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**DELAYED PURCHASE AND  
INSIGNIFICANT UTILIZATION OF  
EQUIPMENT PROCURED UNDER  
FAST TRACK PROCEDURE**

**MINISTRY OF DEFENCE**

**PUBLIC ACCOUNTS  
COMMITTEE  
2006-2007**

**THIRTY-FOURTH REPORT**

**FOURTEENTH LOK SABHA**



सत्यमेव जयते

**LOK SABHA SECRETARIAT  
NEW DELHI**

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(FOURTEENTH LOK SABHA)

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UNDER FAST TRACK PROCEDURE***

MINISTRY OF DEFENCE



*Presented to Lok Sabha on:* \_\_\_\_\_  
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LOK SABHA SECRETARIAT  
NEW DELHI

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## INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this Thirty-Fourth Report relating to “Delayed purchase and insignificant utilization of equipment procured under Fast Track Procedure” on Para 2.2 of Report of C&AG of India for the year ended 31 March, 2004 (No. 6 of 2005), Union Government (Defence Services — Army and Ordnance Factories).

2. The Report of the C&AG of India for the year ended 31 March, 2004 (No. 6 of 2005), Union Government (Defence Services — Army and Ordnance Factories) was laid on the Table of the House on 6th May, 2005.

3. The Committee took the evidence of the representatives of the Ministry of Defence on the subject at their sitting held on 6th January, 2006. The Committee considered and finalised this Report at their sitting held on 31st October, 2006. Minutes of the sittings form Part – II of the Report.

4. 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 and have also been reproduced in a consolidated form in Appendix to the Report.

5. The Committee would like to express their thanks to the officers of the Ministry of Defence for the cooperation extended by them in furnishing information and tendering evidence before the Committee.

6. 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;  
2 November, 2006  
11 Kartika, 1928 (Saka)

PROF. VIJAY KUMAR MALHOTRA,  
*Chairman,*  
*Public Accounts Committee.*

## REPORT

### DELAYED PURCHASE AND INSIGNIFICANT UTILIZATION OF EQUIPMENT PROCURED UNDER FAST TRACK PROCEDURE

This Report is based on the Audit Review contained in Para 2.2 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2004, No. 6 of 2005, Union Government (Defence Services—Army and Ordnance Factories) relating to “Delayed purchase and insignificant utilization of equipment procured under Fast Track Procedure”. The evaluation, selection, procurement, delivery and utilisation of the equipment were reviewed in Audit. The Audit Paragraph is appended to this Report as Appendix-I

#### Introductory

2. The Indian Army launched Operation Parakaram on 16 December, 2001. During this operation, approximately 16.69 lakh mines were laid along the borders. Agricultural land on which minefields were laid was required to be returned to the owners after the termination of the operation in a usable condition. Army Headquarters proposed in August, 2002 procurement of 40 De-mining Equipment under Fast Track Procedure (FTP) through an Empowered Committee for de-mining. They wanted the equipment urgently by October, 2002 in order to minimize the risk of casualty involved in manual de-mining and to free the mined land for cultivation. The Defence Procurement Board approved the proposal on October 1, 2002.

3. A contract was concluded with the firm in March, 2003, five months after the stipulated supply date, for the supply of 24 mining equipment alongwith accessories at a total cost of Euro 19.05 million equivalent to Rs. 103.91 crore. Equipment were received at Engineer Stores Depots, Delhi between June, 2003 and March, 2004, eight to 16 months beyond the date indicated by Army Headquarters. **The actual utilisation of the equipment purchased due to operational urgency to demine 10 lakh mines revealed that most of the minefields had already been demined manually without the help of de-mining equipment due to delay in procurement of the equipment.**

#### Salient features of Fast Track Procedure

4. The projected requirements, under the Fast Track Procedure (FTP) as contained in instructions issued in 2001, must be related to an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. The salient features of FTP are as follows:

- (a) The adoption of an emergency Fast Track Procedure for urgent operational requirements has to be under appropriate authorization. That there is need for adoption of this process must emanate from

the Chief of the concerned Service for consideration of Raksha Mantri through the Defence Procurement Board (DPB).

- (b) The projected requirement must be related to an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. The requirement, as projected, must identify the items required, their numbers, and the time-frame within which they need to be inducted.
- (c) On receipt of such requirement, the DPB will be convened at a short notice or consider cases by circulation, and present the case for consideration of Raksha Mantri (RM) with the recommendation to adopt emergency procedure or otherwise. The procurement process would start after RM's approval. The Fast Track Procedure would be used only for such specific items, their numbers, and for the time-frames as approved by RM.
- (d) Given the limited time-frame, the Fast Track Procedure would necessarily have to be confined to such items as would be available within the specified time-frame and, therefore, long lead items should be avoided. The items involved should preferably be such as are already in service or have been tried or evaluated so that the time required for evaluation is avoided.
- (e) However, in exceptional cases, a trial team could be sent to the vendors' premises for a quick evaluation.

#### **Mine clearance philosophy**

5. Mine clearance should be resorted to as early as the operational situation permits. Mine clearance process involves the following actions:—

- (a) 'Recovery' by manual means.
- (b) De-mining by the use of mechanical means.

#### *(a) Recovery by manual means*

6. Physical removal and disposal of mines from the mined area enable accounting of the mines to the extent possible. This process is called 'recovery' of mines. Though recovery of 100% mines is desirable, various factors do not permit the same.

#### *(b) De-mining by the use of mechanical means*

7. When 100% recovery of mines cannot be manually done, further processes need to be undertaken to ensure to the extent possible, that mines, which could not be recovered, are destroyed *in situ* by the use of mechanical means such as the de-mining equipment or trawl tanks. This process, when repeated over the same area, results in rendering the area safe. This is termed as proving of an area *i.e.* rendering the area safe.



### **Audit findings**

8. Audit scrutiny of the subject has revealed the following lapses in the procurement of de-mining equipment through “Fast Track Procedure” (FTP):—

1. Delay in FTP.
2. Benefit of competitive bidding lost by adopting FTP.
3. Delivery period of nine months in the contract though firm had offered a schedule of four months to Technical Evaluation Committee (TEC).
4. Most mine fields already de-mined manually due to delay in procurement.
5. Only 0.42% (1182 Nos.) mines recovered by use of equipment.

The Committee’s examination of the subject and the issues involved therein have been discussed in the succeeding paragraphs:

### **Need for having de-mining equipment**

9. The Committee desired to know as to how the urgent need to have de-mining equipment arose in the first place. In their written reply, the Ministry stated that during the process of manual recovery of minefields it may not be possible to trace all the mines which could have drifted or got further buried due to vagaries of nature *i.e.* flooding of area, shifting of soil/sand, wind etc. or dislocation due to animal/human interference. De-mining equipment was thus required to physically destroy these unaccounted mines and render the area 100% safe for further usage. After manual recovery of visible and accessible mines, de-mining is done by repeated run of tank trawls or by use of specialised de-mining equipment to get a high assurance level and complete sanitation of land which is achieved by detonating and destroying defective and old vintage of mines which are very dangerous to recover manually.

10. Elaborating on this aspect, the Secretary (Defence) deposed during evidence that:—

“The mechanical method ensures that certain mines which have not been found in the process of manual recovery are taken out. Even in the mechanical de-mining, there is a mine burst and it is taken as a confirmation that the mine has been taken out. The aim is that we must have absolutely 100 per cent mines taken out. That is why, along with the manual recovery, specialized equipment for mechanized de-mining was bought”.

11. The Committee sought to know as to why manual methods were employed for de-mining. In response, the Secretary (Defence) replied that:—

“Manual methods are absolutely necessary because there is a requirement of 100 per cent taking out of these mines. The persons who are employed are basically the Corps of Engineers. They were the same persons who laid the mines. They go point by point on the map and on the ground and de-mine them”.

### Process adopted for acquisition of equipment

12. It has been noticed that the Defence Procurement Board (DPB) recommended for acquisition of de-mining equipment on 01.10.2002 and final contract was signed on 5.03.2003. The acquisition process involved the following steps:—

- (i) Approval of RM;
- (ii) Visit of TEC abroad to three Countries;
- (iii) Evaluation of the equipment;
- (iv) Receipt of Techno Commercial offers;
- (v) Negotiations and CFA approval; and
- (vi) Signing of Contract and opening of Letter of Credit ( LC ).

### Chronology of important events

13. The chronology of important events as submitted by the Ministry of Defence from initiation of case for procurement of de-mining equipment to signing of contract is as under:—

Sl. No.	Date	Action	Activities
1	2	3	4
1.	08.08.2002	Initiation of case	Equipment identified and validated by military operation.
2.	08.08.2002	Case for visit of Technical Delegation	Confirmation from firm and finalisation of schedule.
3.	01.10.2002	DPB approval for FTP	Agenda point approval by Army Headquarters and circulation to members and consideration by DPB.
		Formulation of Techno-commercial RFP	Vetting of RFP by all agencies approval of SS (ACQN) and issue of RFP.
4.	19.10.2002	Visit of Tech Delegation <i>w.e.f.</i> 23 October, 2002 to 04 November, 2002	Approval by RM.
5.	23.10.2002	-do-	Approval by External Screening Committee.
6.	24.10.2002	Issue of RFP to vendors	Issued to the three short listed vendors.

1	2	3	4
7.	29.11.2002	TEC Report submitted to Ministry of Defence	Preparation of TEC Report and approval by VCOAS.
8.	13.01.2003	Approval of RM to TEC Report and waivers	Movement of case file for approval of RM.
9.	21.01.2003	CNC composed for commercial negotiations	On file approval and CNC composition.
10.	27.01.2003 to 06.02.2003	Negotiations by CNC	CNC held on consecutive days and concluded on 06 February, 2003.
11.	05.03.2003	Contract signed with M/s Hydrema, Denmark	Actions involved for concluding contract.

#### **Delay in deciding on the procurement of de-mining equipment**

14. The chronology of events revealed that Operation Parakram was thought of in 2001 and the Army sent the proposal for procurement of de-mining equipment only in 2002. The Committee, therefore, desired to know as to why the Army did not think of having the de-mining equipment in 2001 itself when Operation Parakram ended. Explaining the reasons for the delay in deciding on the procurement of de-mining equipment, the Ministry in their note stated as follows:—

“As a policy, the Army plans to ‘recover’, minefields to account for each mine and also hand over land to its owners in a safe condition. This is possible if the laid minefields are ordered to be recovered within a reasonably short period after laying, say 4-6 months, without the effects of weather having adversely affected the area.

Recovery can be carried out using records of minefields with standard mine laying and breaching equipment held with Army units. Hence, no additional equipment is necessary for recovery.

In the instant case, Op. PARAKRAM commenced in mid-December, 2001 and mine laying orders were issued. However, when Op. PARAKRAM could not be terminated early, it was apparent that minefields would remain exposed to more seasons, which would lead to the following effects:—

- (a) growth of vegetation and crops.
- (b) Burial of mines due to flowing water, sand storms and rodent action.
- (c) Drifting of mines away from original locations due to rainwater, shifting sand and rodents.

Therefore, E-in-C’s Branch initiated a case to procure de-mining equipment”.

15. In this regard, while replying to a pointed query as to why the procurement of de-mining equipment could not be thought of earlier, the representative of Ministry of Defence conceded during evidence that “it could have been thought of.”

#### **Failure to adopt normal procedure**

16. It has been noticed from the Audit Paragraph that the decision for de-mining the mines was taken 18 months after the Operation Parakram was over, which was sufficient to go through the normal procedure. Explaining the reasons for adopting the Fast Track Procedure (FTP) instead of the normal procurement procedure, the Ministry stated that FTP was adopted instead of normal procurement procedure in order to expeditiously release land for cultivation and troops from operational deployment.

17. The Committee desired to know as to whether it was proper and judicious to resort to Fast Track Procedure in the instant case, the Ministry replied as under:—

“The projected requirements, under the Fast Track Procedure as contained in instructions issued in 2001, must be related to an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. All proposals under FTP are processed only after approval of the Chief of the concerned staff.

In the instant case, FTP was resorted in order to return land to cultivators in a safe condition. The decision to adopt FTP was taken as per recommendations of Defence Procurement Board (DPB)”.

#### **Cost of the equipment**

18. In view of the operational urgency, the Price Negotiation Committee (PNC) accepted the unit price of Euro 730000/724000 (Rs. 3.98 crore/3.95 crore) offered by the firm. Accordingly, a contract was concluded with a firm in March 2003, five months after the stipulated supply dates for the supply of 24 de-mining equipment alongwith accessories at a total cost of Euro 19.05 million equivalent to Rs. 103.91 crore.

19. The Committee, desired to know the difference in the price if the Ministry had gone for normal procedure instead of Fast Track Procedure. The representative of the Ministry of Defence informed during evidence “that there is a marginal difference in the price”.

20. The Committee further desired to know as to whether any of the short listed firms were ready to offer its equipment for trials in India on “no cost-no commitment basis” and how did the price of this equipment compare with the price of the equipment purchased. The Ministry in their written information submitted to the Committee as under:—

“Though one of the technically non-compliant firms offered their equipment for ‘no cost-no commitment’ basis trials on 21st Nov. 2002, there was no scope for considering the same as time was at a premium and the same

equipment had been adequately evaluated by the TEC and not found meeting the requirements of the Indian Army.

Since, the equipment was technically not acceptable, the commercial offers of the non-compliant Vendors were never opened and there was no requirement to compare the prices. Hence the claim of a non-compliant vendor that his equipment was much cheaper at Rs. 0.96 Crs. a piece hold no ground as, firstly, he was technically non-compliant and his commercial offer hence had not been opened and secondly, he had stated this price in a letter written by him to MoD after completion of the technical evaluation in November, 2002 which has no *locus standi* as such”.

### **Identification of de-mining equipment**

21. Elucidating the process for identification of de-mining equipment, the representative of Ministry of Defence stated as follows during the evidence that:—

“It was visualized in the month of May or June that there would be a need that besides doing manual de-mining, to have some equipment also for it. And, then the processing of finding what was the equipment available in the world had been started in the E-in-C Branch. The DA’s abroad and the Jame’s Equipment Manual and other literature that were available were all scanned, and certain equipment was short listed. May be many more studied and six were arrived at”.

22. Based on technical literature and delivery schedule offered by the firms, three equipments were shortlisted for evaluation by the Technical delegation. A Technical Evaluation Committee (TEC) visited the three short listed firms, located abroad from 25 October, 2002 to 4 November, 2002.

23. The Committee, desired to know as to whether any notice inviting tender or its equivalent for procurement of de-mining equipment was issued. The Ministry replied that a Techno Commercial Request For Proposal (RFP) was issued to three short listed vendors in October 2002.

24. The Committee, further desired to know that on what basis the equipment was short listed and finally selected and as to whether the Ministry was satisfied with the process adopted and the final selection made in this regard. The Ministry in their Post-evidence note submitted to the Committee informed as under:—

“A Technical Evaluation Committee (TEC) comprising of experts in the field was constituted. This committee carried out a detailed technical scan of the demining equipment available in the world. Three firms were finally short listed for visit by the TEC. Based on their visit, the TEC recommended that the equipment of two firms did not sufficiently meet the Operational Requirement (OR).

De-mining equipment of the third firm was recommended after due evaluation of the technical parameters against Operational Requirement (OR) and based on the performance of the equipment during the demonstration organized by the OEM for the TEC.”

25. The Committee further desired to know as to whether the best available firm was selected for the supply of the equipment. The Ministry replied as under:—

“The TEC opined that de-mining equipment of the recommended firm was technically superior to the other short listed de-mining equipment and was found most suitable for employment in our operational scenario”.

26. In response to the Committee’s query as to whether any of the short listed equipment was in use in other countries, the Ministry in their note replied:—

“One of the firms had claimed that their equipment was in use world-over. But the touch stone of any technical evaluation by the Army is suitability to our operational requirements and not merely a vendor’s claim”.

#### **Comparative life-span analysis of the equipment**

27. Regarding life-span of equipment, the Ministry stated:—

“The equipment of the selected firm has been assessed by CQA(EE) to have Service Life of 7 years and Storage Life of 10 years. This Service Life is subject to review/extension during its life cycle and by resorting to overhaul.

The equipment has performed its designated function in de-mining post OP PARAKRAM. Moreover, the equipment will continue to serve in future for de-mining operations as well as in offensive operations as per policy for its employment already issued by the Army Headquarters, for augmenting the mine breaching resources in depth areas where breaching tasks are undertaken without major constraints of time.

A proposal to deploy the equipment for humanitarian de-mining tasks with our Army Engineer contingents in United Nations missions is also under consideration”.

28. Replying to another related query, the representative of the Ministry of Defence stated during evidence:

“All capital equipment that we procure, we work on a principle of initial life of 10 years and we extend the life by mid-overhauls. So, we work on a principle of 25 to 30 years serviceable life of equipment”.

29. To a query about the period of life of this equipment, the representative of the Ministry of Defence stated during evidence **that it has not been laid down.**

#### **Procurement of Lesser Number of Equipments than Originally Estimated.**

30. Audit scrutiny has revealed that Army Headquarters proposed in August 2002 procurement of 40 de-mining equipment under FTP through an Empowered Committee for de-mining of mines laid during OP PARAKRAM. The Technical Evaluation Committee (TEC) recommended to procure only a part of the sanctioned quantity, considering the limited exploitation of the equipment, lack of sufficient data and the need for further examining its employability in Indian terrain.

31. The Committee desired to know that on what basis, the TEC recommended procurement of lesser number of equipment than originally estimated and finally stipulated in market enquiries. The Ministry replied that:—

“Initially 40 No. of the equipment were proposed to be procured. However, TEC recommended procurement of only a part quantity initially due to :

- (a) Limited exploitation of equipment.
- (b) Lack of sufficient data.
- (c) Further examining the employability of equipment in Indian terrain.

Based on review of progress, the quantity was reduced to 30 Nos. in November 2002, and thereafter to the barest minimum 24 Nos. in December, 2002”.

32. In response to a specific query as to whether the Ministry was satisfied that the number of equipment recommended by the TEC would suffice and fulfill the requirement, the Ministry explained that:—

“TEC had recommended that it would be prudent to procure only a part of the sanctioned quantity initially, but did not mention any specific quantities as such. TEC added that based on the feedback obtained after initial exploitation, the balance quantity be procured through an option clause suitably incorporated in the contract itself.

After deliberations on proposed employment, in the light of the policy on recovery of mine fields and the time schedule for completion of the de-mining operations, 30 Nos. were proposed for initial procurement in November 2002.

Based on review of progress made in recovery of mine fields, this quantity was further reduced to a barest minimum essential quantity of 24 Nos. in December 2002, to de-mine the high risk mine fields”.

33. The Ministry further added:—

“The quantity of 24 Nos. was minimum inescapable to meet our requirement and was worked out strictly as per the Military Operations Policy on Recovery of Mines. Notably a quantity of 30 as sought by VCOAS was further reduced to 24 so that the task could be suitably done, yet not buying more equipment than required”.

#### **Acceptance of longer delivery schedule**

34. The purchase of de-mining equipment was made through FTP keeping in view the urgency of the equipment. Audit noticed that though the firm had offered a delivery schedule of four months to TEC for the supply of 32 equipment during technical evaluation, it was allowed a delivery period of nine months in the contract.

35. Explaining the reasons for this, the Ministry informed:—

“The Technical Evaluation Committee had visited the firm premises between 23 October 2002 and 04 November 2002 *i.e.* during winter months. Being

unaware of the procurement procedures of Ministry of Defence, the vendor verbally intimated a delivery schedule of four months assuming that the orders would be placed on them immediately by the Technical Evaluation Committee itself. This was due to higher production capacity of the firm during winter as compared to summer, which was so clarified by the vendor during the Price Negotiation Committee (PNC).

Initially during the PNC meeting the vendor handed over a chart giving delivery schedule for 24 Nos. in place of the schedule given in the offer for 40 Nos. After scrutiny, the PNC observed that the last consignment was proposed to be delivered in 41 weeks. The vendor was then asked to clarify, as this was at variance with what was proposed to the Technical Evaluation Committee (TEC) at the time of evaluation (four months for 32 Nos).

The vendor intimated that the schedule mentioned to the TEC was based on winter production capacity of the firm, which will be more than summer production capacity. The Committee impressed upon the Vendor to reduce overall delivery time and the Vendor was asked to compress the delivery schedule.

The Vendor thereafter proposed a revised delivery schedule of 39 weeks along with spare parts package within 39 weeks. He also informed the Commercial Negotiation Committee (CNC) that the schedule cannot be further compressed without compromising quality as large number of checks on various components and their integration are required to be carried out in the factory premises.

The Request for Proposal (RFP) did not specify a fixed delivery schedule to be adhered to but stated that the goods must be delivered at the earliest. It may be noted that the agreed delivery schedule was lesser (39 weeks) than what was proposed by the vendor in his initial offer (41 weeks) to the CNC for the delivery of 24 Nos.”

36. Elaborating further on this aspect, the representative of the Ministry of Defence stated during evidence:—

“The TEC was told that if you place an order now, 32 pieces of equipment would be made available in four months time. AT the C-in-C stage, thereafter the C-in-C asked the vendors representatives that we are now looking for 24 pieces of equipment and the time frame given was 41 weeks. So, he was reminded that we were told four months. So, he indicated two things. Firstly, the work schedule of the winter and the summer are different and he says now it is possible only for us to supply in 41 weeks. Possibly, it is because he had one or two pieces of equipment ready. It was not confirmed. But when it came to 41 weeks, the C-in-C told them that we will not buy in this time period. You reduce it. He reduced it to 39 weeks and he said that he cannot reduce it more otherwise the quality of the equipment would be compromised. Thereafter, C-in-C accepted 39 weeks”.



### **Trial Report of the equipment**

37. On being asked as to whether there were any trial Reports of the equipment considered by the TEC, the Ministry replied that the TEC evaluated the equipment based on only live dynamic demonstrations against the Operational Requirement at the Vendors' premises.

38. The Committee were further informed during evidence that the first piece of equipment was taken for carrying out certain tests to see the performance against anti-personnel mines which was not done in that country. Furnishing details of the trial evaluation of the equipment in India, the Ministry stated:

“There was no trial evaluation as such carried out on the equipment in India. However, Blast Tests were carried out as part of the Joint Receipt Inspection (JRI) of the first consignment. As the aspect of destruction/detonation of *anti personnel mines*, could not be checked by the TEC due to non availability of the anti personnel mines in the host country, it was decided to conduct blast trials with the ibid mines as part of the JRI as per the provisions of the Contract.

The Blast Test was conducted on the first de-mining vehicle during 27-28 June 03.

While the trial team made some observations, the same were not directly related to the operational performance of the equipment and at no stage was the equipment found unsuitable or rejected. Also, as per the laid down procedure and provisions of the Contract, quality and quantity claims had been raised against the Vendor which were settled”.

### **Observations in Blast Tests**

39. According to Audit, during the Blast Test of the first de-mining equipment, the following shortcomings were noticed:—

- “(i) 5 out of 10 mines did not detonate.
- (ii) Direction keeping from inside the vehicle was difficult and visibility was restricted due to the shield.
- (iii) The vehicle got bogged down in slushy area and was recovered using a dozer.
- (iv) The vehicle did not have any sensor to indicate the blast of Anti personnel mines.
- (v) The speed of the vehicle was very slow”.

Audit has observed that all the shortcomings mentioned above were directly related to the operational performance of the equipment. The Ministry did not mention specifically whether the above shortcomings were even taken up with the firm and the firm had set right the shortcomings.

### **Delay in actual delivery of the equipment**

40. Audit has stated that a Contract was concluded with the firm in March, 2003, five months after the stipulated supply date, for the supply of 24 de-mining equipment. The delivery period was 9 months from the date of the Contract even though the firm had given a delivery schedule of 4 months for the supply of 32 equipment during technical evaluation. The equipment were received between June, 2003 and March, 2004, 8 to 16 months beyond the date indicated by Army HQrs. Audit has further reported that even after enhancement of the delivery schedule, 50 per cent of the ordered equipment, *i.e.* 12 equipment were supplied only after the expiry of the delivery period of 9 months.

41. The Committee sought to know as to why the order for procurement of equipment was placed in March, 2003, five months after stipulated supply date. The Ministry informed as under:—

“The procurement of the de-mining equipment was recommended by DPB under FTP in its meeting on 01.10.2002 and the Contract was signed on 5.3.2003. Considering the fact that the procurement action involved the approval of RM, visit of TEC for evaluation of the equipment offered by the three short listed vendors, receipt of techno-commercial offers and progressing case for seeking CFA approval, the period taken to conclude the Contract was within the least time frame possible.

The first lot of equipment was thereafter received within three months from the signing of the Contract *i.e.* in June 2003 after which the equipment was deployed in field. Hence, it would not be correct to assume that the procurement defeated the very purpose of FTP, which was strictly as per the laid down procedure”.

42. On being asked about the reasons for non-adhering of the stipulated time schedule of 9 months, the Ministry replied:—

“The Contract was signed on 05 March, 2003. Article 4.2 of the Contract clearly gives out the delivery schedule of the equipment and the same is linked to the date of the opening of LC and not to date of signing of the Contract. The LC was opened on 08 May, 2003 and the deliveries were to be completed within 39 weeks of this date *i.e.* 06 February, 2004. The deliveries of the goods were actually completed in January, 2004, which was well within the delivery schedule of 9 months (39 weeks)”.

43. In response to the Ministry’s reply, the Audit have made the following observation:—

“As per Article 3 of the Contract the effective date of the Contract was as follows:

- (a) Receipt of performance Bank Guarantee by the buyer.
- (b) Receipt of Advance Payment in the sellers account.

Performance Bank Guarantee and Advance Bank Guarantee were furnished by the firm on 21.3.2003 and advance payment was made on 28.03.2003. Thus

the delivery schedule should have been commenced from April, 2003 and supplies were to be completed by December, 2003. However, the supplies were completed in March, 2004. Thus there was a delay of two months in completing the supply. The Ministry's contention that effective date was from the date of opening of letter of credit is not correct".

44. Audit further pointed out that though there was a delay of two months in completing the supply, L.D. clause was not invoked.

45. Specifying the reasons for not doing so, the Ministry intimated that there was no requirement to invoke the L.D. clause as the delivery was completed within the agreed delivery schedule.

#### **Extent of utilization of the equipment actually delivered**

46. Audit has observed that the actual utilization of the equipment purchased due to operational urgency to de-mine 10 lakh mines revealed that most of the mine fields had already been de-mined manually without the help of de-mining equipment. Out of 2,78,300 mines proposed to be recovered, only 1182 mines (0.42 percent) were recovered using the 19 de-mining equipment and remaining mines were recovered manually.

47. Regarding, under utilization of the equipment procured, the Ministry stated:—

“The equipment has been utilized extensively and has performed its task in OP PARAKRAM. This is also amply proved by the fact that during de-mining, three equipment were damaged due to anti-tank mine blasts. The equipment will continue to be utilised in future for its entire service life, including possible deployment in UN missions and hence will not result in under-utilisation”.

48. While giving details of the reports from the field regarding the operational performance of the equipment, the Ministry stated:—

“Reports from field units on the performance of the equipment were positive and confirmed that the equipment had performed its task effectively in the conditions obtaining in the sectors of employment.

Some highlights of the reports were as follows:—

- (a) The equipment destroyed mines either by detonation or by shattering them into pieces.
- (b) The equipment actuates/destroys mines up to a depth of 80 cm. This is satisfactory, since mines buried deeper than 80 cms. are most unlikely to cause accidental detonation by any other vehicles/personnel passing over the area”.

49. Audit has reported that as of March, 2004, 22 equipment were issued to the field units and 2 equipment were kept as “reserved”. The actual utilization of the equipment purchased due to operational urgency to de-mine 10 lakhs mines revealed

that most of the mine fields had already been de-mined manually without the help of de-mining equipment due to undue delay in procurement of the equipment. Explaining the reasons for this, the Ministry informed:—

“The equipment has been utilized in the de-mining operations post OP PARAKRAM in the various command theatres. This is clear from the fact that 99.32% of the mines planned to be recovered from the 1370 mine fields have been recovered, which has been possible due to a combination of manual recovery and de-mining by usage of specialized equipment.

The de-mining equipment has not been procured for one-time utilization but also future requirements. Hence, exploitation of the equipment is need based and on a long-term basis. Therefore, the equipment has not been rendered waste once the de-mining operation post OP PARAKRAM was completed”.

#### **No. of Mines recovered**

50. Audit scrutiny has further revealed that out of 2,78,300 mines proposed to be recovered, only 1182 mines (0.42 per cent) could be recovered using the de-mining equipment imported under the Fast Track Procedure. The remaining mines had to be recovered manually. Audit has thus concluded that by adopting the Fast Track Procedure, the benefit of competitive rates through open tenders was lost, while the very purpose of the Fast Track Procedure was defeated due to delayed procurement and deployment.

51. On being asked as to how only 1182 mines were recovered using the de-mining equipment, out of 2.78 lakh proposed to be recovered, the Ministry replied:—

“ If all the mine fields had been de-mined by using this equipment instead of being manually recovered it would not only have caused serious deficiencies in the holding of mines of the Indian Army, as all the mines would have been destroyed, but also the entire de-mining equipment damaged beyond economic repair/usage as any equipment cannot be subjected to indefinite number of blasts/employed in a role for which it is not designed for.

The equipment was successfully able to blast 1182 mines during the de-mining operations. These 1182 mines would otherwise have caused a number of casualties if attempted to have been recovered manually as many were not charted and had drifted away from their original locations. Moreover, de-mining operations are done in terms of area covered and number of mine fields and not number of mines blasted.

99.32% of the mines planned to be recovered from the 1370 mine fields have been recovered. All mine fields barring one mine field were cleared of all mines and handed over back to civilian authorities in October 2004. The last mine field was also de-mined and handed over to civilians in April, 2005. Out of the 10.6 Lakh mines laid, 6600 mines which were not recovered physically are presumed to have been destroyed by various means”.

## OBSERVATIONS AND RECOMMENDATIONS

52. During the Operation Parakaram launched in December 16, 2001, the Indian Army was mobilised along the borders. During this operation several mines were laid extensively in the frontage area. Most of the minefields laid were on agricultural land, which was required to be returned to the owners after the termination of the operation in a usable condition after clearing the mines.

53. Mine clearance process, after the operation, involved two stages-initially by manual recovery and thereafter by mechanical means. Explaining the procedure of de-mining the Ministry have indicated that during the process of manual recovery of minefields, it is not possible to trace all the mines which could have drifted or got further buried due to vagaries of nature *i.e.* flooding of area, shifting of soil/sand wind etc. or dislocation due to animal/human interference. Hence there is need for mechanical method which ensures that certain mines, which are not found in the process of manual recovery, are taken out.

54. The Committee note that for de-mining of over 10 lakh mines laid during Operation Parakaram, the Army Headquarters proposed in August 2002 for procurement of 40 de-mining equipment under 'Fast Track Procedure' through an Empowered Committee. In order to minimize the risk of casualties involved in manual de-mining and render the mined land 100% safe for cultivation, the Defence Procurement Board approved the proposal for procurement of de-mining equipment on a 'Fast Track' in October 2002. It is pertinent to note in this regard that while Operation Parakaram was thought of in 2001, the Army sent the proposal for procurement of de-mining equipment only in 2002. Needless to say that the Army authorities woke up late in the matter for procurement of 'Fast Track Equipment' for de-mining purposes. The representative of the Ministry of Defence also conceded during evidence that earlier procurement of de-mining equipment could have been thought of.

It is incomprehensible as to why the Ministry adopted the Fast Track Procedure instead of the normal procedure when they did not take timely action earlier to procure the same. The instructions issued in 2001 regarding Fast Track Procedure provide that such a procedure is to be adopted only in an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. In the present case, the situation was not only unforeseen but there was ample time available with the Army authorities to conceive, plan and procure the requisite equipment under the normal procedure itself. The Committee, therefore, feel that the necessity of a Fast Track Procedure in this particular case had arisen only because of the inaction on the part of concerned authorities earlier. The Committee feel that adoption of Fast Track Procedure instead of normal procedure for procurement of de-mining equipment is clearly indicative of lack of perspective planning on the part of the concerned authorities. The Committee emphasize that the Ministry should evolve a system so that the requirement for any defence equipment is assessed timely and expeditious action taken to procure the

same under the normal procedure thereby dispensing with the need for a Fast Track Mechanism. Fast Track Procedure should be adopted only in emergent unavoidable conditions.

55. The Committee note that based on technical literature and delivery schedule offered by various firms, three firms supplying the required de-mining equipment were shortlisted for evaluation by the Technical Evaluation Committee (TEC), out of which, one firm was found to be technically superior and most suitable for employment in the Indian operational scenario. According to the Ministry, de-mining equipment of the selected firm was recommended after due evaluation of the technical parameters against operational requirement and based on the performance of the equipment during the demonstration organized for the Technical Evaluation Committee.

56. The Committee find it strange that although the selected firm had offered a delivery schedule of four months to the Technical Evaluation Committee (TEC) for the supply of 32 equipment during technical evaluation, it was allowed a delivery period of nine months for a lesser number of equipment in the contract. According to the Ministry, being unaware of the procurement procedures of Ministry of Defence, the vendor initially verbally intimated a delivery schedule of four months assuming that the orders would be placed on them immediately by the Technical Evaluation Committee itself and also due to higher production capacity of the firm during winter as compared to summer. The vendors subsequently proposed a revised delivery schedule of 39 weeks for supply of 24 pieces of the equipment, when the supply order was finally placed on him. Even though the equipment were sought to be procured under Fast Track Procedure, the Government did not specify a shorter delivery schedule but only asked the vendor that the goods must be delivered at the earliest. The Committee are inclined to conclude that the decision of the Government to accept delivery period of nine months against the original period of four months was not proper, which resulted in avoidable delay in receipt and actual utilization of the equipment. This re-inforces the Committee's belief that perhaps the equipment could very well have been procured under normal procedure itself and there was hardly any need for a Fast Track Procedure. If at all a decision had to be taken to procure things urgently and that too under a Fast Track Mechanism, utmost urgency should have been shown by the concerned authorities in planning and procurement.

57. The Committee find that the Technical Evaluation Committee (TEC) evaluated the equipment based on only live dynamic demonstrations against the Operational Requirement at the Vendor's premises. No trial evaluation is stated to have been as such carried out on the equipment in India. However, Blast Tests were carried out as part of the Joint Receipt Inspection (JRI) of the first consignment on the first de-mining vehicles during 27-28 June, 2003. During these Blast Tests, it was noticed that 5 out of 10 mines did not detonate, the vehicle got bogged down in slushy area and was recovered using the dozer, the vehicle did not have any sensor to indicate the blast of anti-personnel mines and the speed of the vehicle was also very slow. The Ministry have tried to explain in their written submission that the

observations made by the trial team were not directly related to the operational performance of the equipment and at no stage the equipment was found unsuitable or rejected. However, the Ministry have not specifically indicated whether the shortcomings pointed out during the Blast Tests were even taken up with the firm and whether and when the firm had set right these shortcomings. The Committee would therefore, like to be apprised in this regard and would also like to know as to how the equipment worked satisfactorily subsequently. They desire that, in future, the Ministry of Defence should take necessary precautions while framing the terms and conditions of procurement contract, and ensure that the faults/shortcomings brought to light during field trials are immediately rectified by the vendor.

58. Surprisingly, the contract executed with the supplier for procurement of de-mining equipment did not contain any provision for life span of the equipment, although all de-mining equipment are stated to have a specified shelf life. It has been noticed that the equipment supplied by the selected firm was assessed by Controller of Quality Assurance (EE) {CQA(EE)} in the Ministry of Defence to have a service life of 7 years and storage life of 10 years. The Ministry have accepted that they work on a principle of initial life of 10 years and extend the life by mid-overhauls and generally work on a principle of 25 to 30 years of serviceable life of equipment. The Committee are constrained to point out that since the stipulated shelf life of the equipment was not explicitly mentioned in the contract, the Ministry's contention of the serviceable life of this particular equipment being 25 to 30 years does not carry much weight. The Committee desire that while executing such contracts in future, important provision of life-span of equipment should invariably be considered carefully before entering into contract with the supplier.

59. The Committee note that the contract was concluded with the firm in March, 2003, five months after the stipulated supply date, for the supply of 24 de-mining equipment. The equipment was received between June, 2003 and March 2004, 8 to 16 months beyond the date indicated by Army HQrs. Even after extension of the delivery schedule, 50 percent of the ordered equipment, *i.e.* 12 equipment were supplied only after the expiry of the delivery period of 9 months. It may not be out of place to mention here that the equipment was required rather urgently for de-mining mine fields as a consequence of Army operation in 2001. Given such an urgency, the cumulative delay in delivery of the equipment is inexplicable.

The Committee further observe that though there was substantial delay in completing the supply, Liquidated Damages (L.D). Clause was not invoked and Penalty was not imposed on the vendor for the delay. The Ministry have contended that there was no requirement to invoke LD clause as the delivery was completed within the agreed delivery schedule. The Committee, however, believe that the Ministry's contention was based on the premise that the effective date for delivery schedule was from the date of opening of letter of credit. The delivery schedule should have commenced from the date on which the advance payment was made. Thus, there was a delay in completing the supply, for which the LD clause should necessarily have been invoked on the vendor. While deploring the lackadaisical

approach of the Ministry in enforcing the contract, the Committee recommend that the Ministry should invariably incorporate a LD clause in all future contracts in case of delayed delivery by the supplier and impose penalty on the vendor by reducing the cost of the contract.

60. Out of 2,78,300 mines proposed to be recovered, only 1182 mines (0.42 per cent) were recovered using the de-mining equipment and remaining mines were recovered manually. It is, thus, evident that the equipment purchased due to operational urgency was hardly utilized as most of the mine fields had already been de-mined manually. The Ministry of Defence have tried to explain the poor utilization of the equipment purchased by stating that if all the minefields had been de-mined by using this equipment, it would not only have caused serious deficiencies in the holding of mines, but also the entire de-mining equipment would have been damaged beyond economic repair/usage, as any equipment cannot be subjected to indefinite number of blasts or employed in a role for which it is not designed for. Further, according to them, de-mining operations are done in terms of area covered and number of mine fields and not number of mines blasted. The Committee find this explanation of the Ministry untenable. If their argument were to be accepted, then it is difficult to comprehend as to why there was a need for import of such a costly equipment in large number and that too urgently under Fast Track Procedure. Either these facts now being explained were not visualized earlier, or, there is something inherently wrong in the system of conception, planning and procurement of urgently required defence equipment. Although, the Ministry have contended that the de-mining equipment has been utilized extensively, the Committee would like to be apprised about the extent of utilization thereof for the de-mining required in connection with Operation Parakaram and subsequently.

61. The facts narrated above abundantly confirm that the process of acquisition of de-mining equipment by the Government leaves much to be desired. The equipment procured under Fast Track Procedure obviously involved a higher cost than that procured under the normal procedure. Further, whatever justification existed for adopting the Fast Track Procedure appeared to be defeated when the Ministry took such a long time in the negotiations for bringing the equipment to the country. The placement of order on the foreign supplier was unduly delayed, the supplier's delivery schedule of four months intimated to the Technical Evaluation Committee was enhanced to nine months and even after the enhancement of the delivery schedule, 50 per cent of the ordered quantity *i.e.* 12 equipment were supplied after the expiry of the delivery period of nine months. The delay in procurement thus rendered the very purpose of procurement infructuous, as the defective and old vintage mines had to be cleared manually. By adopting the Fast Track Procedure, the benefit of competitive rates through open tenders was lost, while the very purpose of the Fast Track Mechanism was defeated due to delayed procurement. The Committee trust that the Ministry would now learn the right lessons from this experience and take adequate care to prevent recurrence of lapses witnessed in the instant case, while avoiding the pitfalls of procurement through fast-track mechanism.



## APPENDIX I

*PARAGRAPH 2.2 OF THE REPORT OF THE COMPTROLLER AND AUDITOR  
GENERAL OF INDIA FOR THE YEAR ENDED 31 MARCH, 2004 (NO. 6 OF  
2005) UNION GOVERNMENT (DEFENCE SERVICES – ARMY AND  
ORDNANCE FACTORIES) ON “DELAYED PURCHASE AND  
INSIGNIFICANT UTILISATION OF EQUIPMENT PROCURED  
UNDER FAST TRACK PROCEDURE”*

Ministry of Defence while formulating the guidelines for Fast Track Procedure (FTP) in August 2002 indicated a time frame of six to nine months and in exceptional cases of 12 months for items to be imported. Army Headquarters proposed in August 2002 procurement of 40 De-mining Equipment under FTP through an Empowered Committee for de-mining over 10 lakh mines laid in the Western Front during Operation Parakram. They wanted the equipment urgently by October 2002 in order to minimize the risk of casualty involved in manual de-mining and to free the mined land for cultivation. The Defence Procurement Board approved the proposal on October 1, 2002.

A Technical Evaluation Committee (TEC) visited three shortlisted firms, located abroad from 25 October, 2002 to 4 November 2002 for technical evaluation of de-mining equipment. TEC in its report (November 2002) found one of them suitable for employment in the Indian operational scenario. The firm had given a delivery schedule of four months for 32 equipment from the date of signing the contract. The TEC, however, recommended to procure only a part of the sanctioned quantity considering the limited exploitation of the equipment, lack of sufficient data and the need for further examining its employability in Indian terrain.

In view of the operational urgency, the Price Negotiation Committee (PNC) accepted the unit price of Euro 730000/724000 (Rs 3.98 crore/3.95 crore) offered by the firm. Accordingly, a contract was concluded with the firm in March, 2003, five months after the stipulated supply date, for the supply of 24 mining equipment alongwith accessories at a total cost of Euro 19.05 million equivalent to Rs. 103.91 crore. The delivery period was nine months from the date of the contract even though the firm had given a delivery schedule of four months for the supply of 32 equipment during technical evaluation. Equipment were received at Engineer Stores Depots, Delhi between June 2003 and March 2004, eight to 16 months beyond the date indicated by Army Headquarters. As of March 2004, 22 equipment were issued to the field units and two equipment were kept as “Reserve”. The actual utilisation of the equipment purchased due to operational urgency to demine 10 lakh mines revealed that most of the mine fields had already been demined manually without the help of demining equipment due to delay in procurement of the equipment.

The purchase was made through FTP keeping in view the urgency of the equipment. Audit noticed that though the firm had offered a delivery schedule of four months to the TEC, it was allowed a delivery period of nine months in the contract.

The placement of order on the foreign supplier was delayed, the supplier's delivery schedule of four months intimated to TEC was enhanced to nine months and even after the enhancement of delivery schedule, 50 *per cent* of the ordered quantity *i.e.* 12 equipment were supplied after the expiry of the delivery period of nine months. By adopting the FTP, the benefit of Competitive rates through open tenders was lost, while the very purpose of FTP was defeated due to delayed procurement.

Out of 2,78,300 mines proposed to be recovered, only 1182 mines (0.42 *per cent*) were recovered using the 19 de-mining equipment and remaining mines were recovered manually.

The matter was referred to the Ministry in August 2004; their reply was awaited as of December 2004.

## APPENDIX II

### STATEMENT OF OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department	Observations/Recommendations
1	2	3	4
1.	52	Defence	During the Operation Parakaram launched in December 16, 2001, the Indian Army was mobilised along the borders. During this operation several mines were laid extensively in the frontage area. Most of the minefields laid were on agricultural land, which was required to be returned to the owners after the termination of the operation in a usable condition after clearing the mines.
2.	53	-do-	Mine clearance process, after the operation, involved two stages-initially by manual recovery and thereafter by mechanical means. Explaining the procedure of de-mining the Ministry have indicated that during the process of manual recovery of minefields, it is not possible to trace all the mines which could have drifted or got further buried due to vagaries of nature <i>i.e.</i> flooding of area, shifting of soil/sand wind etc. or dislocation due to animal/human interference. Hence there is need for mechanical method which ensures that certain mines, which are not found in the process of manual recovery, are taken out.
3.	54	-do-	The Committee note that for de-mining of over 10 lakh mines laid during Operation Parakaram, the Army Headquarters proposed in August 2002 for procurement of 40 de-mining equipment under 'Fast Track Procedure' through an Empowered Committee. In order to minimize the risk of casualties involved in manual de-mining and render the mined land 100% safe for cultivation, the Defence Procurement Board approved the proposal for procurement of de-mining equipment on a 'Fast Track' in October 2002. It is pertinent to note in this regard that while Operation Parakaram was thought of in 2001, the Army sent the proposal for procurement of de-mining equipment only in 2002. Needless to say that the Army authorities woke up late in the matter for procurement of 'Fast Track Equipment' for

1	2	3	4
			<p>de-mining purposes. The representative of the Ministry of Defence also conceded during evidence that earlier procurement of de-mining equipment could have been thought of.</p> <p>It is incomprehensible as to why the Ministry adopted the Fast Track Procedure instead of the normal procedure when they did not take timely action earlier to procure the same. The instructions issued in 2001 regarding Fast Track Procedure provide that such a procedure is to be adopted only in an operational situation foreseen as imminent or for a situation where a crisis has emerged without prior warning. In the present case, the situation was not only unforeseen but there was ample time available with the Army authorities to conceive, plan and procure the requisite equipment under the normal procedure itself. The Committee, therefore, feel that the necessity of a Fast Track Procedure in this particular case had arisen only because of the inaction on the part of concerned authorities earlier. The Committee feel that adoption of Fast Track Procedure instead of normal procedure for procurement of de-mining equipment is clearly indicative of lack of perspective planning on the part of the concerned authorities. The Committee emphasize that the Ministry should evolve a system so that the requirement for any defence equipment is assessed timely and expeditious action taken to procure the same under the normal procedure thereby dispensing with the need for a Fast Track Mechanism. Fast Track Procedure should be adopted only in emergent unavoidable conditions.</p>
4.	55	Defence	<p>The Committee note that based on technical literature and delivery schedule offered by various firms, three firms supplying the required de-mining equipment were shortlisted for evaluation by the Technical Evaluation Committee (TEC), out of which, one firm was found to be technically superior and most suitable for employment in the Indian operational scenario. According to the Ministry, de-mining equipment of the selected firm was recommended after due evaluation of the technical parameters against operational requirement and</p>

1	2	3	4
			based on the performance of the equipment during the demonstration organized for the Technical Evaluation Committee.
5.	56	Defence	<p>The Committee find it strange that although the selected firm had offered a delivery schedule of four months to the Technical Evaluation Committee (TEC) for the supply of 32 equipment during technical evaluation, it was allowed a delivery period of nine months for a lesser number of equipment in the contract. According to the Ministry, being unaware of the procurement procedures of Ministry of Defence, the vendor initially verbally intimated a delivery schedule of four months assuming that the orders would be placed on them immediately by the Technical Evaluation Committee itself and also due to higher production capacity of the firm during winter as compared to summer. The vendors subsequently proposed a revised delivery schedule of 39 weeks for supply of 24 pieces of the equipment, when the supply order was finally placed on him. Even though the equipment were sought to be procured under Fast Track Procedure, the Government did not specify a shorter delivery schedule but only asked the vendor that the goods must be delivered at the earliest. The Committee are inclined to conclude that the decision of the Government to accept delivery period of nine months against the original period of four months was not proper, which resulted in avoidable delay in receipt and actual utilization of the equipment. This re-inforces the Committee's belief that perhaps the equipment could very well have been procured under normal procedure itself and there was hardly any need for a Fast Track Procedure. If at all a decision had to be taken to procure things urgently and that too under a Fast Track Mechanism, utmost urgency should have been shown by the concerned authorities in planning and procurement.</p>
6.	57	-do-	<p>The Committee find that the Technical Evaluation Committee (TEC) evaluated the equipment based on only live dynamic demonstrations against the Operational Requirement at the Vendor's premises.</p>

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			<p>No trial evaluation is stated to have been as such carried out on the equipment in India. However, Blast Tests were carried out as part of the Joint Receipt Inspection (JRI) of the first consignment on the first de-mining vehicles during 27-28 June, 2003. During these Blast Tests, it was noticed that 5 out of 10 mines did not detonate, the vehicle got bogged down in slushy area and was recovered using the dozer, the vehicle did not have any sensor to indicate the blast of anti-personnel mines and the speed of the vehicle was also very slow. The Ministry have tried to explain in their written submission that the observations made by the trial team were not directly related to the operational performance of the equipment and at no stage the equipment was found unsuitable or rejected. However, the Ministry have not specifically indicated whether the shortcomings pointed out during the Blast Tests were even taken up with the firm and whether and when the firm had set right these shortcomings. The Committee would therefore, like to be apprised in this regard and would also like to know as to how the equipment worked satisfactorily subsequently. They desire that, in future, the Ministry of Defence should take necessary precautions while framing the terms and conditions of procurement contract, and ensure that the faults/shortcomings brought to light during field trials are immediately rectified by the vendor.</p>
7.	58	Defence	<p>Surprisingly, the contract executed with the supplier for procurement of de-mining equipment did not contain any provision for life span of the equipment, although all de-mining equipment are stated to have a specified shelf life. It has been noticed that the equipment supplied by the selected firm was assessed by Controller of Quality Assurance (EE) {CQA(EE)} in the Ministry of Defence to have a service life of 7 years and storage life of 10 years. The Ministry have accepted that they work on a principle of initial life of 10 years and extend the life by mid-overhauls and generally work on a principle of 25 to 30 years of serviceable life of equipment. The Committee are constrained to point out that</p>

1	2	3	4
			<p>since the stipulated shelf life of the equipment was not explicitly mentioned in the contract, the Ministry's contention of the serviceable life of this particular equipment being 25 to 30 years does not carry much weight. The Committee desire that while executing such contracts in future, important provision of life-span of equipment should invariably be considered carefully before entering into contract with the supplier.</p>
8.	59	Defence	<p>The Committee note that the contract was concluded with the firm in March, 2003, five months after the stipulated supply date, for the supply of 24 de-mining equipment. The equipment was received between June, 2003 and March 2004, 8 to 16 months beyond the date indicated by Army HQrs. Even after extension of the delivery schedule, 50 percent of the ordered equipment, <i>i.e.</i> 12 equipment were supplied only after the expiry of the delivery period of 9 months. It may not be out of place to mention here that the equipment was required rather urgently for de-mining mine fields as a consequence of Army operation in 2001. Given such an urgency, the cumulative delay in delivery of the equipment is inexplicable.</p> <p>The Committee further observe that though there was substantial delay in completing the supply, Liquidated Damages (L.D). Clause was not invoked and Penalty was not imposed on the vendor for the delay. The Ministry have contended that there was no requirement to invoke LD clause as the delivery was completed within the agreed delivery schedule. The Committee, however, believe that the Ministry's contention was based on the premise that the effective date for delivery schedule was from the date of opening of letter of credit. The delivery schedule should have commenced from the date on which the advance payment was made. Thus, there was a delay in completing the supply, for which the LD clause should necessarily have been invoked on the vendor. While deploring the lackadaisical approach of the Ministry in enforcing the contract, the Committee recommend that the Ministry should invariably incorporate a LD clause</p>

1	2	3	4
			in all future contracts in case of delayed delivery by the supplier and impose penalty on the vendor by reducing the cost of the contract.
9.	60	Defence	Out of 2,78,300 mines proposed to be recovered, only 1182 mines (0.42 percent) were recovered using the de-mining equipment and remaining mines were recovered manually. It is, thus, evident that the equipment purchased due to operational urgency was hardly utilized as most of the mine fields had already been de-mined manually. The Ministry of Defence have tried to explain the poor utilization of the equipment purchased by stating that if all the mine fields had been de-mined by using this equipment, it would not only have caused serious deficiencies in the holding of mines, but also the entire de-mining equipment would have been damaged beyond economic repair/usage, as any equipment cannot be subjected to indefinite number of blasts or employed in a role for which it is not designed for. Further, according to them, de-mining operations are done in terms of area covered and number of mine fields and not number of mines blasted. The Committee find this explanation of the Ministry untenable. If their argument were to be accepted, then it is difficult to comprehend as to why there was a need for import of such a costly equipment in large number and that too urgently under Fast Track Procedure. Either these facts now being explained were not visualized earlier, or, there is something inherently wrong in the system of conception, planning and procurement of urgently required defence equipment. Although, the Ministry have contended that the de-mining equipment has been utilized extensively, the Committee would like to be apprised about the extent of utilization thereof for the de-mining required in connection with Operation Parakaram and subsequently.
10.	61	-do-	The facts narrated above abundantly confirm that the process of acquisition of de-mining equipment by the Government leaves much to be desired. The equipment procured under Fast Track Procedure obviously involved a higher cost than that procured under the normal procedure. Further, whatever



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			<p>justification existed for adopting the Fast Track Procedure appeared to be defeated when the Ministry took such a long time in the negotiations for bringing the equipment to the country. The placement of order on the foreign supplier was unduly delayed, the supplier's delivery schedule of four months intimated to the Technical Evaluation Committee was enhanced to nine months and even after the enhancement of the delivery schedule, 50 percent of the ordered quantity <i>i.e.</i> 12 equipment were supplied after the expiry of the delivery period of nine months. The delay in procurement thus rendered the very purpose of procurement infructuous, as the defective and old vintage mines had to be cleared manually. By adopting the Fast Track Procedure, the benefit of competitive rates through open tenders was lost, while the very purpose of the Fast Track Mechanism was defeated due to delayed procurement. The Committee trust that the Ministry would now learn the right lessons from this experience and take adequate care to prevent recurrence of lapses witnessed in the instant case, while avoiding the pitfalls of procurement through fast-track mechanism.</p>

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MINUTES OF THE SEVENTEENTH SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2005-2006) HELD ON 6TH JANUARY, 2006

The Committee sat from 1130 hrs. to 1300 hrs. on 6th January, 2006 in  
Committee Room "E", Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Raghunath Jha
3. Shri Magunta Sreenivasulu Reddy
4. Dr. R. Senthil
5. Dr. Ramlakhan Singh
6. Shri Tarit Baran Topdar

*Rajya Sabha*

7. Shri R. K. Dhawan
8. Shri V. Narayanasamy
9. Shri Jairam Ramesh
10. Prof. R. B. S. Verma

SECRETARIAT

- |                        |   |                             |
|------------------------|---|-----------------------------|
| 1. Shri S. K. Sharma   | — | <i>Additional Secretary</i> |
| 2. Shri Ashok Sarin    | — | <i>Director</i>             |
| 3. Smt. Anita B. Panda | — | <i>Under Secretary</i>      |

**Officers of the office of the Comptroller and Auditor-General of India**

1. Shri V. N. Kaul — Comptroller & Auditor General
2. Shri U. Bhattacharya — ADAI
3. Shri B. K. Chattopadhyay — Director General of Audit (Defence Services)

**Representatives of the Ministry of Defence (Department of Defence)**

1. Shri Shekhar Dutt — Defence Secretary
2. Shri V. K. Misra — Finance Advisor (DS)
3. Shri S. Banerjee — Director General (Acq)
4. Shri P.K. Anand — JS & AM (LS)
5. Shri Gautam Chatterjee — JS (O/N)
6. Maj. Gen. H. S. Sehgal — TM (LS)

**Army Headquarters**

7. Maj. Gen. A.K. Mehra — ADGWE
8. Maj. Gen. S.C. Gogna — ADGES

2. At the outset, the Chairman, welcomed the Members of the Committee to the sitting and wished everybody a happy and prosperous New Year. The Chairman informed the Members that the sitting has been convened to take oral evidence of the representatives of the Ministry of Defence (Department of Defence) on Paragraph 2.2 of Audit Report No. 6 of 2005 (Defence Services) pertaining to “delayed purchase and insignificant utilisation of equipment procured under Fast Track Procedure”. Thereafter, the Officers of the C&AG briefed the Committee on the specific points arising out of the Audit Para. The representatives of the Ministry of Defence (Department of Defence) were then called and the Committee commenced the oral evidence.

3. To begin with, the Army Authorities made an audio-visual presentation, which *inter-alia* explained the process of laying and removing of land mines. The Defence Secretary then explained the various points arising out of Audit Para. To certain queries, for which the witnesses could not give satisfactory reply, the Hon'ble Chairman directed the Defence Secretary to furnish the requisite information in writing at the earliest.

4. A copy of the verbatim proceedings of the sitting has been kept on record.

*The Committee then adjourned.*

MINUTES OF THE FOURTEENTH SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2006-2007) HELD ON 31st OCTOBER, 2006.

The Committee sat from 1100 hrs. to 1245 hrs. on 31st October, 2006 in Committee Room "A", Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Khagen Das
3. Shri P.S. Gadhavi
4. Shri R.L. Jalappa
5. Shri Bhartruhari Mahtab
6. Shri Brajesh Pathak
7. Prof. M. Ramadass
8. Shri Kharabela Swain
9. Shri K.V. Thangkabalu
10. Shri Tarit Baran Topdar

*Rajya Sabha*

11. Shri Janardhana Poojary
12. Shri Suresh Bhardwaj
13. Shri Prasanta Chatterjee
14. Dr. K. Malaisamy
15. Shri Ravula Chandra Sekar Reddy

SECRETARIAT

1. Shri A.K. Mukhopadhyay — *Joint Secretary*
2. Shri Ashok Sarin — *Director*
3. Smt. M.K. Madhusudhan — *Under Secretary*
4. Shri R.K. Suryanarayanan — *Assistant Director*

**Officers of the office of C&AG of India**

1. Shri Kanwal Nath — DAI
2. Ms. Subhashini Srinivasan — Principal Director (Railways)

**Representatives of Ministry of Railways (Railway Board)**

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2. At the outset, the Chairman welcomed the Members of the Committee to the sitting. Thereafter, the Committee took up for consideration and adoption of the following draft Reports:

- (i) Draft Report relating to “Injudicious Waiver of Demurrage Charges” (Railways).
- (ii) Draft Report relating to “Delayed purchase and insignificant utilization of equipment procured under Fast Track Procedure” (Defence).
- (iii) Draft Report on Action Taken on 12th Report of PAC (14th Lok Sabha) relating to “Allotment of Land to Private Hospitals and Dispensaries by DDA”.

After some deliberations, the Committee adopted these draft Reports without any amendments/modifications and authorized the Chairman to finalise and present the same to Parliament in the light of factual verification done by Audit and the security clearance received from the Ministry of Defence in respect of Report on Fast Track Procedure.

3.   \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*

4.   \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*

5.   \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*            \*\*\*\*\*

*The Committee then adjourned.*