pending with the Ministry of Defence on which Action Taken Notes were not furnished. According to the Department of Expenditure, as on 25.06.2010, a total of 4191 paras were pending with the various Ministries and out of these a total of 163 paragraphs were pending with Ministry of Defence on which the Ministry was required to furnish Action Taken Notes.

8. When asked to indicate the exact number of Audit paragraphs received by the Ministry of Defence during the last two years, the Ministry in a written note intimated that a total of 131 C&AG Audit paras had been received during last two years *i.e.* 2008-09 and 2009-10.

9. When the Committee desired to know about the reasons for pendency of the Audit paras with the Ministry of Defence despite the prescription of a fixed time line of four months from the date of laying of Audit reports on the Table of the House

and about the mechanism that has been devised or proposed by the Ministry of Defence to ensure timely submission of Action Taken Notes within the stipulated time of 4 months, the Ministry in a written note intimated that the submission of Action Taken Notes was being reviewed by a Standing Audit Committee chaired by the Secretary, Defence Finance and including the Vice-Chiefs of the Services and the representatives of Ministry, CGDA and C&AG. In addition, efforts were also being made to hold ATN adalats to facilitate settlement of outstanding Audit paras. The Ministry further stated that the preparation of the ATNs required coordination between a number of agencies *i.e.,* the concerned unit/formation, the Service HQ Ministry and DGADS. The Fact that the units/formations are spread across the country also added to the time taken in coordinating a response.

10. Audit Report No. CA-4 of 2008 (Defence Services) was laid in Parliament on 14.03.2008. It contained Para No. 6.3, 'Abnormal Delay in Execution of Ordnance Factory Project Nalanda'. Subsequently, another Audit Report No. 15 of 2010-2011 was laid in Parliament on 20.08.2010 which contained Chapter II: Nalanda Factory. The Committee while examining the subject considered both these Reports and have come out with their finding int he succeeding paragraphs of this Report. The sequence, *inter-alia* showing the date of presentation of both these Reports and the current status of the remedial/corrective ATNs is as under:

(i) Report No.		**CA 4 of 2008**
Para No.		**6.3**
Subject		Abnormal Delay in execution of Ordnance Factory Project Nalanda
(i)	Date of presentation of Audit Report to Parliament	14th March, 2008
(ii)	Date of first response (ATN) by the Ministry	Ministry's letter dated 28 August, 2008 received by Audit on 11 September, 2008
(iii)	Date of sending back the ATN (1st) to Ministry	21st October, 2008
(iv)	(a) Date of resubmission of ATN (2nd) to Audit by the Ministry	Ministry's letter dated 05 November, 2009 received by Audit on 20 November, 2009
	(b) Date of sending back the ATN (2nd) to Ministry	17th December, 2009
	(c) Date of resubmission of ATN (3rd) to audit by the Ministry	Ministry's letter dated 10 May, 2010 received by Audit on 01 June, 2010
	(d) Date of sending back the ATN (3rd) to Ministry	17th June, 2010
(v)	Current status (whether finally settled/final ATN sent to PAC or not)	Not vetted by Audit as Ministry of Defence has not addressed the points raised in Audit Reply dated 21st October 2008
(vi)	If settled, what date	N/A

(ii) Report No.	15 of 2010-11
Para No.	**2.2**
Subject	Establishment of Nalanda Factory
(i) Date of presentation of Audit Report to Parliament	20th August, 2010
(ii) Date of first response (ATN) by the Ministry	Response received in two spells (a) Ministry's letter dated 14th March, 2011 received by Audit on 04.04.2011 (b) Ministry's letter dated 15th, April, 2011 received by Audit on 5th May, 2011
(iii) Date of sending back the ATN to Ministry	Comments of Audit sent to DGADS, New Delhi *vide* Audit Office Letter No. 693/Rep-7/2002-09 dated 23rd June, 2011
(iv) Date of resubmission of ATN to Audit by the Ministry, if any	Not received by this office
(v) Current status (whether finally settled/) final ATN sent to PAC or not	Not known
(vi) If settled, what date	N/A

11. When asked about the reasons for the delay in finalizing these remedial/correction Action Taken Notes, the Secretary during evidence stated:—

> "Firstly, let me assure you that it is not as if this was because of the neglect of the issue *per se*. It was definitely that it was a detailed report and each aspect was looked into by different associated officials. For example, you may notice that there is an element of the personnel side, acquisition side and maintenance side. Now we have to put all those elements together."

12. When asked whether they needed more time, to settle the paras, the witness said:—

> "I am not submitting that. I am only trying to explain one point."

13. When the Committee enquired about the non furnishing of corrective remedial Action Taken Notes within the stipulated time of four months, the Ministry stated that the information related to the Audit Para was required to be collected from the concerned division of Ordinance Factory Board (OFB) which in turn had to collect the information from the Factory. This process took some time in view of the complexity of the project. Thereafter, the draft ATN was examined on file in the Ministry in consultation with the Ministry of Defence (Fin). While the ATN for abnormal delay in execution of Project Nalanda, leading to increase in estimated project cost was being examined, OFB, in Feb., 2008, requested for revision of the estimated cost of project to ₹ 2051.09 crore based on L-1 offer of BMCS plant, NG and SAC/NAC plant.

14. The Committee wanted to know whether any responsibility was fixed for not furnishing remedial Action Taken Notes on the pending audit paragraphs. Stating its position the Ministry intimated that Committee through a written note as under:—

"All Cases of delay in ATN are taken very seriously in the Ministry and monitored at various levels. All efforts are made to ensure that delays in sending ATN are avoided."

15. Asked to state the specific date by the ATNs to these pending paragraphs were likely to be submitted for further compliance, the Ministry in a written note informed as under:—

"All efforts are being made to expedite the responses to the outstanding audit paras. Regular reviews by the Standing Audit Committee are also being undertaken to speed up the process. However, due to involvement of a number of agencies, it is difficult to specify a time-frame for clearance of all the outstanding cases."

III. ABNORMAL DELAY IN EXECUTION OF ORDNANCE FACTORY PROJECT NALANDA

(PARAGRAPH No. 6.3 OF AUDIT REPORT No. CA 4 OF 2008)

16. As the remedial/corrective ATN by Ministry of Defence did not reach the stage of finality, the Committee decided to enquire into the subject on "Abnormal Delay in Execution of Ordinance Factory Project, Nalanda", the details of which are contained in the succeeding paragraphs. As brought out earlier, the Paragraph No. 6.3 is contained in the Audit Report No. CA 4 of 2008 (Defence Services). The Audit finding on this subject were further revisited in Chapter II : Nalanda Factory, Report No. 15 of 2010-2011 which has suitably been incorporated in the Report.

17. Audit scrutiny revealed that with the induction of 155 mm gun system into the Army, there arose the need to manufacture two lakh rounds of 155 mm ammunition per annum in Ordnance Factories. Ordnance Factory Board (OFB) proposed setting up a new factory to manufacture Bi-Modular Charge System (BMCS), a propellant, required for the ammunition, stating that this task could not be entrusted to any of the existing factories. The Ministry of Defence obtained approval of the competent authority for setting up a new factory in Nalanda District, Bihar and issued "go ahead" sanction in February, 1999. The Ministry simultaneously sanctioned ₹ 15 crore to be met from within the allocation of OFB, insisted OFB to prepare a Detailed Project Report (DPR) urgently, for approval of the Government.

18. Audit scrutiny further revealed that the project suffered from serious delays and has fallen considerably behind schedule, resulting in estimated cost overrun of ₹ 628.87 crore. Against the original target date of completing the project by November 2005, the actual progress achieved as of March, 2007 was only about 25 percent in financial terms. While construction of crore technical buildings for the factory and procurement of plants and machinery were to be commenced as of November, 2007, ancillary items of work such as construction of residential accommodation, amenity buildings, open air theatres, shopping centres, ordnance club, purchase of buses, jeeps, cars, air-conditioners etc. have been completed, indicating poor planning and deficient project management.

(A) Delay in Procurement of Plant and Machinery

19. The Indian Army after conducting trials of different types of propellants had recommended in 1998-99 the procurement of Bi-Modular Charge System (BMCS) Somchem, a division of Denel, South Africa. The company was the only known manufacturer of BMCS at that time. The Ministry of Defence entered into a contract with the company for procuring 4 lakhs BMCS modules in April 2002. The contract envisaged transfer of technology (TOT) for indigenous production of the propellant by OFD.

20. Audit pointed out that OFB signed a contract in March 2002 with M/s Denel, a firm from South Africa, for Transfer of Technology (TOT) for manufacture of the Bi-Modular Charge System and training buyer's personnel in the functions relating to manufacture and testing and Licence fee for a total price of USD 13,990,000 equivalent to ₹ 68.44 crores.

21. Though OFB received the TOT documents and the supplier trained the buyer's personnel, procurement of the plant and machinery was held up as the tendering action revealed that the cost of the plant and machinery would be about ₹ 847.94 crore as against the sanctioned cost of ₹ 531.42 crore. (As it was estimated at the 1999 rates). OFB requested in February, 2005 for increasing the approved amount for plant and machinery from ₹ 531.42 crore to ₹ 874.94 (1) the cost of plant machinery envisaged in the DPR was estimated at 1999 rates; (2) sanction accorded by the Ministry did not provide for price variation; and (3) requirement of additional plant and machinery emerged on analysis of TOT documents received by the OFD.

22. The OFB did not procure any plant and machinery, except non-process plants including buses, cars, jeeps, air-conditioners, trucks, vans etc. at a total cost of ₹ 2.74 crore. The total expenditure incurred under this category was only ₹ 68.88 crore (including ₹ 66.14 crore paid for TOT), amounting to a significantly low percentage of 13 per cent of the sanctioned sum of ₹ 531.42.

23. The contract agreement for Transfer of Technology was signed between OFB and M/s. Denel (a company from South Africa) on 15th March, 2002 with effective date of commencement of the contract from 15th March, 2003. However, Ministry of Defence decided to cancel all contracts with Denel in June 2005 due to allegations of corruptions in some other case. The contribution of Denel to the project was to supply the Transfer of Technology (TOT) documents, which by that time had already been done and payment made.

24. In the above context when the Committee desired to know the details of the reasons for the cancellation of contract with M/s. Denel, the Ministry stated that in April, 2005, News reports appeared in certain section of electronics and print media, both in South Africa and in India, about the alleged payment of agency commission by M/s. Denel to secure contracts of Anti-Material Rifles (AMR) supplied to the Indian Army. Subsequently, based on information furnished by the Ministry of Public Enterprises, Government of South Africa, to the Indian High Commissioner, South Africa, it was found that M/s. Denel had appointed Varas Associates as Technical Adviser in respect of India for the period from January 2001 to December 2004. It was during this period that two contracts of Anti Material Rifle (AMR) were signed on

20.03.2002 and 27.03.2002. These contracts contained specific clauses related to penalty for use of undue influence and non-engagement of Agents/Agency Commission for award of the contract to the seller. In view of the *prima facie* breach of the clauses on Agents/Agency Commission as contained in contracts on Anti Material Rifles (AMR) signed on 20.03.2002 and 27.03.2002, the Ministry, after consulting with the Ministry of External Affairs, directed (i) to cancel all contracts with Denel South Africa (ii) recovery of advance along with interest (iii) non opening of LC where LC had been received (iv) obtaining of legal opinion in cases where LC had been opened, apart from considering the question of recovery of any loss, imposition of penal damages or any other action as deemed fit under the relevant contracts.

25. When the Committee desired to know the specific reason for the cancellation of the contract of Transfer of Technology (TOT) with Denel, the Secretary during the oral evidence further stated as under:—

> "Sir, there was some material suggesting malpractices in the contract for supply of Anti Material rifle. It is the rifle which is used for busting the bunkers. It fires ammunition which goes through the concrete."

26. When enquired about the exact date from where the warranty clause of Transfer of Technologies started, the Ministry in their post evidence reply intimated that the exact date of commencement of Warranty/Guarantee clause related to Transfer of Technology contract is 15.03.2003, which is the effective date of contract. The firm submitted Performance Bank Guarantee (PBG) which was valid upto 15.03.2010.

27. The Committee wanted to know about the criteria for selecting the site of Nalanda and the inherent advantages it had in setting up this project. The Ministry in their post evidence reply stated as under:—

> "As per directives of the Ministry in June 1998, DGOF & Chairman/OFB had constituted a Site Selection Committee for the new Propellant factory. The Committee was directed to recommend suitable site based on the following criteria:—

(a) Availability of adequate land with scope for future expansion;

(b) Availability of source of water in adequate quantity in the near vicinity;

(c) Availability of adequate electric power;

(d) Geographical features and terrain conditions;

(e) Safety and security aspects;

(f) Soil conditions, suitability for construction of explosives process/storage and buildings;

(g) Availability of skilled manpower;

(h) Adequate rail and road links;

(i) Climatic conditions;

(j) Logistics in the transport of raw materials and propellants including proximity to proof establishments;

(k) Government policy regarding development of backward regions; and

(l) Any other relevant factors.

The Committee evaluated following sites and concluded that the site in Rajgir, District Nalanda had advantage in terms of adequate land, availability of water in adequate quantity and availability of power in close proximity etc. over the following other sites:—

Markacho (Bihar)
Gwalior site,
Sagar (MP)
Warangal,

Thereafter, a group of officers was constituted on 07th Sep. 1998 with the approval of Hon'ble RM to finalize/confirm the selection of Greenfield site for the proposed new propellant factory. The group of officers carried out analysis of merits and demerits of various sites and recommended Rajgir site in Nalanda District of Bihar as the most suitable site for setting up of a new propellant factory. The important points/merits/demerits of various sites, analysed by this group are summarised below:—

(a) **Markacho Site:** About 39% of land in forest land; denotifying the forest land may not be possible. The land is also uneven having deep burrow pits.

(b) **Gwalior Site:** Land is rocky; continuous rock strata propagate shock waves, hence not desirable for a propellant factory. Raw material not available nearby Temperature falls upto 0.4^{o} C which may pose problem for storage of nitroglycerine.

(c) **Sagar Site:** 25% of land is forest land which may not get denotified.

(d) **Warangal Site:** 1185 families *i.e.* roughly a population of 6274 will have to be displaced. Land acquisition could be a problem. Nearest water source is 20 km away. National highway is 135 kms away.

(e) **Rajgir Nalanda Site:** Meets all criteria for the site. A backward area; locating a factory will help development of the region.

The report of the Committee on site selection was duly approved by the Hon'ble RM for setting up New Propellant Factory as adequate land was available for the project with scope of future expansion, industrial water requirement could be met from Panchane River and Ghora Katora Dam, nearest Railway Station is at Rajgir, and power was available in the close proximity to the site from Bihar State Electricity Board. The nearest National Highway is 25 km from the site and the distance would decrease to 7 km on construction of bridge over Panchane River for which a scheme has already been sanctioned of the State Government.

Thus, it would be seen that the proposed site at Rajgir Nalanda had inherent advantages, as mentioned above, over the others as per the criteria for selection of the site.”

28. When the Committee desired to know the receipt of this Audit Para for the first time in the Ministry and the latest position of the same, the Ministry in their written reply intimated that the revised Draft Para was issued by the Principal Director of Audit (PDA) to MoD on 04.01.2008. The comments were received from OFB on 23.05.08.

The ATN duly concurred by MoD (Fin) was sent to PDA for vetting on 28th Aug. 2008. The observations raised by PDA on the ATN were subsequently replied by the Ministry on 5th Nov. 2009 and 10th May 2010.

29. Asked to explain the reasons for cost estimation of procurement of Plant and Machinery at the rates of 1999, the Ministry stated that M/s M.N. Dastur and Co.,Kolkata was selected for preparation of Detailed Project Report (DPR) for OF Nalanda project based on the open tender enquiry (L-1 offer). The firm submitted DPR in Sept 1999 wherein it had estimated the project cost for Ordnance Factory Nalanda Project as ₹ 926.94 crore without Customs Duty and at ₹ 1031.79 crore with Customs Duty. The estimates for Plant & Machinery were based on the budgetary quotations received from leading international and indigenous suppliers at the then prevailing rates and the inputs available with their consulting engineers.

30. Audit pointed out that the Nalanda project was also kept in abeyance from June, 2005 to July, 2006. By the time the project was stalled, tenders were received for all the three plants, namely the feeder Nitro-cellulose and Nitroglycerine Plants and the main BMCS plant. The decision to keep the project in abeyance as also subsequent delay in finalizing contracts led to considerable cost and time overrun as would be evident from the fact that the estimated cost had gone up from ₹ 941 crore as originally sanctioned to ₹ 2161 crore as per the revised sanction. As a result of the expriy of the warranty period for the transfer of technology, the delay also resulted in a situation in which the manufacturing processes and outputs would be without any cover of warranty by the provider of the technology.

31. In the above context, the Committee wanted to know the specific reasons for keeping the project in abeyance from June, 2005 to July, 2006. Explaining the view point, the Ministry intimated in a written reply as under:—

> "After the contract was signed in April, 2002 with M/s Somchem, South Africa, the Army undertook 'into service commissioning' trials of the propellant, which were completed in March, 2003. Most of the technical specifications of the plant were also received by that time. The vetting of the specifications for the main BMCS plant was completed by December, 2003 and OFB initiated action for tendering the main plant in March, 2004. Since, the cost of the project based on the lowest bids for the plant and machinery, which were received in response to global tender enquiry, was substantially higher than the sanctioned cost of the project, OFB approached the Ministry of Defence in February, 2005 for revision of the project cost.
>
> In view of the time and cost over-run, MoD decided in June, 2005 with the approval of RM to consititute an Expert Committee to review the BMCS project; it was also decided to keep the project in abeyance till further orders. The mandate of the Expert Committee was to study the feasibility of manufacture of BMCS in the existing propellant making factories, utilizing the technology already acquired from M/s Somchem, The Committee was also asked to assess the cost and timeframe for production of BMCS in the existing factories.

The report of the Expert committee was received in January 2006. The Committee had recommended that the explosives and propellant required for manufacture of BMCS could be made in the existing propellant manufacturing ordnance factories, that combustible cartridge cases could be manufactured in the private sector and that the end product can be assembled and made in one of the ordnance factories. These recommendations of the Committee were not acceptable for the reasons indicated below:—

(a) The existing facilities were quite old; therefore it was not possible to manufacture new generation propellants with these old plants. Also it was not possible to modify them to suit the chemical processes required for manufacture of BMCS as specified in the ToT documents by Somchem, South Africa.

(b) It was not thought prudent from the point of view of both security and economy to manufacture different types of explosives at different propellant manufacturing factories.

(c) Combustible cartridge case being critical element of BMCS, facilities for in house manufacturing was considered indispensable.

It was therefore decided by the Ministry in June, 2006 not to accept the recommendations of the Committee and to resume the project."

32. Audit scrutiny revealed that Tender Enquiry for BMCS plant was issued for the first time on 29 March 2004. Israeli Military Industries (IMI) Israel emerged as the L-1 firm at a cost of ₹ 571.71 crore. The matter did not progress since the project was kept in abeyance by the Ministry in June, 2005. IMI insisted on a price increase from original 2004 price of ₹ 571.71 crore to ₹ 654.79 crore. OFB refused to accept the increased price and decided to issue global tender enquiry to generate more competition.

33. Fresh Tender Enquiry was issued on 26th February, 2007 in which IMI, again emerged as L-I. During the earlier negotiations, the escalation demanded by the IMI was 15 per cent over a period of two years from July, 2004 to August, 2006. Against the fresh tender, the escalation was 67 per cent over a period of one year.

34. Audit pointed out that the internal assessment of OFB indicated that compared to the quotation of IMI Israel in 2004, the rates quoted by IMI in January, 2008 was on a high side. By adding escalation factors to the estimates quoted in October, 2004, the base price came to ₹ 800.34 crore as against ₹ 1050.01 crore quoted by IMI in the fresh tender. Another estimate carried out by the University Institute of Chemical Technology, Mumbai arrived at a cost of ₹ 832.22 crore. For the single base propellant plant, Ordnance Factory Bhandara calculated the basic cost at ₹ 269.1 crore as against the cost of ₹ 747.23 crore demanded by IMI.

35. The Ministry of Defence constituted a Cost Negotiation Committee (CNC) on 27 March, 2008 with former DGOF as Chairman. Four meetings of the CNC were held on 10 April, 2008, 30 April, & 1 May 2008, 21 May 2008 and 22 July 2008. The CNC could obtain a reduction of Euro 3.00 Millions only. The Cabinet was also intimated about the completion of negotiation for BMCS Plant and the final negotiated cost of the plant amounting to ₹ 1174.98 crore was indicated.

36. In the above context the Committee desired to know the reasons for the Cost Negotiation Committee not having taken a decision on introduction of the price variation formula and final price for the BMCS Plant as the contracts were entered into on the basis of many presumptions and assumptions. In reply the Ministry stated that the tenders for the BMCS plant were floated for 'firm and fixed' prices. Though during the negotiations IMI had sought a price variation formula for the civil works, the CNC had decided not to include price variation formula since it was not part of RFP condition. Therefore no price variation formula was considered at that stage. Subsequently, CCS was approached for revision of project cost based on the firm and fixed negotiated price of the BMCS plant.

37. In response to a related query on the matter, the Secretary in evidence stated as under:—

> "Our procedures are very rigid primarily because our Government procedures stem from a fundamental lack of trust in our systems. Therefore, we make our procedures very rigid. When you make your procedures very rigid, this is what happens. The current procedures say that if you have a multi-vendor open tender as it was in this case, it has a fixed price contract. Somebody quotes a particular amount, then against that tender you cannot give a higher amount. Logically this seems to be correct."

38. Audit pointed out that IMI sought incorporation of a price variation formula to protect themselves from the losses arising out of steep hike in the prices of steel, cement etc. The price variation formula was to be based on prices as on 01 July, 2008 and would be applicable on the Rupee content of the contract. However, the Request for Proposal for the BMCS plant was based on firm and fixed prices and it was decided by the CNC not to include price variation formula at that stage.

39. Asked to state whether the Cost Negotiation Committee could take a decision on introducing a price variation formally, the Secretary in evidence replied as under:—

> "The Cost Negotiation Committee cannot go beyond the terms of RFP which you have tendered out. Therefore, if you have not built this into the RFP, you cannot add it later."

40. One being asked whether introduction of price variation was contained in the RFP the Secretary further stated:—

> "This was not there. There is no price variation clause on account of delay."

41. When the Committee desired to know the reasons for the Ministry going in for rebidding despite being aware of the fact that there were not many suppliers of such equipment, the Ministry in their written reply stated that after resumption of the acitivites of the Project in July, 2006, M/s. IMI was called for negotiations for reduction in prices. M/s. IMI *vide* their letter dated 07.09.2006 intimated an increase of price from ₹ 571.71 crores to ₹ 654.79 crores and also extended the validity of their offer till 31.12.06. Since the prevailing guidelines of procurement of Plant & Machinery of OFB did not have any provision to accept such increase of price against firm and fixed price tender, TPC OFB decided to issue fresh Global Tender Enquiry. The Ministry further stated that the

retendering action led to generation of more competition wherein two more firms *i.e.* M/s. Simmel Difesa, Italy and M/s. Omnipol participated in tendering process, in addition to M/s. IMI, Israel and M/s. DMP Italy, who had already participated in the earlier tender.

42. The attention of the Secretary was drawn to the fact that due to re-bidding of the contract, the cost escalation was 67% instead of 15% which was asked by IMI as cost negotiation. The Committee wanted to know the reasons for not considering the earlier request of escalation of 15% clarifying the positions, the Secretary stated:—

> "If the rules were different, this would not have happened. If the rules had allowed flexibility on this score, this would not have happened. We can think of a rule which will say that in case of a delay we will give a price variation. It is possisble. In every case we have to examine whether this gives any scope for misuse later. Our preference always has been because of this inherent or innate distrust which we have in our own system that every time when in doubt, go in for an open tender even though the number of bidders may be limited."

43. Audit pointed out that the OFB concluded the contract for the BMCS plant with IMI Israel in March 2009 at a total cost of ₹ 1175 crore. It also paid an advance of ₹ 174 crore to IMI in March, 2009. For the NG Plant, Biazzi of Switzerland emerged as the lowest tenderer when the price bids were opened in January, 2004. After the project was restored in July, 2006 Biazzi did not accept the earlier quoted price. The OFB decided on 30 August, 2006 to re-tender the case and OFB Tender Purchase Committee finalized the case in November, 2007. The order was placed on Biazzi at a total cost of ₹ 40.10 crore in June, 2008. As regards the NC Plant, Josef of Germany emerged as the lowest tenderer at a cost of ₹ 106.06 crore against the tender enquiry issued in November 2004. On restarting the project in July, 2006, Josef increased the price to ₹ 136.27 crore. On refusal by the firm, global tender enquiry was issued in two phases. The lowest offer of Josef, Germany was at ₹ 134.26 crore, However, the firm backed out citing that they had applied for export licence without which they could not provide the integrity pact and EMD. Against the fresh tender enquiry issued in January 2008, the Ministry accorded sanction in October, 2008 for ₹ 186.46 crore for procurement of NC Plant. The contract was concluded by OFB with Bowas in January, 2009. A payment of ₹ 49.15 crore had been made to the firm till March, 2010.

44. In the above context the Committee wanted to know the reasons for the Ministry/ OFB not proceeding to procure the BMCS Plant, NG Plant and NC Plant in a coordinated manner. Explaining the position, the Ministry in a written note informed as under:—

> "The procurement process of BMCS plant, NG Plant and NC Plant, was initiated in a uncoordinated manner. Separate tenders were simultaneously issued for the different plants for manufacuturing the ingredients of BMCS as these plants are made by different OEMs. Similarly, there had to be a separate tender for the main BMCS plant (comprising of five plants *i.e.* Combustible cartridge case plant, Single base propellant plant, Triple base propellant plant, Nitrocellulose/Nitroglycerine paste plant and propellant

charge assembly plant) as the OEM supplying the plant would have to ensure integrated functioning of all the plants on a trunkey basis in compliance with the specifications laid down in the ToT documents of Denel.

It may be noted for seamless integration of ToT (obtained from Somchem, a unit Denel, South Africa) and BMCS plan (supplied by IMI), the technical specifications for the plants have been vetted by the technology provider. OFB has also obtained consent from the technology provider (Somchem) for disclosing documents of raw materials and bought out items. In addition, the plant supplier was not only responsible for designing, supplying and commissioning of the BMCS plant but also responsible for the dynamic proof of the product.

The contracts for other plants were concluded to save time and to ensure that these plants would be ready when BMCS plant was due for commissioning."

45. The Committee specifically wanted to know the reasons for award of orders for two feeder plants but not for the main BMCS Plant which would use output of the feeder plants. Explaining the point, the Ministry through a written note informed as under:—

"It has been endeavour of the Ministry to minimise delay in completion of Ordinance factory Nalanda Project. Therefore, while examining the case for procurement of Nitroglycerint plant, Ministry authorised OFB to incur expenditure, under respective heads, upto the amounts approved by the Cabinet Committee on Security, in November, 2001. The contracts for other plants were concluded to save time and to ensure that these plants would be ready when the BMCS plants was due for commissioning. The contract for BMCS plant could be concluded only after the approval of the revised cost of the project which was based on the negotiated cost of main plant and machinery by the CCS (Cabinet Committee on Security)."

46. Asked to further explain the justification for the retendering process as the same did not generate any significant competition, the Ministry stated that as per the procurement procedures of Plant and Machinery of OFB, no revision of price could be accepted after opening of the price bid. The L-I firm M/s. IMI Israel intimated an increase of price during finalisation of the contract. Since as per the terms and conditions of the Tender Enquiry (RFP), the offer quoted by the firm was firm and fixed, OFB had no choice but to go for retendering action. After re-tendering on 18.10.06, four offers were received (M/s. IMI, M/s. Samuel Difessa, M/s. DMP and M/s. Omnipol) as against two offers (M/s. IMI & M/s. DMP) in the first tender, thereby generating more competition.

47. When asked about the exact difference of price offered by the L1 and L2 during the bidding stage, a representative of the Ministry deposed in evidence:—

"In the first round IMI was the L1 and the bid amount was ₹ 601 crore, which was brought down after negotiations to ₹ 597 crore. L2 was DMP which bid for ₹ 717.66 crore.In the second round of tendering, IMI again emerged as the L1 at ₹ 1090.82 crore and the bidder who emerged as L2 quoted ₹ 1780.72 crore. The price difference was about ₹ 700 crore."

48. When the Committee desired to know whether other bidders were also encouraged for bidding at that stage, the Secretary stated as under:—

"In the first round as well as in the second round there were other bidders as well."

49. When enquired about the present status of the Project and the plan of the Ministry/OFB for early procurement of BMCS, the Ministry in their written reply intimated that:

1. Land Acquisition: 98.5% completed (Out of total 2967.59 acres of Land, OFN has taken over 2928.59 acres of Land (Pvt. Land 1749.82, Govt. Land: 366.77, Forest Land 812.99).

2. Rehabilitation: Construction of dwelling units and all other infrastructural facilities for Land Displaced Persons has been created and completed.

3. Civil works by DRDO: All the civil works related to estate, non process building and Administration. Building of factory premises have been completed along with other infrastructures.

4a. Plant & Machinery: The chemical process plants

- Nitro-glycerine Plant of capacity 500 Kg./hr.
- Nitrocellulose Plant of capacity 800 MT/annum
- SAC (25T/Day)/NAC Plants (10 T/day)

are in advanced stages of installation. It is expected that all these plants will be commissioned by July, 2011.

4b. BMCS Plant (capacity 8 Lakh modules per year): The contract agreement with M/s. IMI was signed on 16.03.09. However, in view of the recommendation of the CBI to blacklist the IMI, Israel, no work was in progress at the moment.

5. Manpower: The existing manpower strength is 188 No. (GO: 17, NGO: 64, NIEs: 38, IEs: 11, DSC: 53 and LAO: 5). The above manpower is available to maintain the infrastructures already created and to monitor the activities of Civil Works as well as erection and commissioning of P&M (NC, NG, SAC/NAC Plants).

6. Financial Status:

Head	Sanctioned cost	Cumulative expenditure upto 31.3.10	Expenditure for the month 01/11	Expenditure During 2010-11 as on 31.01.11	Total Cumulative expenditure as on 31.01.11
P&M	1434.30	289.87	6.56	81.39	371.23
Non process P&M	64.70	4.74	0.40	0.90	5.64
ToT	66.14	66.14	—	—	66.14
Land & Rehabilitation	93.46	79.95	0.01	0.96	83.78
CW by DRDO	415.57	309.60	1.81	10.68	320.28
Enabling work	14.15	—	—	—	—
Contingency	47.92	—	—	—	—
Defer revenue	21.82	35.72	2.76	10.26	45.98
DGQA	2.45	—	—	—	—
Total	2160.51	786.02	11.54	104.19	893.05

50. When the Committee desired to know whether there were any litigations relating to the BMCS, the Secretary during the evidence submitted as under:—

> "No, this will be depending upon the findings after the company gives its show cause and after the findings, again the decision of the Government regarding punishment."

51. When the Committee desired to know whether any timeframe had been given for getting the reply, the Secretary added as under:—

> "Yes, we had given them a time. They had asked for some papers and reply to that has gone. They were told to submit their reply in the next two weeks. Now these two weeks' time is over on 25th of February (2011)."

52. When asked categorically whether the Government would be in a position to take a decision on the BMCS Plant before the end of March, 2011, the Secretary added as under:—

> "Before we take a decision, we will need to consult the Central Vigilance Commission and the Law Ministry. So, I think it will be the end of March or 15th of April by which time we will be able to come to finding a decision."

The witness further stated as under:—

> "It will take six weeks' time. Each of the options for punishment has implications. Therefore, it may be that a final decision on this will need to be

> taken by the Cabinet Committee on Security. So, it depends on what the reply is, what the findings are and what punishment is meted out. Then we will have our direction clear on how to go from there."

53. Audit pointed out that the Ministry of Finance wanted the Ministry of Defence to confirm in the CCS note that the cost and time projected were firm and there would be no further escalation. The Ministry confirmed that the revised project estimates were based on the negotiated price cost for main Plants and Machinery. Therefore, no further cost and time overrun was foreseen. However, the Committee also learnt from Audit that the assertion by the Ministry was untrue as it was fully aware that in the last meeting of the CNC, IMI had insisted on the price variation clause on the Indian content of the contract. Two junior officers—one from the Ministry and another from OFB—had also reached agreements with IMI that price variation formula would be applicable from 1 August, 2008.

54. In the above context, when the Committee asked categorically whether the Ministry of Defence confirmed in the Cabinet Committee on Security that the revised project estimates were based on the negotiated price cost of Plant and Machinery and therefore no time and cost over-run was foreseen, the Secretary during evidence stated as under:—

> "There are certain things which one just cannot cater for or provide for. This is one such case. When this assurance was given or this assertion was made by the Ministry, at that point of time the Ministry did not think at all that IMI will get involved in a bribery case and therefore the whole will come to a stop. This assertion was made on the presumption that all things being normal or equal, this is what will happen. This was something which was really not envisaged that it will happen."

55. When asked about the reasons for the officials from the Ministry and OFB reaching an agreement with Israeli Military Industries IMI with regard to price variation formula despite being fully aware of the fact that there was no such provision in the guidelines to accept increase in price against the fixed price, the Ministry in their written reply intimated that there was no such agreement about the Price Variation formula. During the CNC meeting on 22nd July, 2008, IMI had been requested to extend the validity of the offer upto 31st Oct. 2008. IMI extended the validity of the offer up to 31st October, 2008. In the same letter IMI had sought for inclusion of price variation formula for the civil works which was not accepted by Cost Negotiation Committee (CNC) since price variation formula was not part of Request for Proposal (RFP) conditions. Therefore no price variation formula was considered at that stage.

56. When asked specifically whether the OFD and the Ministry of Defence reached an agreement with IMI for application of price variation formula from 1.8.08, the Secretary during the oral evidence stated:—

> "Sir, I would disagree. There was no such agreement about price variation formula. It could not have been there because the RFP did not provide for price variation".

He further stated:—

> "The company asked for price variation. I think, the Committee said that it will look at it or examine it, but it was never agreed to. It was not a part of the contract".

57. Taking serious note of the delays in completion of the contract and evident constant time escalations due to re-tendering for which the price of the project was increased by 67 per cent, the Committee wanted to know whether the supplier was trying to take advantage of the situation due to existence to monopolistic market for this kind of defence requirement. Agreeing with the observations of the Committee, the Secretary stated as under:—

> "My sentiments in general are in accord with your sentiments. As far as this case is concerned, we must keep in mind that this was the second retender. In both the retenders, and in the second tender as well, there was a huge gap between L1 and L2. So, a further retender had an imminent danger—any assessment would say that—of price going up further.
>
> Now, I am quite in accord with your sentiment. My first reaction was also that this is something like a company trying to take advantage of our situation. There is no doubt about it. Unfortunately where you have such limited number of vendors available and where the cost of other vendors is much higher than this vendor, the available options are very limited. One can go to an extreme and say that if BMC plant does not come to India, I will keep importing and it does not matter, but I will not give it to you. That is one attitude. If it was a personal matter, perhaps one could take that attitude. Then, you tend to become more practical. I think that is where the matter is.
>
> Now as far as negotiations are concerned, the papers I have gone through indicate that negotiations were made as hard as possible, but unfortunately the IMI understood very well that they were in a position, strength because of the huge gap between L1 and L2. As soon as the bids were opened, they understood that there was a gap of ₹ 700 crore between L1 and L2 and therefore, the message was that any retender would fetch only a higher price. Therefore, despite the hard negotiations, they stuck to it. Still I do believe that basically the IMI took advantage of that position."

58. Audit further pointed out that the Ministry of Defence in December, 2008 put up a note to Cabinet seeking approval for revision of the estimated cost of project from ₹ 941.13 crore to ₹ 2160.51 crore. "The approval para" of the note to the Cabinet did not refer to the BMCS plant at all and sought only the approval of the revised costs of the project. In the note, the facts of the increased cost of the BMCS plant and IMI's offer of reduction of only US $ 3 million were mentioned as contributing reasons to the escalation of the costs. The lack of resolution on the issue in the CNC was not mentioned. Similarly, the issue of introduction of the price variation formula was not brought to the notice of the Cabinet.

59. In the above context the Committee asked whether the Ministry made any efforts to bring the notice of the Cabinet the issue of introduction of price variation formula. In reply the Ministry stated that the tenders for the BMCS plant were floated for 'firm and fixed' prices. Though during the negotiations, IMI had sought a price variation formula for the civil works, CNC had decided not to include the price variation formula since it was not part of the RFP condition. Therefore no price variation formula was considered at that stage. Subsequently, CCS was approached for revision of project cost based on the firm and fixed negotiated price of BMCS plant.

60. Elucidating further on this point, the Secretary clarified:—

> "Sir, we did not introduce a price variation formula. He asked for it, but it was not agreed to. The contract did not have a price variation formula."
>
> The Secretary further stated:—
>
> "It was not agreed to at all levels. By the PNC also, it was not agreed to because we could not agree to a post-contract condition or a post-tender condition. That would have vitiated the entire tender. The audit will, no doubt, tell you that after an RFP is floated, any substantive variation of the conditions is not permissible. If any substantive variation of the conditions needs to be done, then the earlier RFP has to be retracted and a fresh RFP has to be floated, embodying the revised conditions. Otherwise the entire tender process gets vitiated. The conditions of computation cannot be changed."

61. When the Committee enquired whether the Ministry of Defence/Ordnance Factory Board clarified as to what was the negotiated and approved cost of project and with what results, the Ministry in a written note intimated that it had been mentioned in the CCS note that CNC, constituted by MoD under the Chairmanship of DGoF, had extensive negotiations with M/s Israel for BMCS plant. The Cabinet was also intimated about the completion of negotiation for the BMCS plant in explicit terms and the revised cost of project was based on the negotiated cost of main plant and machinery. The Ministry further stated that even MoF, while examining the CCS note had taken note of the fact regarding completion of price negotiations for BMCS plant.

62. In December, 2008, the Ministry of Defence had put up a note to the Cabinet seeking approval for revision of the estimated cost of the project from ₹ 941.13 crore to ₹ 2160.51 crore. The approval of the Cabinet had to be sought for any cost escalation. However, the approval para of the note to the Cabinet did not refer to the BMCS plant at all and sought only the approval of the revised cost of the project. When asked to clarify the reasons for non-mention of the BMCS Plant in the Cabinet Note, the Secretary during the evidence stated:—

> "In the CCS Note, the cost and the cost revision in the BMCS plant was explicitly mentioned. It was mentioned that this is the price which has been negotiated."
>
> He also added:—
>
> "Sir, this was mentioned. The cost negotiation Committee tried very hard to get the price down. IMI offered about Euro 3 millions discount and that is it.

After that, it refused to offer any further discount. Then, they decided to place the matter before the Government. In the Government, this was examined and decided that we may go ahead with this because fresh retender may lead to even higher prices. So, this was placed before the CCS. This was placed before the CCS with the proposal that we go ahead with it."

63. Replying to a query as to whether any efforts were made to negotiate the price escalation, the Secretary during the oral evidence stated as under:—

"Sir, as I have said, I am entirely in accord with your sentiments. This is a situation, which we come across in our Ministry very often. Each of these systems is unique. In each of these cases the companies try to take advantage of his position and in each of these cases we have to employ all the means at our command to bring him down to reason and we do it. We speak to our counter-parts; we use diplomatic channels; and we try to pressurise him as best as we can. I am quite sure that in this case also it must have been done. I am not aware about it because I was not there at that time, but IMI here had an advantage because of this huge gap between L-1 and L-2, and at any point of time it could point out and say that this is the price internationally and I am still cheaper by far. So, I feel exactly as you feel, and there is no doubt about it."

64. On a specific query as to whether there was deficiency in planning, the Secretary replied:—

"No, Sir. As I said, it just could not have been envisaged that IMI will stand accused of bribery. This was something, which just could not be catered for or planned for."

(B) Lack of Synchronisation of Civil Works with Procurement of Plant and Machinery

65. Audit scrutiny revealed that the OFB got civil works executed for ₹ 299.45 crore through the Chief Construction Engineer (Research and Development). Of the 815 residential accommodations constructed, 693 quarters were lying vacant as of July, 2007. Thus, while a substantial amount of 86 per cent of the sanctioned amount for civil works had been spent, technical buildings for the factory were yet to be constructed.

66. In the above context, the Committee desired to know the reasons for non-construction of technical buildings for the factory and the construction of huge numbers of residential accommodation. In reply, the Ministry stated that the production of BMCS at Nalanda Project mainly depended on four chemical process plants *i.e.* NG, NC, SAC/NAC and BMCS Plants. The construction of the technical buildings required for the above Plant primarily depended on the detailed drawings submitted by the Plant Supplier after finalisation of the contract and subsequent approval from CFEES, New Delhi. As there was delay due to retendering in the finalisation of the chemical plant, it resulted in delay in the construction of technical buildings. The Ministry further stated that Land acquisition for the project commenced in July, 2000 and culminated in March, 2003. The Civil Works related to the project was entrusted to DRDO

in January, 2002. Since the residential complex and non-technical buildings were of standard design and in view of the scale of accommodation available, DRDO commenced construction of residential quarters in May, 2002 and construction of non-process building in May, 2004.

67. Audit further pointed out that against the sanctioned cost of ₹ 347.48 crore, the cost estimated for civil works in the revised sanction sought was ₹ 526.75 crore, an increase of ₹ 215.27 crore (62 per cent).

68. When the Committee desired to know the reasons for the underestimation of the cost and the justification for the escalation his cost which contributed to delay in project completion, the Ministry in their written note stated as under:—

> "The DPR, submitted by M/s MN Dastur on 23rd Sep., 2009, was based on budgetary quotation of leading international and indigenous suppliers on the then prevailing prices and the input available with their consulting engineers. Similarly, estimated cost for other infrastructures and civil works was considered based on prevailing market rate at that time. The above project was sanctioned at total cost of ₹ 941.13 crores in 29th Nov., 2001.
>
> After the procurement and TOT contract was signed in March, 2002, further steps could be taken only after trials were completed by the Army in March, 2003. Vetting of the technical specifications of the plants was completed by M/s Somchem in December, 2003 and action for tendering for the main plant was initiated by OFB in March, 2004. A final decision on the bids received in response to the global tenders issued in July, 2004 could not be taken as the cost of the project has gone up substantially, and OFB therefore had to approach MoD for approval of the revised cost. In view of the time and cost over-run, MoD decided in June, 2005 with the approval of RM to constitute an Expert Committee to review the BMCS project; it was also decided to keep the project in abeyance till further orders. A decision to go ahead with the project was taken in June, 2006.
>
> Though the State Govt. had agreed to execute the rehabilitation package for the displaced persons, it was delayed considerably. Ultimately in December, 2003 MoD had decided to entrust this responsibility to DRDO, which has since completed construction of 1190 houses for accommodating the displaced persons.
>
> The soil conditions at the project site were not conducive for construction of industrial buildings, mainly due to inundation by rainy water. This resulted in a considerably higher cost for foundation and road construction. Higher expenditure had also to be incurred for supply of electricity and water. There was also some additional expenditure for fencing, due to certain requirements stipulated by the Archaeological Survey of India for protection of certain nearby monuments.
>
> The increase in the prices of steel and cement is one of the major reasons for increase in the cost of the project as a whole. Monthly wholesale price index for iron and steel was 136.7 in November, 2001 when the proposal was originally approved by the CCS; the index has risen to 359 by April, 2008

which represents an increase of 163%. As regards cement, the index figures are 146.7 and 221.4 for November, 2001 and April, 2008 respectively, which represents an increase of 51%.

In addition there was also an increase in the USD conversion rate, imposition of service tax @ ₹ 10.25% *w.e.f.* 10.09.04, introduction of 4% Works Contract Tax that lead to further increase of project cost."

(C) Time and Cost Overrun

69. Audit scrutiny revealed that the Ministry had obtained the approval of the competent authority and issued sanction in November, 2001 to execute the project by November 2005, at a cost of ₹ 941.13 crore (at 1999 price levels). The sanction catered to the following broad category of items: Plant and machinery, including TOT (₹ 531.42 crore), Civil Works (₹ 347.48 crore), Contingency (₹ 31.59 crore), Deferred Revenue (₹ 21.82 crore) and Directorate General of Quality Assurance (₹ 8.82 crore). However, except for the township, residential accommodation, non-technical buildings and allied services, no progress has been made in procurement of plant and machinery and construction of factory buildings. Meanwhile, the estimated cost of the project shot up from ₹ 941.13 crore to ₹ 1570 crore (September, 2006). Sanction was yet (July, 2007) to be accorded for the revision sought.

70. In the above context, the Committee enquired whether the Ministry was not aware of the shortcomings of the site of the Project at the time of granting approval for the same. The Ministry in their written reply stated that the site Selection Committee constituted for the purpose evaluated the sites and concluded that the site in Rajgir, District Nalanda had distinct advantage over the others. Thereafter, a group of officers was constituted on 07th Sep., 1998 with the approval of Hon'ble RM to finalize/confirm the selection of Greenfield site for the proposed new propellant factory. The group of officers carried out analysis of the merits and demerits of various sites and recommended Rajgir site in Nalanda District in Bihar as the most suitable site for setting up of a new propellant factory.

71. The report of the Committee on site selection was duly approved by the Hon'ble RM. for setting up New Propellant Factory as adequate land was available for the project with scope of future expansion. Industrial water requirement could be met from Panchane River and Ghora Katora Dam, the nearest Railway Station was at Rajgir, and power was available in the close proximity to the site from Bihar State Electricity Board. The nearest National Highway is 25 km. from the site and would decrease to 7 km. on construction of bridge over Panchane River for which a scheme has already been sanctioned by the State Government.

72. When enquired about the action taken/proposed by the MoD to complete the project without any further delay and cost escalation, the Ministry in their written reply stated that they were keen to complete Ordnance Factory Nalanda Project without any further delay. The CBI had filed a chargesheet in June, 2010 wherein it had recommended blacklisting of the Isreal Military Industries, Israel along with five other forms of Indian and foreign origin for being involved in illegal gratification. The firm had been issued show cause notice by the OFB. A decision regarding the penal action would be taken after examining the reply of IMI and in consultation with the Ministry

of Law and Justice and Central Vigilance Commission (CVC). As each of the options for penal action had implications, the final decision would need to be taken by the Cabinet Committee of Security. Thereafter, a clear course of action would emerge on the way ahead for completion of Nalanda Project.

(D) Deficiencies in Planning and delays in revised cost approvals

73. Audit scrutiny revealed that Project Management Board (PMB) in its meeting held in October, 2004 decided to incorporate all the revisions required and to submit the request for obtaining approval to the revision of cost. The OFB requested (February, 2005) the Ministry for issue of sanction for the increased estimate (₹ 1480.43 crore) of the project.

74. The Committee desired to know the reasons for the delay on the part of the OFB to submit the revised cost estimate for approval of Competent Financial Authority (CFA). In this regard, the Ministry in a written note intimated as under:—

> "The original sanction for the Nalanda project was accorded by CCS in 2001 based on a detailed project report prepared by M/s MN Dastur, Kolkata for OFB. Subsequently in April, 2002, a contract for transfer of technology was entered into with M/s Somchem, a division of Denel, South Africa. Thereafter the trials of the ammunition were undertaken by the Army which was completed in March, 2003. The vetting of the specifications for the main BMCS plant was completed by December, 2003 and tendering action was initiated by OFB in March, 2004. The offers received in response to the global tender enquiry were much higher than the estimated cost. In February, 2005, OFB therefore, approached the Ministry for revision of the project cost from ₹ 941 crores to ₹ 1480 crores.
>
> In view of the time and cost overrun the Ministry decided in June, 2005 to constitute an Expert Committee to review the project; it was also decided to keep the project in abeyance till further orders. The report of the Expert Committee was received in January, 2006. As explained above, the Ministry decided in June, 2006 not to accept the recommendations of the Committee and to resume the project.
>
> On restarting the project in July, 2006, the firm was called for negotiations for reduction in prices. The firm *vide* its letter dated 7 Sept., 2006 increased the price from ₹ 571.71 crore to ₹ 654.79 crore while extending the validity upto 31st Dec., 2006. Since as per prevailing guidelines there was no provision to accept such increase against fixed price tender, OFB decided to retender the case.
>
> In April, 2007, MoD directed OFB to re-examine the project cost based on L-1 offer of valid firms enabling Ministry to approach CCS for the firm & fixed revised cost of the project. Accordingly OFB forwarded the revised cost of Nalanda Project duly approved by Board in its meeting held on 30.01.2008 based on the L-1 offer of NG, SAC/NAC and BMCS Plant."

75. Audit scrutiny further revealed that noting the steep increase in the estimated cost of the project and inordinate delays in commissioning the project, the Ministry

appointed an Expert Committee to make a reappraisal of the need to set up the factory and examine whether the bi-modular charge system could be manufactured in existing factories, contrary to the initial statement that the existing factories could not take up the load. Consequently, in June, 2005 the Ministry directed OFB to keep all the activities related to the project in abeyance. By then, the Ministry had also imposed restrictions on the foreign firm from whom TOT was purchased. The Expert Committee noted (June, 2005) that according to OFB it was possible to undertake the manufacture in the existing factories by augmenting the facilities and in that case the facilities already created at Nalanda could be used by Bihar Police Academy, Central Paramilitary Forces Training Centre/Academy or Director General Ordnance Factories (R&D) centre. However, the Expert Committee also opined that absence of the suppliers of TOT would in no way affect execution of the work as the experience gained by OFB and Defence R&D would be adequate enough for its execution. After considering the Expert Committee's recommendations, the Ministry decided in July, 2006 to resume the activities of the Nalanda Project.

76. When the Committee desired the Ministry to share the report of the Expert Committee constituted in June, 2005 to review the Nalanda Project, the Secretary during the evidence replied as under:—

> "The Report in substance says insofar as the Nitro glycerin and Nitrocellulose are concerned, insofar as the component parts of this ammunition are concerned, they can be made at the existing factories of the Ordnance Factories Board at different locations. Then, apart from these component parts, there was another component part specially the combustible cartridge case. It was also required to be manufactured. They said that this can be formed out to a private sector company. Insofar as the integration is concerned, they said that probably some plant was nominated for integration. They said that there should be a plant."
>
> The Secretary further added:—
>
> "Therefore, there was no need to go in for new plant for BMCs altogether. So, this was considered in the Government. It was noted that the existing plant for manufacture of different components were very old and probably, did not have the requisite standards required for this type of ammunition.
>
> Secondly, the Government also noted that transferring all these components from different locations to one location would have been a major logistical problem as also a security problem. They also noted that this combustible cartridge case was very important ingredient and therefore, it had to be manufactured in-house. Another factor which they noted was that even if the existing capacities of the component plants are expanded to meet these requirements, the total cost comes to very near the estimated cost of this new plant. Therefore, they said that it would be more advisable to go in for new plant."

77. When the Committee enquired whether the recommendation made was by the same Expert Committee, the Secretary during the evidence replied as under:—

> "This was by the Government. The Committee recommendation was: "Do not go in for this new plant."

78. When the Committee further enquired whether there was a wastage of 13 to 14 months as the Expert Committee was constituted in June 2005 but subsequently the Government in July, 2006 issued directives for resumption of work, the Secretary replied in the affirmative.

79. When asked about the competencies/requirements for being the Members of Expert Committee and whether the Members meet the required level of competency, the Ministry in their written reply intimated that Committee was headed by renowned scientists in the field of High Explosives and Propellant and had members from DRDO, OFB, DGQA, Users, Ministry & MoD (Fin). The Committee was broad based and had senior scientists from DRDO and other senior officers having rich experience in the area of production, quality assurance and usage of explosives and propellants.

80. Audit pointed out that the contract for Transfer of Technology between OFB and Denel was to remain valid for a period of five years from the effective date *i.e.* 15 March, 2003. Two important conditions were to be valid for seven years. The first was the seller's warranty that if the product at semi stage had been duly accepted in accordance with the relevant quality assurance and inspection and acceptance criteria as set out in the ToT document and that these semi stage products had been properly assembled and tested in accordance with the provisions in the same document by a competent, experienced and skilled manufacturer of products. Then the final product will conform to the performance specifications set out in the Contract. The second one was the performance bank guarantee which was 10 per cent of the contract value of US $ 13.99 million. Both the warranty and guarantee had lapsed in March, 2010.

81. When the Committee categorically asked whether the Ministry of Defence has fixed any responsibility for the lapse in the warranty and guarantee, the Ministry intimated in a written note as under:—

> "No lapse was committed by the Expert Committee."

82. The Committee then asked whether the Ministry of Defence had any plan to sign further contract with the ToT provider and what would be the estimated cost of the proposed new contract. Responding to the query, the Ministry in a written reply intimated that the Ordnance Factory Board had received all the technological documents related to indigenous production of BMCS and their personnel have been trained at the technology provider premises for assimilation of technology. Specification for procurement of BMCS plant had been vetted by the Technology Provider. In addition, the plant supplier for the main plant for BMCS was not only responsible for designing, supplying erecting and commissioning of the plants but also is responsible for dynamic proof of the end product 'BMCS'. In view of the above, the necessity for signing further contract with the ToT provider would not arise.

83. In the same context, the Secretary, Ministry of Defence stated in evidence:—

> "The ToT provider is Denel and Somchem is a subsidiary of Denel. As of now, Denel remains black-listed. So, there is no question of any further dealing with them."

84. When the Committee desired to know the duration of the contract, the Secretary replied as under:—

> "I will get it checked, but I think that the duration of the contract is expiring in September, 2011. The contract was signed in March, 2009."

(E) Inadequate Monitoring of the Project

85. Audit pointed out that the Steering Committee headed by the Chairman OFB and a PMB, under the Chairmanship of the Secretary, Department of Defence Production set up to monitor the projects was required to meet every six months to review/monitor the progress of the project. But the Committee met only once in May, 1999 while the PMB met twice, *i.e.* in December, 2002 and October, 2004. Apparently, the urgency shown in sanction of the project was not exhibited by the Committee/PMB in monitoring its progress.

86. When the Committee desired to know about the mechanism put in place in the Ministry of Defence to monitor the progress of project and synchronization of activities within sanctioned cost and the reasons for inaction between November, 1999 *i.e.* the date of sanction of the Project, and June, 2005 *i.e.* the date by which the project was to be completed, the Ministry in a written note stated as under:—

> "Two tier monitoring mechanism was put in place for ensuring timely implementation of this project. Steering Committee under the Chairmanship of DGOF & Chairman OFB and Project Management Board (PMB) under the Chairmanship of Secretary (DP) have already been constituted in March, 1999 and Deccember, 2001 respectively. The representative of the User has been taken on board in both these structural monitoring mechanisms. In this connection it is pertinent to highlight that Steering Committee meetings were regularly convened by OFB for monitoring the activities of the project. In fact it met on seventeen occasions up to June, 2005. PMB also met twice to review the project during this period."

PART II

OBSERVATIONS AND RECOMMENDATIONS

1. Pursuant to the recommendation contained in the 105th Report (Tenth Lok Sabha), with effect from 31st March, 1996, all the Ministries/Departments are required to furnish remedial/corrective ATNs on all the Audit paragraphs not taken up by the Committee for detailed examination. The ATNs duly vetted by the Audit are submitted through the Ministry of Finance (Department of Expenditure) within a period of 4 months from the date of laying of Audit Reports on the Table of the House. Notwithstanding the fact that this system was devised as early as 1995 and subsequently modified in 1996, a close examination of the subject by the Committee revealed that as on 25.06.2010, remedial/corrective ATNs in respect of 4191 Audit paras were pending with various Ministries/Departments during the period from 1997-98 to 2007-08. Due to time constraints the Committee took up the examination of only those important paragraphs for which remedial/corrective ATN had not been furnished by the Ministries. One such case relates to the Ministry of Defence. The Committee note that the figures supplied by the Ministry of Defence regarding the number of pending audit paragraphs with them did not tally with the figures supplied by the Monitoring Cell (Department of Expenditure) and Audit. The Monitoring Cell had indicated the number of pending paras as 163. The Ministry stated in a written note that a total of 131 Audit paras were received during the last two years *i.e.* 2008-09 and 2009-10. However, the figure shown by Audit regarding the total number of pending paras as on 31.05.2010 was 187. The Committee deplore the discrepancy in the number of pending Audit paragraphs and recommend that the pendency figures be reconciled and correct and consolidated position as on 31.5.2011 be furnished to the Committee and the remedial/corrective action taken thereon within 4 months of presentation of this Report.

2. The Committee note that CAG Report No. CA 4 of 2008 and 15 of 2010-11 were presented to the Parliament on 14th March, 2008 and 20th August, 2010 respectively and ATNs were forwarded for vetting on 11th September, 2008 and 4th April, 2011 respectively for the first time. As per the system devised ATNs on all the paragraphs of the Reports of CA&G of India are required to be furnished to the Committee through the Ministry of Finance (Department of Expenditure) within a period of 4 months from the date of laying of Audit Reports in Parliament. The first Report in question contained the Audit Para No. 6.3 on 'Abnormal Delay in Execution of Ordnance Factory Project Nalanda' and the second Report a full chapter on the subject under examination. The Committee find that the first Para No. 6.3 of Audit Report CA-4 of 2008 is not yet settled even after a lapse of more than three years. Likewise the second Audit observation which was revisited by Audit through Chapter II 'Nalanda Factory' in Para No. 2.2 of Audit Report No. 15 of 2010-11 has yet to been settled even after a lapse one year against the prescribed timeline of 4 months. The Committee deplore the cavalier manner in which the serious differences and lapses noticed in Audit are being treated by the Ministry of Defence.

3. The Committee note that the Ministry of Defence through Ordnance Factory Board planned to set up an Ordnance Factory at Nalanda for meeting out the needs of the Defence Forces. The work for the Factory started in the year 1999 with envisaged capital outlay of ₹ 531.42 crore. However, to the utter dismay of the Committee, it was found that even after a lapse of 11 years, the Factory had not been set up. The Committee are astounded to note that against the original target date of completing the project by November, 2005, the actual progress achieved as of March, 2007 was only 27 per cent in final terms. Worse, while construction of core technical buildings for the factory and production of plants and machinery were yet to be commenced as of November, 2007, ancillary items of work such as construction of residential accommodation, amenity buildings, open air theatres, shopping centres, ordnance club, purchase of buses, jeeps, cars, air conditioners etc. were completed. Strangely enough, no one found anything amiss in the project planning and execution. Such a brazen project mismanagement, bordering on callousness, calls for fixing individual responsibility to ascertain dereliction of duty and complicity on the part of the individuals involved.

4. The Committee also find that due to the absence of price variation formula the Ministry could not protect and pursue the deal with new supplier, *i.e.* the Israeli Military Industries (IMI). The Committee also observe that the IMI sought incorporation of price variation formula to protect themselves from the losses arising out of steep hike in the prices of steel, cement etc. The price variation formula was to be based on prices as on July, 01, 2008 and would be applicable to the rupee content of the contract. However, as the Request for Proposal for the Bi-Modular Charge System (BMCS) plant was based on firm and fixed prices, it was decided by the CNC not to include the price variation formula at that stage. The Committee deplore that due to want of foresight and prudence on the part of the Ministry, the price variation formula was not built into the Request For Proposal RFP. Apparently, the failure to incorporate the price variation formula in the RFP caused substantial time and cost overrun and delayed the project.

5. The Committee note that the retendering of the contract of BMCS plant increased the price of the project by 67 per cent leading to the delay in completion of the project. In both the retenders there was a huge gap between L1, *i.e.* IMI company from Israel and L2, *i.e.* DMP from Italy of ₹ 700 crore. A further retender had an eminent danger of escalating the price further. The Committee observe that due to limited number of vendors available and the cost of other vendors being much higher than IMI, the available options were limited. As IMI knew that there was a gap of ₹ 700 crore between L1 and L2 they stuck to the increased price. The Committee regret to note that the supplier was trying to take advantage of the monopolistic market for this kind of defence requirement which unfortunately it seems escaped the attention of the Ministry. The Committee therefore, deplore that the Ministry failed to consider the price escalation aspect before retendering the BMCS contract.

6. The Committee observe that the Ministry of Finance wanted the Ministry of Defence to confirm in the CCS that the cost and time projected for the plant and machinery were firm and there would be no further escalation.

The Ministry of Defence confirmed it saying that the revised project estimates were based on the negotiated price cost for plant and machinery and therefore there could be no further cost and time over-run in the future. This assertion was made on the presumption that all parameters for the BMCS plant with IMI were normal and equal. The Ministry of Defence entered into a contract in March, 2009 and the Ministry of Defence paid an advance of ₹ 174 crore to IMI and only three months later in June, 2009, the Ministry put on hold this transaction because the CBI registered a case against IMI for being involved in a bribery case. The Committee regret to note that the Ministry had no inkling about the ensuing probe by the CBI against IMI at the time of paying the advance. The Committee wish to caution the Ministry to be attentive and alert so that such lapses do not recur.

7. The Committee observe that in December 2008, the Ministry of Defence put up a note to the CCS seeking approval of the revision of the estimated cost of the project from ₹ 941.13 crore to ₹ 2160.51 crore. However, the approval para of the note did not refer to the BMCS plant at all and sought approval of the revised cost of the project. The Cost negotiation Committee could negotiate the price down by about Euro 3 million only. The Committee also observe that the Ministry did not make substantial efforts to negotiate the cost and even failed to utilize our diplomatic channels. The Committee cannot condone such serious omissions on the part of the Ministry of Defence particulary when defence purchases and defence projects involving million of rupees are handled by them. Obviously, there is something awry with the functioning of the Ministry calling for complete overhaul of its procurement systems and procedures.

8. The Committee observe that Ordnance Factory Board (OFB) approached the Ministry of Defence in February 2005 for revision of the project cost. The Committee also note that the Ministry of Defence cancelled all contracts with Denel, a company of South Africa for breach of another contract related to procurement of Anti Material Rifle in June, 2005. The Nalanda project was kept in abeyance from June, 2005 to July, 2006. In view of the time and cost over-run the Ministry of Defence decided in June, 2005 with the approval of RM, to constitute an Expert Committee to review the BMCS project which came out with the report that the Nitroglycerin and Nitro Cellulose and the component parts of the ammunition could be made at the existing factories of Ordnance Factories Board at different locations, indicating that there was no need for a separate and exclusive plant for BMCS. But the Government noted that the existing plants were very old and outdated and did not have the requisite knowhow required for this particular type of ammunition. Secondly, transferring all these components from different locations to one location would be a major logistical as well as security problem. The Combustible Cartridge case was a very important ingredient and had to be manufactured in house. Further it was argued that the cost of augmenting the existing Plants, would be as high as building a new plant. The Committee regret to note that it took about 13 months for the Expert Committee to come out with a report which the Ministry junked. The committee are dismayed that the findings of the Expert Committee, appointed by the Ministry, consisting of eminent scientists and experts were brushed aside by the same Ministry being impracticable

and imprudent. The Committee would like to be explained the reasons for brushing aside the report of the Expert Committee and the level at which such decision was taken.

9. The Committee observe the contract for transfer of technology between Ordnance Factory Board and Denel, a company of South Africa, was to remain valid for a period of five years from the effective date, *i.e.* 15th March, 2003. Two important conditions were to be valid for seven years. The first was the seller's warranty that if the product at semi stage have been duly accepted in accordance withd the relevant quality assurance and inspection and acceptance criteria as set out in the Transfer of Technology (ToT) document and that these semi stage products have been properly assembled and tested in accordance with the provisions in the same document by a competent, experienced and skilled manufacturer of products, then the final product will conform to the performance specifications set out in the Contract. The second one was the performance bank guarantee which was 10 per cent of the contract value of US $ 13.99 million. Both the warranty and guarantee had lapsed in March, 2010. The Committee regret to note that no responsibility was fixed for this lapse in warranty. The Ministry, however, stated that Ordnance Factory Board had received all the technlogical documents related to indigenous production of BMCS and their personnel trained were at the technology provider premises for assimilation of technology. The Committee note that the plant supplier for the main plant for BMCS is not only responsible for designing, supplying, erecting and commissioning of the plant but also is responsible for dynamic proof of the end product BMCS. Moreover, the contract for the BMCS plant with IMI signed in March, 2009 was due to expire in September, 2011. The Committee regret to note that the expiry of the warranty period has resulted in a situation in which the manufacturing process and output would be without any coverage by the technological provider. The Committee therefore, recommend that the Ministry should find ways and means to ensure that the warranty and guarantee of the Transfer of Technology by Denel and the BMCS by IMI is extended so that output would be covered by the technological provider.

10. The Committee's examination of the subject and close scrutiny of facts has revealed multiple acts of omission and commission by the Ministry of Defence causing a loss of ₹ 628.87 crore to the public exchequer. Moreover, the Committee observe that CBI filed charge sheet in June, 2010 recommending blacklisting of the Israel Military Industries (IMI) along with five other firms of Indian and foreign origin for being involved in illegal gratification. The firm has been issued show cause notice by OFB. The Committee would like to be apprised of the final outcome of the penal action initiated against the defaulter firm and the remedial measures instituted to prevent such recurrences within three months of presentation of this Report.

NEW DELHI;
28 *March*, 2012
8 *Chaitra*, 1934 (*Saka*)

DR. MURLI MANOHAR JOSHI,
Chairman,
Public Accounts Committee.

APPENDIX I

MINUTES OF THE SIXTH SITTING OF SUB-COMMITTEE-I ON "NON-COMPLIANCE BY THE MINISTRIES/DEPARTMENTS IN TIMELY SUBMISSION OF ACTION TAKEN NOTES ON THE NON-SELECTED PARAGRAPHS OF THE C&AG OF INDIA" OF PUBLIC ACCOUNTS COMMITTEE (2010-11) HELD ON 18TH FEBRUARY, 2011

The Sub-Committee-I of the Public Accounts Committee sat on Friday, the 18th February, 2011 from 1500 hrs. to 1735 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

PRESENT

Shri Bhartruhari Mahtab — *Convenor*

MEMBERS

Lok Sabha

Shri Naveen Jindal

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Sanjeev Sharma — *Deputy Secretary*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri Gautam Guha — Director General of Audit (Defence Services)
2. Shri C.M. Sane — Principal Director of Audit (Air Force and Navy)
3. Ms. Suparna Deb — Principal Director of Audit (Ordnance Factories)

Representatives of the Ministry of Defence

1. Shri R.K. Singh — Secretary (Defence Production)
2. Smt. Nita Kapoor — Secretary (Defence Finance)
3. Shri R.K. Mathur — Spl. Secretary (M)
4. Shri Vivek Rae — DG(Acq.)
5. Shri V. Somasundaran — Additional Secretary (Defence Production)
6. Shri Subhash Chandra — Joint Secretary JS (Air)
7. Shri R.K. Ghose — JS&AM (Air)

8.	Smt. Rashmi Verma	—	Joint Secretary (LS)
9.	Air Mshl NAK Browne	—	VCAS
10.	Air Mshl J. Neri	—	AOM
11.	Air Mshl Anil Chopra	—	AOP
12.	Air Mshl R.K. Sharma	—	DCAS
13.	AVM PNR Govind	—	ACAS(Trg.)
14.	Shri D.M. Gupta	—	DGOF/Chairman, OFB
15.	Shri Mahesh Chandra	—	GM, OF
16.	Shri Narendra Kumar	—	DDG/OF Cell

2. At the outset, the Convener, Sub-Committee-I of the Public Accounts Committee, welcomed the representatives of the Office of the C&AG of India to the sitting of the Sub-Committee. Thereafter, the Audit Officers and the Secretariat briefed the Sub-Committee on the various issues concerning the subject on "Non-compliance by the Ministries/Departments in timely submission of Action Taken Notes on the non-selected Paragraphs of the C&AG of India".

3. The Convener then informed that the sitting has been convened for taking oral evidence of the representatives of the Ministry of Defence on the subject relating to "Non-compliance by the Ministries/Departments in timely submission of Action Taken Notes on the Non-selected Paragraphs of the C&AG of India", Chapter II "Training of Pilots in IAF" of Audit Report No. PA 5 of 2008 and para 6.3 "Abnormal Delay in Execution of Ordnance Factory Project Nalanda" of Audit Report No. CA 4 of 2008 alongwith the updated position as contained in Audit Report No. 15 of 2010-2011.

4. * * * * * *

5. After a brief break, the Sub-Committee sat again to proceed with the discussion on para 6.3 titled "Abnormal Delay in Execution of Ordnance Factory Project Nalanda". The Representatives briefed the Sub-Committee on the initiatives taken by the Ministry in submission of replies to the para of C&AG. The representatives also responded to the queries of the Sub-Committee.

6. The Convener then thanked the representatives of the Ministry of Defence for appearing before the Sub-Committee and for furnishing information in connection with the examination of the subjects. The Convener also thanked the officers of the C&AG of India for providing valuable assistance to the Sub-Committee in the examination of the subjects.

A copy of the verbatim proceeding has been kept on record.

The Sub-Committee then adjourned.

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*The matter does not pertain to this Report.

APPENDIX II

MINUTES OF THE NINETEENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2011-12) HELD ON 22ND MARCH, 2012

The Public Accounts Committee sat on Thursday, the 22nd March, 2012 from 1500 hrs. to 1600 hrs. in Committee Room 'D'. Parliament House Annexe, New Delhi.

PRESENT

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

Lok Sabha

2. Shri Anandrao Vithoba Adsul
3. Shri Bhartruhari Mahtab
4. Shri Shripad Yesso Naik
5. Shri Jagdambika Pal

Rajya Sabha

6. Shri Tariq Anwar
7. Shri Prasanta Chatterjee
8. Shri Naresh Gujral
9. Shri Prakash Javadekar
10. Shri J.D. Seelam
11. Prof. Saif-ud-Din Soz

SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*
3. Shri H.R. Kamboj — *Additional Director*
4. Shri D.R. Mohanty — *Deputy Secretary*

Representatives of the office of the Comptroller and Auditor General of India

1. Shri Gautam Guha — Director General of Audit
2. Shri R.S. Mathrani — Director General of Audit (Report Central)
3. Ms. Ila Singh — Principal Director of Audit

2. At the outset, the Chairman welcomed the Members and the representatives of the Office of the C&AG of India to the sitting of the Committee. Apprising that the meeting had been convened to consider and adopt three Original Draft Reports on 'Training of Pilots in the Indian Air Force', 'Abnormal Delay in Execution of Ordnance Factory Nalanda', and 'Member of Parliament Local area Development Scheme (MPLADS)' and one Action Taken Report on 'Assistance to States for Developing Export Infrastructure and Allied Activities (ASIDE) Scheme', the Chairman thanked the Convenor and the Members of the Sub-Committee who took evidence of the representatives of various Ministries/Departments in connection with the examination of the above original subjects, especially 'MPLADS' and finalized the Draft Reports for being placed before the main Committee for their consideration.

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3. * * * * * *

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7. * * * * * *

8. The Committee, thereafter, took up for consideration the following other Draft Reports and adopted the same:—

(i) * * * * * *

(ii) **'Abnormal Delay in Execution of Ordnance Factory Project NALANDA'** based on the C&AG Report Nos. 4 of 2008 (Para No. 6.3) and 15 of 2010-11 (Chapter II).

(iii) * * * * * *

9. The Committee, then, authorized the Chairman to finalise the adopted Draft Reports in light of the views expressed by the Members and factual verifications made by Audit and present them to Parliament on a date convenient to him.

10. The Chairman thanked the Members for their active participation in the discussions and valuable suggestions on the Draft Reports.

The Committee, then, adjourned.

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*The matter does not pertain to this Report.

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