

**EXTRA AVOIDABLE EXPENDITURE BY  
ANURAG**

**MINISTRY OF DEFENCE**

**PUBLIC ACCOUNTS COMMITTEE  
(2015-16)**

**FORTY-FOURTH REPORT**

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**SIXTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

PAC NO.2076

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(2015-16)

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BY ANURAG**

**MINISTRY OF DEFENCE**



*Presented to Lok Sabha on:* 28.04.2016

*Laid in Rajya Sabha on:* 28.04.2016

**LOK SABHA SECRETARIAT  
NEW DELHI**

April, 2016 / Vaisakha, 1938 (Saka)

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\* Not appended

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE**  
**(2015-16)**

Prof. K.V. Thomas

Chairperson

**MEMBERS**

**LOK SABHA**

2. Shri S.S. Ahluwalia
3. Shri Sudip Bandyopadhyay
4. Shri Ranjit Singh Brahmputra
5. Shri Nishikant Dubey
6. Shri Gajanan Kirtikar
7. Shri Bhartruhari Mahtab
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Neiphiu Rio
10. Shri Dushyant Singh
11. Shri Janardan Singh Sigriwal
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar Udasi
15. Dr. P. Venugopal

**RAJYA SABHA**

16. Shri Naresh Agrawal
17. Shri Satyavrat Chaturvedi
18. Shri Anil Madhav Dave
19. Shri Vijay Goel
20. Shri Bhubaneswar Kalita
21. Shri Shantaram Naik
22. Shri Sukhendu Sekhar Roy

**SECRETARIAT**

1. Shri A.K. Singh - Additional Secretary
2. Shri Tirthankar Das - Additional Director
3. Shri Deepankar Kamble - Committee Officer

# COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(2014-15)

Prof. K.V. Thomas

- Chairperson

## MEMBERS

### LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Sudip Bandyopadhyay
4. Shri Ranjit Singh Brahmputra
5. Shri Nishikant Dubey
6. Shri Gajanan Kirtikar
7. Shri Bhartruhari Mahtab
8. Shri Ramesh Pokhriyal "Nishank"
9. Shri Neiphiu Rio
10. Shri Dushyant Singh
11. Shri Jhardan Singh Sigriwal
- 12<sup>†</sup>. Shri Shiv Kumar Udasī
13. Dr. Kirit Somalya
14. Shri Anurag Thakur
- 15<sup>‡</sup>. Dr. P. Venugopal

### RAJYA SABHA

16. Shri Satyavrat Chaturvedi
17. Shri Vijay Goel
18. Dr. Satyanarayan Jatiya
19. Shri Bhubaneswar Kalita
20. Shri Shantaram Naik
21. Shri Sukhendu Sekhar Roy
22. Shri Ramchandra Prasad Singh

\* Elected w.e.f. 3<sup>rd</sup> December, 2014 vice Shri Rajiv Pratap Rudy who has been appointed as Minister w.e.f. 9<sup>th</sup> November, 2014.

† Elected w.e.f. 3<sup>rd</sup> December, 2014 vice Shri Jayant Sinha who has been appointed as Minister w.e.f. 9<sup>th</sup> November, 2014.

‡ Elected w.e.f. 3<sup>rd</sup> December, 2014 vice Dr. M. Thambidurai who has been chosen as Hon'ble Deputy Speaker, Lok Sabha and has since resigned from the membership of the Committee.

## INTRODUCTION

1. I, the Chairperson, Public Accounts Committee, having been authorised by the Committee, do present this Forty-fourth Report (Sixteenth Lok Sabha) on "Extra Avoidable Expenditure by ANURAG" based on Para 5.1 of the C&AG's Report No. 30 of 2013 relating to Ministry of Defence.

2. The above-mentioned Report of the Comptroller and Auditor General of India was laid on the Table of the House on 18<sup>th</sup> February, 2014.

3. The Public Accounts Committee (2014-15) took up the subject for detailed examination and report. A Sub-Committee under the convenorship of Shri S.S. Ahluwalia, M.P. and a Member of PAC was constituted for the purpose. The Sub-Committee took evidence of the representatives of the Ministry of Defence and Defence Research and Development Organization (DRDO) on the subject at their sitting held on 6<sup>th</sup> January, 2015. As the Report on the subject could not be finalized, the PAC (2015-16) reselected the subject to continue the examination and present a Report. Accordingly, a draft Report was prepared and placed before the Committee for their consideration. The Committee considered and adopted this draft Report at their sitting held on 25<sup>th</sup> April, 2016. The minutes of the Sittings are appended to the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type and form Part- II of the Report.

5. The Committee thank the Sub-Committees for taking oral evidence and obtaining information on the subject as well as finalizing and placing the draft Report before the main Committee.

6. The Committee would also like to express their thanks to the representatives of the Ministry of Defence and the Defence Research and Development Organization (DRDO) for tendering evidence before them and furnishing the requisite information to the Committee in connection with the examination of the subject.

7. 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 and the Committee Secretariat in preparation of the Report.

NEW DELHI;  
25 April, 2016  
05 Vaisakha, 1938 (Saka)

PROF. K.V. THOMAS  
Chairperson,  
Public Accounts Committee.

**REPORT  
PART-I**

**I. INTRODUCTORY**

**(i) Background of ANURAG**

ANURAG refers to an Advanced Numerical Research Group. It is a laboratory under the aegis of Defence Research & Development Organization (DRDO) and is located in Kanchanbagh, Hyderabad. It is involved in the development of High Performance Computing (HPC) systems and Application Specific Integrated Circuits (ASICs) for critical applications using parallel processing techniques with indigenous architecture & design. HPC systems are primarily used by other DRDO Labs to execute Computation Fluid Dynamics (CFD) Application, Design of Aero-frames etc. The Lab has also successfully developed Processor for Aerodynamic Computations and Evaluation (PACE) series of parallel computers, software packages for scientific data visualization, VLSI Digital and Analog ASICs, Microprocessors, System on Chip (SoC) using in-house developed IP cores and commercial IP cores. Lab is currently working on the development of trusted computing and networking products and secure Operating System (OS) solutions.

**(ii) Historical Perspective**

2. DRDO's requirement of HPC systems for its Lab was driven by two factors: (a) move into cluster computing, following world-wide trend and (b) realizing the difficulty of maintaining more and more complex HPC systems in different laboratories, DRDO decided to establish a centralized HPC facility i.e. ANURAG, developed and maintained by it, catering to the needs of other user DRDO labs. Thus, Centre for High Performance Computing and Research (CHITRA) was established in 2007. CHITRA is a 24x7 facility and housed DRDO High Performance Computer for Very Large Application (DHRUVA-1) Linux Cluster Computer connected to user labs over DRDO's intranet DRONA. DRONA is DRDO Rapid Online Network Access. DHRUVA-1 Linux cluster has 384 Dual CPU nodes interconnected using high speed Infiniband switch with a peak performance of 8 Teraflops (TFLOPS). In response to ANURAG's Open Tender in 2006 for establishment of HPC system, seven offers were received and the contract was awarded to M/s ITI Limited being L1 bidder. M/s ITI Limited successfully completed the delivery and installation as per ANURAG specifications.

**(iii) Need for Up-gradation**

3. Growing demand for higher computing speeds of core HPC by user labs and the fact that there were no slots available for new users, ANURAG raised the need for up-gradation of CHITRA facility to faster Linux Cluster. Up-gradation task had to be performed with the constraints that same data centre with power supply and cooling design has to be used with minimum down time for existing computer.

**(iv) Components of HPC Facility**

4. A HPC facility may be broadly classified into three components, viz., civil infrastructure, data centre facility that includes power supply, power backup and cooling system and HPC system. While existing civil infrastructure was used in up-gradation, data centre facility was to be up-graded to meet the higher power required. HPC system that consists of computing power, network features and software for managing computing system were to be erected to meet the higher computing speeds.



## II. AUDIT REVIEW

5. Defence Research and Development Organisation (DRDO) Procurement Procedure 2006, stipulates that for non-proprietary items, single tender system should be adopted with the approval of Competent Financial Authority (CFA) only when single response is available in spite of limited tendering on more than one occasion.

6. However, during audit it was found that violation of the prescribed procurement procedure and allowing M/s ITI to execute the job through outsourcing at a higher price resulted in extra expenditure of ₹ 2.12 crore by Advance Numerical Research and Analysis Group (ANURAG).

7. Against this backdrop, the PAC (2014-15) selected the subject as reported in Para 5.1 of C&AG's Report No. 30 of 2013 (Compliance Audit-Defence Services) for details examination and report. Subsequently, the subject was referred to the Sub-Committee on Defence *i.e.*, Sub-Committee-I dealing with subjects on Defence. Subsequently, the Committee obtained background note and requisite replies and some other clarifications from the Ministry of Defence and DRDO. The Committee took oral evidence of the representatives of the MoD and DRDO on 06.01.2015 and obtained information on the subject. However, due to paucity of time, the examination on the subject could not be completed during 2014-15. The subject was carried forward to the successor Committee *i.e.* PAC (2015-16) and subsequently, again was referred to the Sub-Committee-I on Defence examining subjects relating to Defence. Based on the information gathered, the Committee proceeded with examination of the relevant issues in detail as outlined in the succeeding paragraphs.

### III. PROJECT PLANNING ON SINGLE TENDER BASIS

8. ANURAG designed and developed a 384 node Linux cluster system under the project "Center for High-Performance Computing and Research" (CHITRA), installed by M/s ITI Limited, Hyderabad (ITI) in 2007 through an open tender process.

9. Due to speed limitation of DRONA network, it was proposed by ANURAG (March 2010) to upgrade the system as huge amounts of data could not be transferred. Accordingly, ANURAG proposed (June 2010) to upgrade the supercomputing facility by adding 300 computing nodes to the existing CHITRA facility at an estimated cost of ₹14.50 crore. The existing system (CHITRA) had been installed by M/s ITI Limited Hyderabad (ITI) in 2007, through an open tender process. As ITI had successfully integrated and maintained the existing system, ANURAG proposed the upgradation on single tender basis through ITI only, in order to have a seamless upgradation.

10. During oral evidence, justifying the DRDO's decision to award the contract to M/s ITI, the representatives of DRDO submitted as under:

"Sir, they are an electronic manufacturing company and they have integrators people and they have got the hardware from somebody else. They are the integrating company like BEL and all similar companies. Sir, in 2010, when we had conducted the technical evaluation of the offer from ITI, they had given a letter from IBM categorically saying that they will support ITI in commissioning and installing the system at Hyderabad.....our CITAR facility in Bengaluru is there with ITI. They have a large computing system there. They manage all these equipment. They have that supervision and control knowledge in this particular case. I am not saying that they are a super-computer people. They have used that knowledge. I am not saying that they are a totally selling company. They are a technical company".

11. The DG of DRDO, while supplementing the above during oral evidence, submitted as under:

"First of all, when in 2011 we had floated, it was an open tender. So, all companies had equal right to bid and ITI being a non-company and we had dealt with it earlier – we dealt with them prior to 2007 – we had that confidence that ITI has the capability to deliver the system and they did deliver. In this case also, the customs duty exemption certificates were provided to ITI for a direct procurement from wherever it wanted. There was no third party involved. That confidence was there. To that extent, due diligence was done in the case and there was a proper response. Secondly, ITI has been maintaining the system since 2007 to 2010. That is why, when

we wanted to expand, we wanted to see that the person who is familiar with the system as it exists gets it and we had done the estimation. Accordingly, we were having a concern. In one case, we had the American teams asking for an inspection on site and we did not want to give any end dues. We wanted to go to an agency who does not compromise. That is why, we selected ITI so that I need not go to a third party which was exposed directly. Frankly, we did not know 100 per cent turnkey outsourcing sort of a thing. But outsourcing in general is a part of the system. Today, if LCA is made by HAL, 70 per cent of the items come from private industries.....ITI is better than the Government organisation. As we said, the previous system knowledge was totally with the ITI. That knowledge was part of the contractual process that whoever does the job should have the ability to integrate with the existing infrastructure and existing capability. That has been utilised. So, we feel that out of the total cost, a good part goes into smooth integration of the system which has been demonstrated as it is working smoothly".

12. Supplementing the DG, DRDO, the representative of DRDO submitted as under:

"I do not want to say that the ITI people are super computing people. They have computing knowledge. They are a huge Corporation where they maintain a huge computing system. They have maintained our total defence computing networks also. They have done the PLAN AREN & ASCON. For the whole defence network they have made the communication system. I am not saying that they are one time sales people". I only want to submit that first of all, our selection of M/s ITI was based on the past record and the general awareness of what it has been doing in the various systems. We have placed order on it with the full trust that it would be doing the job. It had done the job in the past successfully. But, as the hon. Chairperson has suggested, whether they were hiring or not, we cannot prove it either way. I cannot say they were or they were not doing it because I do not have the right information today with me. But one thing is there that as far as the capability of M/s ITI in this area is concerned, we have interacted with it in the past and it is quite capable. In this case, the fact that it went on a turnkey basis to another agency is something which is usually not encouraged nor done. It is a back to back contract. But as far as the Government of India's policy and procedure are concerned, I will have to search the rules which inhibit us from doing it. If we are able to find any legal methodology of putting it, we will take action accordingly".

13. The representative of DRDO further supplemented as under:

"This was a supply order which was placed on M/s ITI. There is no clause in this to deal with it when it comes to the question you have raised".

14. The Ministry, in their written submission, stated the reasons for selecting M/s ITI Ltd for upgradation as under:

"Computing power constitute the major part of HPC system followed by network hardware. Earlier ANURAG faced end use verification by US DOC (US Dept. of Commerce) in connection with data communication switches procured from M/s CMC Ltd. To obviate the recurrence of same and to ensure seamless up-gradation of the systems without having any backward compatibility issue, ANURAG proposed up-gradation of the facility on turn-key basis from M/s ITI Ltd. On single tender basis as they were the supplier of major and critical components during DHRUVA-1, were involved all through in the integration process and assured that no end-use-certificate would be requested":

15. On being asked whether any technical evaluation of offer by M/s ITI Limited was made by the Ministry/DRDO by procurement of 2007 and aspect of execution of projects (2007) by third party was examined, the Ministry stated that during procurement of 2007, seven offers were received consequent to open tender bidding. A Technical Evaluation Committee (TEC) headed by senior scientist of DRDO Headquarters, and members from Scientific Analysis Group (SAG), Defence Research Development Lab (DRDL) and ANURAG was constituted as per provisions of Purchase Manual) PM -2006. The Technical Evaluation Committee (TEC) examined the technical offers of bidders with respect to the RFP and recommended four bidders for consideration of TPC/NC. TEC did not go into the details of subletting/transfer as it was not specified in the bids submitted.

16. When specifically asked whether the DRDO Procurement Procedure provides for follow up upgradation of project through same vendor and if it is in the affirmative, whether any timeframe for such procurement is stipulated, the Ministry intimated that for high end technology intensive projects, components/subsystem were available only from OEM/monopolistic Vendor. Apart from that there were requirement of end user certificate being imposed by certain OEM. Relevant clause of DRDO PM-2006 on this aspect were given under:

*Chapter 5 : General Principles of purchase and under of Ethics and reproduced here under :-*

*5.1.6 For high technology projects in progress, the materials/components required are obtainable only from a few monopolistic manufacturers/vendors of repute. In such cases flexibility will be allowed to effect purchases on PAC/Limited Tender basis.*

*5.1.7 The vendors after identification and satisfactory evaluation should not be changed till successful completion of technical/user trials for supply of*

components/sub-systems. Such procurement will, therefore, be treated as proprietary. It is, however, advisable to work out reasonableness of cost in such cases.

Therefore, in order to execute technology intensive project flexibility had been provided for follow-up up gradation through identified Vendor. However, no timeframe had been mentioned under these provisions".

17. During oral evidence, the DG, DRDO submitted as under:

"It was in year 2007. We are adding extra computing power. What happened in this case is that initially there are 6 teraflops. We are not adding one or two teraflop but we are making it 40 teraflops. This is basically a modular type of system and six teraflops means one module. We have to add more servers and more modules to enhance the capacity and the communication. It is not that I am replacing one item in the overall infrastructure by this".

18. Supplementing the above, Scientific Advisor to the Defence Minister and Secretary, R&D, submitted as under:

"What has happened is, actually from 6 teraflops we are adding another 34 teraflops. Core has been retained. I am practically adding totally 34 new teraflops. I would just like to add that what you were saying is right. While I am adding the capacity from 6 teraflops to 40 teraflops, seven times, the cost is almost the same. It is not becoming seven times because a lot of other features are common".

19. On being enquired upon the names and details of the firms from whom systems/part were sourced for the CHITRA High Performance Computing (HPC) system, the Ministry stated the following names and details of the firms :

Sl. No.	Name of the firm	Item Sourced	Mode Tender	Cost (in ₹. Lakhs)
1.	M/s Locuz Enterprise Solutions Ltd., Hyderabad	Xeon 64 bit based Servers and Infiniband PCI Express HCA	Limited	8.50
2.	M/s Locuz Enterprise Solutions Ltd., Hyderabad	288 Port Gigabit Ethernet Switch	Limited	46.50
3.	M/s A A Enterprises, Malleswaram, Bangalore	Itanium based Computing Servers	Open	14.00
4.	M/s RTTS Private Limited, Malleswaram, Bangalore	High Speed Data Communication Switch	Limited	175.00

5.	M/s RTTS Private Limited, Malleswaram, Bangalore	High Speed Secure Connectivity	Limited	38.46
6.	M/s RTTS Private Limited, Malleswaram, Bangalore	High Speed Data Communication Switch	Repeat Order	175.00
7.	M/s Pioneer Telecom Services, Hyderabad	Supply and laying of Fibre Optic Cable	Limited	12.08
8.	M/s ITI Ltd., RO, Hyderabad	High End & Mid-range Servers	Open	665.00
9.	Civil Works	MES	Nomination	110.00

20. The Ministry further stated that items were sourced from registered vendors of ANURAG/DRDO. Technical Evaluation was carried out as stipulated in DRDO Procurement procedure 2006.

#### IV. PRICE NEGOTIATION/COST ESTIMATION

21. Audit scrutiny revealed that in response to a tender enquiry, in September 2010, ITI quoted a price of ₹17.50 crore for upgradation of CHITRA computing facility at ANURAG. However, Tender Purchase Committee (TPC) considered the rates as high and negotiated the price to ₹16.38 crore. Director General (DG) DRDO accorded financial sanction for ₹16.38 crore in December 2010 and ANURAG placed supply order (SO) on ITI at a cost of ₹16.38 crore. Initially, the delivery was to be completed by June 17, 2011 which was extended up to October 17, 2011. However, the firm supplied the system in parts from September 2011 to November 2011.

22. On being enquired about the reasonableness of cost aspect worked out by the Tender Purchase Committee (TPC) as procurement was based on single tender basis after three years in 2010, the Ministry replied as under:

"ANURAG completed CHITRA High Performance Computing (HPC) system in 2007-2008 wherein M/s ITI supplied mid range and high end servers with computing power of 6 Teraflops. M/s ITI was chosen after competitive bidding through open Tender system. The other systems/parts were sourced from other firms and integration was carried out by ANURAG. In 2010, the whole project for upgrading the existing HPC system to 40 Teraflops computing power was outsourced to M/s ITI on turnkey basis. During the process, ANURAG estimated the cost of the project including three years warranty and operational support, as Rs 14.5 crore by taking last purchase price (LPP) and additional work/scope into consideration as against the budgetary quote of Rs 20.5 cr. The tendering was done on Single Tender (ST) basis to ensure seamless up gradation and backward compatibility. The TPC/NC (Negotiation Committee) negotiated with M/s ITI and cost for the turnkey project was finalized at Rs 15.5 crore plus taxes considering the exchange rate variation".

23. Explaining how cost estimate is done, the DG, DRDO, during oral evidence, submitted as under:

".....What I was saying was how we estimate the cost. But this was not taking into account the new technology because when we bought the first machine, there was a single processor. When we got into the thing there were six cores. A new technology had come. So, there was the cost of the new technology and we did not take into account the dollar variation cost. Our estimate was 14.5 without these factors taken into account. So, from that angle we are saying that the negotiated cost of ₹ 15 crore without tax and ₹ 16 crore was considered reasonable. That is reason we were trying to give".

24. When asked about the reasons for opting for single tender for upgrading the existing HPC system, the Ministry replied as under:

"ANURAG has approached M/s ITI for upgrading existing HPC system on single tender basis for following reasons 1. M/s ITI had provided major components of HPC System, IBM's Computing hardware of High & Mid-Range Servers. This consisted of 384 computing nodes with dual Xeon processors. 2. M/s ITI were L1 vendor in open tender process followed in 2007. 3. M/s ITI had contextual knowledge of existing system 4. To ensure seamless upgradation and backward compatibility with existing systems and to ensure minimum down time of existing system. 5. To obviate End Use Verification to avoid denial of technology & critical hardware in future.

DRDO procurement procedure 2006 has a provision for Single Tender procurement (para 7.7 (b)) as "For items to be purchased from a source specified by Government or by the user (duly approved by the CFA)".

In addition, DRDO Procurement Procedure 2006 provides flexibility (Para 5.1.6) to effect purchases on PAC/Limited Tender basis for high technology projects. The relevant para is reproduced below Para 5.1.6 "For high technology projects in progress, the materials/ components required are obtainable only from a few monopolistic manufacturers/vendors of repute. In such cases flexibility will be allowed to effect purchases on PAC/ Limited Tender basis".

25. When asked to explain as to why was the cost of the project estimated by taking last purchase price (LPP) and additional work/scope only, the Ministry replied as under:

"ANURAG had obtained budgetary quotation from M/S ITI. However, cost of CHITRA upgradation was estimated independently by ANURAG by taking last purchase price of major items including three years warranty and operational support. This is one of the conventional methods of cost estimation and purchases were made within previous 3 – 4 years adopting competitive bidding".

26. The Ministry further replied as under:

"The 6 Teraflops HPC system, around 384 computing nodes with Dual Xeon processors, was set up at a cost of around ₹ 12.50 crores. It was proposed to add additional computing power of 40 Teraflops by procuring 280 computing nodes with dual socket Intel Xeon Westmere six core processor. Estimated cost included additional UPS systems and Precision air conditioners. M/S ITI had provided a budgetary quotation of Rs 20.5 Cr for above mentioned work".  
[PER pg. 8 Q5]



## V. OUTSOURCING OF PROJECT EXECUTION

27. Audit scrutiny revealed that ITI had outsourced the entire job and placed back to back supply order at a cost of ₹ 14.26 crore on M/s Real Time Tech Solution Bangalore (RTTS). M/s RTTS was registered with ANURAG for electronics, software development, and supply of computers etc on the terms and conditions stipulated by ANURAG.

28. ANURAG justified the SO on ITI on the ground that the existing system had been established, integrated and maintained by them successfully. ANURAG further added that above jobs needed multidisciplinary expertise which included configuration of high end servers, design of efficient cooling systems and design of optimal power distribution and that ITI had the requisite expertise for the same. Further, in February 2013, ANURAG stated that they were not aware of the sub-contract on RTTS by ITI and became aware of it only in April 2011. The statement was however, not factually correct as representatives from vendor associates of ITI, included member from RTTS who were to attend Price Negotiation Committee (PNC)/TPC meeting on behalf of ITI, in December 2010.

29. Explaining their position with regards to Audit scrutiny, the Ministry, in their written submission, stated as under:

"ANURAG completed CHITRA High Performance Computing (HPC) system in 2007-2008 wherein M/s ITI supplied mid range and high end servers with computing power of 6 TFLOPS. M/s ITI was chosen after competitive bidding through open Tender system. The other systems/parts were sourced from other firms and integration was carried out by ANURAG.

b) In 2010, the whole project for upgrading the existing HPC system to 40 Teraflops computing power was outsourced to M/s ITI on turnkey basis. During the process, ANURAG estimated the cost of the project including three years warranty and operational support, as ₹ 14.5 crore by taking last purchase price (LPP) and additional work/scope into consideration as against the budgetary quote of ₹ 20.5 cr. The tendering was done on Single Tender (ST) basis, after approval of CFA, to ensure seamless up gradation and backward compatibility. The TPC/NC (Negotiation Committee) negotiated with M/s ITI and cost for the turnkey project was finalized at ₹ 15.5 crore plus taxes considering the exchange rate variation. Approval by the CFA was accorded under following provisions of DRDO PM-2006 (issued vide Govt. of India letter No. DMM/PP/0000205/M/868/D(R&D) Dated 22/03/2006)

Chapter-5: General Principles of Purchase and Code of Ethics

5.1.6 For high technology projects in progress, the materials/components required are obtainable only from a few monopolistic manufactures/vendors of repute. In such cases flexibility will be allowed to effect purchases on PAC/Limited Tender basis.

5.1.7 The vendors after identification and satisfactory evaluation should not be changed till successful completion of technical/user trials for supply of

components/sub-systems. Such procurement will therefore, be treated as proprietary. It is, however, advisable to work out reasonableness of cost in such cases".

Therefore, in order to execute technology intensive project flexibility has been provided for follow-up up gradation through identification Vendor.

c) During the bidding process M/s ITI did not reflect outsourcing the project execution to any third party. ANURAG gave contract to M/s ITI on Turnkey basis. Subsequently, after the contract was awarded, M/s ITI sought custom duty exemption certificate (CDEC) for orders placed on M/s Real Time Tech Solutions (RTTS) Pvt. Ltd Bangalore, which was denied by customs notification (39/96). Thereafter, M/s ITI requested for the CDEC for import from M/s RTTS, Singapore. It may please be noted that during execution of a technical complex project, often system integrator/lead supplier procures equipment and acquires services from various sources. However, the entire responsibility of successful installation and commissioning of the system remains with the integrator/lead supplier.

d) Further regarding participation of officials of M/s RTTS in the TPC meeting, it is submitted that as per the prevailing procedure when negotiations are contemplated, bidders are informed concurrently so as to enable them to be present on the day of the meeting, are only held with the bidder that has quoted the lowest price (L1). In the meeting authorized representatives of bidders are allowed to participate in TPC/NC. These representatives are identified through their authorization letter issued by the respective bidder. It is reiterated that only reps of M/s ITI and M/s IBM participated in the TPC/NC meeting. Still, as a remedial measure to prevent reoccurrence of such instances in future, Labs/Estts have been provided with a template of sample draft contract that covers "Transfer & subletting".

30. On being asked about the action taken by ANURAG, the Ministry stated as under:

"During bidding process M/s ITI did not reflect outsourcing the project execution to any third party. ANURAG gave contract to M/s ITI on Turnkey basis. Subsequently after the contract was awarded, M/s ITI sought custom duty exemption certificate for orders placed on M/s Real Time Tech Solutions Pvt. Ltd Bangalore, the custom duty exemption certificate was denied by ANURAG as it was not as per contractual conditions. Subsequently M/s ITI cancelled their orders on RTTS Bangalore and placed order on RTTS Singapore. During execution of technically complex projects often the vendor procures many equipment from various sources and acquires services also but the vendor with whom contract was concluded remains responsible for successful installation and commissioning. In such cases vendor does not provide details of items being procured from sub-contractors".

31. In response to a query by the Committee with regard to the possibility of the representative of vendors taking part in Price Negotiation Committee meeting (PNC), the Ministry submitted as under:

"As per the prevailing procedure when negotiations are contemplated, bidders are informed concurrently so as to enable them to be present on the day of

the meeting. Negotiations by TPC/NC, if considered necessary, are only held with the bidder that has quoted the lowest price (L1). In the meeting authorised representatives of bidders are allowed to participate in TPC/NC. These representatives are identified through their authorization letter issued by the respective bidder".

32. While stating the remedial measures taken by Ministry/DRDO to prevent such cases in future procurement, the Ministry stated as under:

As a remedial measure to prevent such instances in future, Labs/Estts have been provided with a template of sample draft contract that covers "Transfer & subletting" in Article 27. The same is reproduced as under :-

***Transfer and Subletting***

*"The seller has no right to give, bargain, sell, assign or sublet or otherwise dispose of the contract or any part thereof as well as to give or to let a third party take benefit or advantage of the present contract or any part thereof".*

33. During oral evidence, when asked about registered authorized vendor, the representative of DRDO submitted as under:

"M/s RTTS is a registered vendor of ANURAG".

34. When further asked about who all were summoned for the TPC, the representatives of DRDO, during oral evidence, submitted as under:

"He actually participated in the 2007 case. We had sent a request to ITI to attend the TPC and ITI participated in TPC along with IBM representatives. We had sent a letter to M/s ITI intimating that there is TPC on 11<sup>th</sup> of December, 2010. They have sent a letter to ANURAG on 9<sup>th</sup> of December saying that following vendor associates also will be coming for the TPC meeting. They have given a list of nine names. Sir, other than ITI, two reps of M/s IBM for TPC".

35. On being specifically asked about the technical evaluation of subletting/transfer of work by ANURAG to a third party for the execution of the project not specified in the bids during the 2007 procurement, the Ministry replied as under:

"ANURAG established, under Project CHITRA, High Performance Computing System (HPC) during 2007-08 wherein M/s ITI supplied mid-range and high-end servers with computing powers of 6 Teraflops. Other major parts were i) 288 port gigabit Ethernet switch, ii) High speed data communication switch, iii) High speed secure connectivity, iv) Xeon 64 bit servers and v) Itanium based computing servers. In 2007, ANURAG bought out stores/services from the market and integrated the system themselves. So there is no question of subletting/transfer. Further, there was no clause in respect of

subletting/transfer of work to a third party in the prevailing standard template of RFP".

36. Further, during oral evidence, the representatives of DRDO submitted as under:

"Actually, originally the hardware was from IBM which was supplied by ITI in 2007. We are upgrading by adding more IBM hardware. So, ITI requested that they will bring OEM partner for TEC. The ITI was selected because in 2007, we went for an open tender and they were L1 vendors. We wanted to go back to the same IBM hardware. Therefore, we went back to the vendor who supplied IBM hardware in 2007. Sir, they have been doing our defence contracts and all the time. Sir, in 2010, we did not do that but in 2007, they were selected on the competitive bidding process. So, we went back to the same Company for upgradation. Sir, in 2007, it was installed by ITI and was being maintained by ITI".....in 2007, there were 3-4 different components of HPC system. One is high and mid end computing servers for which ITI was selected through open tenders. There was a high speed data communication system for which RTTS was selected and some 244 Ethernet ports switch were purchased including cables and cabinets. All this was done for projects called CHITRA and ANURAG. The civil works were done by our MES. So, the integration was by and large carried out by ANURAG. So ITI has got hardware through IBM distributor called Redington. ITI have given a CDE certificate to Redington. We had engaged a integrator called Spanco who helped us in integrating at that time". [verbatim pg 5&6, 11,12,13,14,15]

37. With regard to amending the DRDO PM-2006 for incorporating timeframe for follow up upgradation of projects, the Ministry replied that DRDO has submitted a revised Purchase Manual to Min of Defence for approval with (i) Since R&D is a continuous process involving iteration, it may not be desirable /feasible to change design/development/production partners till completion of technical/user trials for supply of components/sub-systems. Care should, therefore, be taken to follow a transparent selection mechanism for selection of such partners through wide publicity and after their capability/capacity assessment. On the merit of the case procurement of individual items/components specifically developed/fabricated during the process of R&D may be procured on STE basis from such developed Vendors with the approval of CFA. Cost reasonability would be worked out in such procurements with clear demarcation of recurring and non-recurring costs. (ii) PAC status can be awarded to the firm selected and qualified as development partner in execution of a development contract when associated subsequently for fabrication/upgradation/modification thereof. Orders will be placed on PAC basis till such time an alternative source is developed.

38. On further being asked whether the Ministry had taken any action against the erring officials for allowing member from RTTS to attend the Price Negotiation Committee meeting on behalf of ITI in December 2010, the Ministry replied that two reps of M/s ITI and two reps of M/s IBM attended the TPC/PNC meeting on 13th December 2011 held at DRDO HQrs. No rep of M/s RTTS attended the TPC/PNC meeting. Therefore, it is submitted that there was no error on part of the Officials. ANURAG received a letter from M/s ITI on 9th December 2011 requesting for visitor pass for attending the TPC meeting scheduled on 13th December 2011. The list included names of 8 persons classified as, two from ITI and 6 from Vendor associates, and the same was forwarded to DRDO HQrs for arranging visitor passes at DRDO Bhawan, New Delhi. The names of Firms were not mentioned in the letter.

39. It was observed that in February 2013, ANURAG stated that they were not aware of the sub-contract on RTTS by ITI and became aware of it only in April, 2011. The statements was, however, not factually correct as representatives from vendor associates of ITI, included member from RTTS who were to attend the Price Negotiation Committee (PNC)/TPC meeting on behalf of ITI in December, 2010. The Ministry were asked to furnish reasons for giving such a wrong statement, the Ministry replied that the statement given earlier is not wrong. ANURAG received a letter from M/s ITI on 9th December 2011 requesting for visitor pass for attending the TPC meeting scheduled on 13th December 2011. The list included names of 8 persons classified as, two from ITI and 6 from Vendor associates, and the same was forwarded to DRDO HQrs for arranging visitor passes at DRDO Bhawan, New Delhi. The names of Firms were not mentioned in the letter. It is reiterated that a team of 4 attended the TPC/NC meeting from M/s ITI -Two reps of M/s ITI and two reps of M/s IBM. No rep of M/s RTTS attended the TPC/PNC meeting. It is therefore, humbly submitted that ANURAG came to know that M/s ITI has outsourced entire work to M/s RTTS only after placement of Purchase Order when Custom Duty Exemption request was received.

40. The Ministry stated that ANURAG/DRDO had estimated the cost of the project, including 3 years warranty and operational support as ₹ 14.5 crore considering Last Purchase Price and additional work. As the orders were on fixed and firm price basis and did not include factors like exchange rate variation the negotiated cost of ₹ 15.5 crore (without tax) and ₹ 16.38 crore (inc of tax) was considered reasonable.

41. The Ministry stated that M/s ITI had imported mid-range and high-end servers through M/s Reddington, Singapore. There was no evidence of M/s ITI making undue profit in 2007.

42. On being asked whether such anomalies had been rectified in the 2010 procurement tender, the Ministry replied that no anomalies were reported in 2007 procurement case. The anomalies came to light during audit carried out in 2013 of CHITRA Upgradation Project. DRDO HQrs, while bringing out newer edition of Purchase Procedure, has circulated the draft document and draft template of contract wherein issue of Transfer & Subletting has been addressed. The document has been submitted to MOD for approval.

43. The Ministry further stated that ANURAG has approached M/s ITI for upgrading existing HPC system for following reasons 1. M/s ITI had provided IBM's Computing hardware of High & Mid-Range Servers, most important and costly components of existing HPC systems procured in 2007. 2. M/s ITI were L1 vendor in open tender process followed in 2007. 3. M/s ITI had contextual knowledge of existing system. 4. To ensure seamless upgradation, backward compatibility, and minimum down time of existing system. 5. To obviate the requirement of End Use Verification and to avoid denial of technology and critical hardware in future. 6. M/s ITI has diversified into delivering IT and Data Centre Products. 7. M/s ITI hosts a variety of services in its Data Centre in Bangalore Unit. 8. M/s ITI's financial viability was not examined as it was a PSU. 9. ANURAG had initiated upgradation case by estimating the cost of upgradation, including three years warranty and operational support, to be ₹ 14.5 crore by taking last purchase price (LPP) and additional work/scope into consideration against budgetary quote of ₹ 20.5 crore TPC/NC (Negotiation Committee) negotiated with M/s ITI and cost for the turnkey project was finalized at ₹ 15.5 crore plus taxes considering cost of technology and exchange rate variation after comparing the cost of HPC systems for which POs were placed by SAG in 2010 and ADA in 2010.

44. During oral evidence, the representative of DRDO deposed as under:

"Normally we issue a purchase order where only DRDO is a signatory. In the present case also purchase order was issued. However, now we have recommended issue of a contract with signature of both parties".

45. Further, he added:

"In that, we have taken care of the fact that we have specifically mentioned that the seller has no right to, sell, assign or sub-let part or full contract or otherwise. For the future, after seeing M/s ITI's back to back contract with M/s RTTS we have included this. It is part of the contract. Our standard terms of contract also include penalty for violation. So, it will go into arbitration. There is a clause for arbitration in all standard contracts. What we have done, as a measure of caution, after seeing this case is, we have proposed a change to the effect that wherever there is not just a mere procurement action taking place, and there is a contract which involves procurement as well as services, guarantee, post-guarantee services, etc., it will be a normal contract which will have these clauses so that we can safeguard from such cases in the future".

46. The representative of DRDO, explaining the contract clauses, submitted as under during oral evidence:

"This has been newly introduced. In our old purchase order contract, it is not there. It is not there. So, we have now mandated that we will include it in respect of all cases".

47. Supplementing the above, DG, DRDO, during oral evidence, stated as under:

"We will seek legal advice and take action accordingly as suggested by you. We will do that".

## VI. OVERALL SUPERVISION FOR EXECUTION

48. Audit scrutiny further revealed that ITI was responsible only for overall supervision, control and management for the execution of the contract and the entire system including installation and commissioning was outsourced to RTTS. ITI by way of outsourcing of the work for DATA center design, power and cooling system including plumbing and mechanical work had earned 8 per cent net profit amounting to ₹1.24 crore on customer purchase order without any value addition. The matter was referred to Ministry in December 2012 and Ministry in reply (October 2013) stated that ANURAG was not aware of association of RTTS with ITI for the upgradation work and any back to back arrangement with a third party. The reply is not factually correct as representatives from vendor associates of ITI, included member from RTTS who were to attend Price Negotiation Committee/TPC meeting on behalf of ITI, in December 2010. Thus, the case revealed that ANURAG violated DRDO's Procurement Procedure by resorting to single tender instead of calling open tenders from other vendors registered in its vendor base. ANURAG as a result allowed ITI to execute the entire work at a higher price which resulted in additional cost of ₹ 2.12 crore.

49. During oral evidence, the representative of DRDO, stated as under:

"Nothing to that effect has come to our notice that anybody from the DRDO was involved in it".

50. Supplementing the above, the DG, DRDO, stated as under, during oral evidence:

"We will take legal opinion from the Ministry and then take action as suggested by you".

51. The Ministry have informed that ITI was in reality responsible only for overall supervision, control and management for the execution of contract and the entire system including installation and commissioning was outsourced to RTTS and If so, did not the DRDO allow contractually ITI to outsource the work, the Ministry stated that ANURAG had placed a Supply Order on M/S ITI Ltd for "Upgradation of CHITRA computing Facility at ANURAG". During the execution of technically complex projects often the vendor procures several equipment and required services from various sources but the vendor with whom the contract is concluded remains responsible for successful installation and commissioning. During TEC, it was brought out by M/S ITI that they will use IBM hardware



and they produced documents from IBM (i) authorizing M/S ITI to resell their products and (ii) to provide applicable technical support and assistance in supply, implementation and warranty (Annexure I, II and III). We have not contractually allowed M/s ITI to outsource the work. During the bidding process, M/s ITI did not reflect outsourcing entire project execution to any third party. ANURAG placed contract on M/s ITI on turnkey basis. Subsequently, after the contract was awarded, M/s ITI sought Custom Duty Exemption (CDE) certificate for the orders placed on M/s Real Time Tech Solutions Pvt.(RTTS) Ltd., Bangalore. The CDE certificate was not provided by ANURAG as it was not complying with 3rd party CDEC conditions. Subsequently, M/s ITI cancelled their original order on M/s RTTS, Bangalore and placed two orders on M/s RTTS Pte. Singapore for line items 1 to 15 of ANURAG PO and M/s RTTS Bangalore for line items 16 & 17 of ANURAG PO.

52. It was inquired whether the Ministry/DRDO verified the credentials of the persons installing/upgrading the CHITRA Project so that the security of the nation is not compromised, the Ministry replied that only the personnel authorized by M/S ITI for installing/upgrading the CHITRA project were permitted to enter the facility housing HPC. It may be pertinent to submit that during installation/commissioning only standard benchmark programs for evaluating correctness of systems were used. DRDO specific applications were run separately by ANURAG/DRDO team. So there was no compromise on the security of the nation.

53. On being asked to explain the reasons for cancelling, the orders placed on Real Time Tech Solutions Pvt. Ltd. (RTTS) Bangalore and placing the same again on RTTS Singapore, the Ministry stated that ANURAG had never placed any order on RTTS, Bangalore, and never placed again on RTTS, Singapore. ANURAG placed P.O. (contract) on M/s ITI on turnkey basis. Subsequently, after the contract was awarded, M/s ITI sought Custom Duty Exemption (CDE) certificate for the orders placed on M/s Real Time Tech Solutions Pvt.(RTTS) Ltd., Bangalore. The CDE certificate was not provided by ANURAG as it was not complying with 3rd party CDE conditions. Subsequently, M/s ITI cancelled their original order on M/s RTTS, Bangalore and placed two orders on M/s RTTS Pte. Singapore for line items 1 to 15 of ANURAG PO and M/s RTTS Bangalore for line items 16 & 17 of ANURAG PO.

54. On being enquired whether any clause could be added in the future bidding process for providing details of items being procured from sub-contractors in technically complex

projects in cases where the Vendor outsources the project execution to a third party, the Ministry stated that DRDO has issued a standard template for RFP vide letter no. DMM/PP/0050912/P-1 (RFP) dated 17 May 2013, wherein under standard terms and conditions at sl. No. 12 it has been specified that "The seller has no right to give, bargain, sell assign or sublet or otherwise dispose of the Contract or any part thereof, as to give or to let a third party take benefit or advantage of the Contract or any part thereof without written consent of the Buyer". It may also be noted that instructions issued relating to framing of RFP specify that Part II contains Standard Terms & Conditions which have legal implications. Therefore, neither deviation from the text given in the clause nor deletion of any of these clauses should be admitted. In case a deviation from these clauses has to be considered/allowed, approval of DRDO HQ will be required.

55. On being enquired whether the Ministry/DRDO was planning to recover the amount of ₹ 2.12 crore from ITI for the breach of trust and if not, why, the Ministry replied that as advised by Chairman of Sub Committee PAC (Defence), a letter has been sent to M/s ITI asking explanation for breach of trust and outsourcing the job to M/s RTTS. M/s ITI has been given time up to fourth week of February to reply.

56. On being specifically asked whether the Ministry/DRDO was planning to, incorporate Transfer and Subletting in Article 27 of DRDO Procurement Procedure 2006 in future bidding process to avoid avoidable extra expenditure, the Ministry stated that as explained in reply for item no. 17, DRDO has specified (in the RFP) that Transfer/Subletting of the contract would require explicit approval of Buyer. So clauses on Transfer/Subletting in the contract will be drafted accordingly.

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**PART-II**  
**OBSERVATIONS & RECOMMENDATIONS**

1. **Introduction:** Advanced Numerical Research and Analysis Group (ANURAG) is a laboratory under the aegis of Defence Research and Development Organisation (DRDO) and is located in Hyderabad. It is involved in development of High Performance Computing (HPC) systems and Application Specific Integrated Circuits (ASICs) for critical applications using parallel processing techniques with indigenous architecture and design used to execute Computation Fluid Dynamics (CFD) applications, design of aero-frames etc. Further, due to worldwide trend and difficulty in maintaining complex HPC systems in different DRDO laboratories, DRDO decided to establish a centralized HPC facility at ANURAG. This decision paved the way for installation of Centre for High Performance Computing and Research (CHITRA) laboratory in 2007 by M/s ITI Ltd. (Hyderabad). The need for up-gradation was felt due to demand for higher computing speeds of core HPC and non existence of slots for new users and with power supply and cooling design had to be used with minimum down time for existing computer. Accordingly, ANURAG proposed (June 2010) to upgrade the supercomputing facility by adding 300 computing nodes to the existing CHITRA facility at an estimated cost of ₹ 14.00 crore. However, during Audit scrutiny, it was found that there were violations of the prescribed procurement procedure and by allowing M/s ITI Ltd. to execute the job through outsourcing at a higher price resulted in extra expenditure of ₹ 2.12 crore by ANURAG. The examination of the subject by the Sub-Committee-I (Defence) of the PAC (2015-16) also brought out various shortcomings. The issues examined and the observations made by the Committee have been detailed in the succeeding paragraphs.

2. **Cost Estimation/Price Negotiation:** The Committee note that M/s ITI Ltd. quoted a price of ₹ 17.50 crore for upgrading of CHITRA computing facility at ANURAG. Considering the rate as high, the Tender Purchase Committee negotiated the price for ₹ 16.38 crore, after which DRDO accorded financial sanction. The Committee find that DRDO in their own admission have stated that they did not take into account the dollar variation cost while determining the cost estimation and their estimate was ₹ 15.00 crore without tax and ₹ 16.00 crore was considered reasonable. To their utter surprise, the Committee find that the Tender Purchase Committee

negotiated for ₹ 16.38 crore although DRDO considers ₹ 16.00 crore to be reasonable. The Ministry, however, has a different view point which highlight that CHITRA upgradation was estimated independently by ANURAG by taking last purchase price of major items including three years warranty and operational support. The Committee feel that in the absence of competitive price bids, the cost of the upgradation project was not reasonably fixed. Moreover, they are of the opinion that the contention of the Ministry do not conform to modern methods of cost estimation. The Committee, therefore, recommend that the Ministry should set up an enquiry to go into details of the factors which were taken into consideration before finalising the cost of upgradation of CHITRA to ascertain the reasonableness of the cost. Action taken in this regard be intimated to the Committee.

3. Outsourcing of Project Execution: The Committee are appalled to note that M/s ITI Ltd. had outsourced the entire job of upgradation of CHITRA and placed back to back supply orders at a cost of ₹ 14.26 crore on M/s Real Time Tech Solutions (RTTS), Bengaluru and subsequently to M/s RTTS, Singapore, although M/s ITI Ltd. had taken the job at a cost of ₹ 16.38 crore. They are, however, not convinced with the contention of ANURAG that they were not aware of the sub-contract on M/s RTTS by M/s ITI Ltd. till April, 2011 as the Committee understand that the representatives of the vendor associates of M/s ITI Ltd. included the members of M/s RTTS, who must have attended the price negotiation committee meeting in December, 2010. Meanwhile, the Committee note that after the award of the turn-key project, M/s ITI Ltd. sought Customs Duty Exemption Certificate for orders placed on M/s RTTS, Bengaluru, which was denied by ANURAG, after which M/s ITI Ltd. cancelled their orders on M/s RTTS, Bengaluru and placed the same on M/s RTTS, Singapore. The Committee feel that at the time of denial of the Customs Duty Exemption Certificate, ANURAG must have sensed the intention of M/s ITI Ltd. to get the work outsourced by an external agency. The Committee wonder why at that point of time, ANURAG did not cancel the job awarded to M/s ITI Ltd. or did not prevent them from getting it outsourced. The Committee feel that the way the contract was awarded on a single tender basis to M/s ITI Ltd. albeit taking into account the trust that they had created out of an earlier job execution (CHITRA) speaks volumes about the unfounded faith ANURAG or the DRDO officials had on M/s ITI Ltd., due to which perhaps DRDO/ANURAG failed to check them from getting the job outsourced even though if

had come to their notice accidentally. The very fact that M/s ITI Ltd. did not inform ANURAG about outsourcing and got it accomplished at a cost of ₹ 14.26 crore shows that the DRDO officials must have been acted as facilitators for their profit, thereby incurring losses to the exchequer. The Committee consider this a very serious issue not only because of financial loss but also because of the intentions behind officials who are in charge of scientific and defence research of the sub-continent. They, therefore, recommend that the Ministry should debar such companies having doubtful credentials from executing DRDO projects as execution of the projects by such companies might compromise security of the country. They also recommend to suitably amend the existing procurement procedure to insert a clause whereby such outsourcing without the concurrence of the organization which awards the contract will not be permissible. The Committee are unhappy to note that the information sought by them seeking explanation of M/s ITI Ltd. for breach of trust and outsourcing the job to M/s RTTS is still awaited. The Committee desire an expeditious action in the matter.

4. Conclusion: The Committee are disturbed to note that ANURAG proposed the upgradation of the existing system (CHITRA) on single tender basis through M/s ITI Limited only in order to have a seamless upgradation. Although, the Committee are convinced with the rationale for upgradation of the CHITRA facility, they do not find any justification behind award of work of upgradation through single tender or nomination basis to M/s ITI Ltd. Moreover, during examination of the subject, when the Committee enquired whether the Ministry/DRDO had ever tried to find out if at the time of execution of CHITRA, M/s ITI Ltd. had executed through the help of any third party, neither the Ministry nor the DRDO could give any satisfactory reply. DRDO in their own admission has submitted that selection of M/s ITI Ltd. was based on the past record and the general awareness of what it has been doing in the various systems. The Committee wonder whether work of upgradation pertaining to scientific research can be awarded on the grounds as claimed by DRDO. The Committee feel that it appears to be a pre-decided move on the part of DRDO to award it to M/s ITI Ltd. only which not only violates the prescribed procurement procedure of the Government of India but also reflects inaction on the part of the controlling/administrative Ministry in monitoring such sensitive issues. They, therefore, urge upon the Ministry to find out whether such award of contract is

permissible and if not, to initiate appropriate disciplinary action against the erring officials. The Committee feel that since scientific and defence research involves some security risks, they desire the Ministry/DRDO to make all out efforts to see that the specification, design and security of the nation is not put to risk or is not compromised in any manner while undertaking such turn-key projects. Action taken in this regard may be intimated to this Committee.

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NEW DELHI;  
25<sup>th</sup> April, 2016  
5 Vaisakha, 1938 (*Saka*)

PROF. K. V. THOMAS,  
Chairperson,  
Public Accounts Committee

MINUTES OF THE FIRST SITTING OF THE SUB-COMMITTEE I (DEFENCE) OF THE PUBLIC ACCOUNTS COMMITTEE (2014-15) HELD ON 6<sup>TH</sup> JANUARY, 2015.

The Sub-Committee sat on Tuesday, the 6<sup>th</sup> January, 2015 from 1500 hrs to 1620 hrs in Room No. '139', Parliament House Annexe, New Delhi.

PRESENT

Shri S.S. Ahluwalia - Convenor

Members

RAJYA SABHA

2. Shri Bhubaneshwar Kalita

LOK SABHA SECRETARIAT

1. Shri A.K Singh - Joint Secretary
2. Smt. Anita B. Panda - Director
3. Shri Jayakumar T. - Additional Director
4. Shri S.L. Singh - Under Secretary

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri Parag Prakash - Director General of Audit (Defence Services)
2. Shri Purshottam Tiwary - Principal Director (PAC)

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

1. Dr. Avinash Chander - Scientific Advisor to Raksha Mantri and Secretary (R&D)
2. Shri R.G. Vishwanathan - Joint Secretary and Additional Financial Advisor
3. Dr. K.D. Nayak - Director General (MED & CoS)

2. At the outset, the Convenor welcomed the representatives of the Office of the C&AG to the sitting of the Committee. Apprising that the sitting had been convened to take oral evidence of the representatives of the Ministry of Defence on the subject 'Extra avoidable Expenditure by ANURAG' based on Para No. 5.1 of the C&AG Report No. 30 of 2013, the Convenor invited the Audit Officers to brief the Sub-Committee on the finer points of the subject. The Audit Officers accordingly briefed the Sub-Committee explaining various issues pertaining to the subject.

3. The representatives of the Ministry of Defence were then called in. Welcoming them, the Convenor impressed upon those attending the sitting not to disclose any information regarding the proceedings of the sitting to anybody else before the Report on the subject is presented to Parliament. He then highlighted serious lapses on the part of Advanced Numerical Research and Analysis Group (ANURAG) such as violation of the Defence Research and Development Organization (DRDO) Procurement Procedure 2006 while awarding the contract for upgradation of the Project 'Centre for High Performance Computing and Research'. (CHITRA). He pointed out that this contract was placed on single tender basis on M/s ITI Limited, Hyderabad at a cost of ₹16.38 crore on the plea that it had successfully integrated and maintained the existing system. However, M/s ITI Limited outsourced the work at a cost of ₹14.26 crore resulting in extra expenditure of Rs. 2.12 crore by ANURAG which could have been avoided. Thereafter, he asked the Secretary (R&D) to give a brief account of the Ministry's response to the Audit findings on the subject under discussion.

4. The representatives of the Ministry explained their position by giving a powerpoint presentation on the Audit findings and the response of the Ministries thereon. They apprised that the contract in question was awarded without calling for open tender on the basis of 2007 price when the existing system was procured from the same company. The Convenor pointed out that the cost of the two contracts cannot be compared since the 2007 contract was for outright purchase of the equipment/system whereas the 2010 contract was only for upgradation of the equipment/system which should obviously cost much less. Because of this flaw, he objected to the award of the contract for upgradation of the project 'Centre for High-Performance Computing and Research' (CHITRA) i.e. 2010 contract on single tender basis. Further, he criticized Advanced Numerical Research and Analysis Group (ANURAG) and the Ministry for not taking any action against M/s ITI Limited, Hyderabad when the contract was outsourced to another company resulting in extra- expenditure of ₹ 2.12 crore by ANURAG. Admonishing that no due diligence was



done on M/s ITI by DRDO, and the aforesaid outsourcing came to light only when the company needed a customs clearance certificate, the Convenor pointed out the possibility of M/s ITI Limited, Hyderabad outsourcing the 2007 contract too.

5. The representatives of the Ministry submitted that they were not concerned about who has done the job. Criticizing such an attitude, the Convenor opined that this involved security risks and cautioned them to be careful and vigilant in developing sophisticated things on sensitive issues of the Country. Then both the Convenor and the Member of the Sub-Committee observed that the outsourcing by M/s ITI was a breach of trust and there was a need for recovering the amount of ₹ 2.12 crore incurred as extra-expenditure by ANURAG. A representative of the Ministry submitted that the contract was a supply order and there was no clause in it to deal with such matters. The Convenor expressed his dissatisfaction over this lapse and enquired what the Ministry were going to do as remedial measure and punitive measure in this case. The Secretary, (R&D) replied that they would seek legal advice/opinion from the Ministry and then take action as suggested by the Sub-Committee. The Convenor directed that they should give a proper reply within a week's time.

6. The Convenor thanked the representatives of the Ministry for appearing before the Sub-Committee and the representatives of the Office of the C&AG of India for providing assistance to the Sub-Committee in the examination of the subject.

The witnesses, then withdrew.

A copy of the verbatim proceedings was kept on record.

**The Sub-Committee, then, adjourned.**