

**EXTRA AVOIDABLE EXPENDITURE BY  
ANURAG**

[Action Taken by the Government on the Observations/Recommendations of  
the Committee contained in their Forty-fourth Report (16<sup>th</sup> Lok Sabha)]

**MINISTRY OF DEFENCE**

**PUBLIC ACCOUNTS COMMITTEE  
(2017-18)**

**EIGHTY-FIRST REPORT**

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**SIXTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

PAC NO. 2114

**EIGHTY-FIRST REPORT**

**PUBLIC ACCOUNTS COMMITTEE**  
**(2017-18)**

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MINISTRY OF DEFENCE



Presented to Lok Sabha on:

11-08-2017

Laid in Rajya Sabha on:

11-08-2017

LOK SABHA SECRETARIAT  
NEW DELHI

August, 2017 /Shravana, 1939 (Saka)

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\*Not included in the cyclostyled copy of the Report

**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2017-18)**

Shri Mallikarjun Kharge

- Chairperson

**MEMBERS**

**LOK SABHA**

2. Shri Sudip Bandyopadhyay
3. Shri Subhash Chandra Baheria
4. Shri Prem Singh Chandumajra
5. Shri Nishikant Dubey
6. Shri Gajanan Chandrakant Kirtikar
7. Shri Bhartruhari Mahtab
8. Smt. Riti Pathak
9. Shri Neiphiu Rio
10. Shri Abhishek Singh
11. Prof. Ram Shanker
12. Dr. Kirit Somaiya
13. Shri Anurag Singh Thakur
14. Shri Shivkumar C. Udasi
15. Dr. P. Venugopal

**RAJYA SABHA**

16. Shri Naresh Agrawal
17. Shri Satyavrat Chaturvedi
18. Shri Bhubaneswar Kalita
19. *Vacant\**
20. Shri Sukhendu Sekhar Roy
21. Shri Ajay Sancheti
22. Shri Bhupender Yadav

**SECRETARIAT**

1. Shri A.K. Singh - Additional Secretary
2. Shri T. Jayakumar - Director
3. Smt. Bharti S. Tuteja - Deputy Secretary
4. Shri Deepankar Kamble - Committee Officer

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\* Shri Shantaram Naik ceased to be a member of the committee consequent upon his retirement from Rajya Sabha on 28 July, 2017.

## INTRODUCTION

I, the Chairperson, Public Accounts Committee (2017-18), having been authorised by the Committee, do present this Eighty-first Report (Sixteenth Lok Sabha) on Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Forty-fourth Report (Sixteenth Lok Sabha) on "Extra Avoidable Expenditure by ANURAG" relating to the Ministry of Defence.

2. The Forty-fourth Report was presented to Lok Sabha/laid in Rajya Sabha on 28<sup>th</sup> April, 2016. Replies of the Government to the Observations/Recommendations contained in the Report were received on 23<sup>rd</sup> March, 2017. The Public Accounts Committee considered and adopted the Report at their sitting held on 9<sup>th</sup> August, 2017. Minutes of the Sitting are given at Appendix-I.

3. 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.

4. 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.

5. An analysis of the Action Taken by the Government on the Observations/Recommendations contained in the Fortieth Report (Sixteenth Lok Sabha) is given at Appendix-II.

NEW DELHI;  
9<sup>th</sup> August, 2017  
18 Shrawana, 1939 (Saka)

MALLIKARJUN KHARGE  
Chairperson  
Public Accounts Committee

CHAPTER - I  
REPORT

This Report of the Public Accounts Committee deals with Action Taken by the Government on the Observations/Recommendations of the Committee contained in their 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 the Ministry of Defence.

2. The Forty-fourth Report (Sixteenth Lok Sabha), which was presented to Lok Sabha/laid in Rajya Sabha on 28<sup>th</sup> April, 2016, contained 04 Observations/Recommendations. Action Taken Notes in respect of all the Observations/Recommendations have been received from the DRDO, Ministry of Defence and these have been categorized as under:

- (i) Observations/Recommendations that have been accepted by the Government:

Paragraph Nos. 1,2 and 3

Total: 03  
Chapter- II

- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

-NIL-

Total: 00  
Chapter- III

- (iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

-NIL-

Total: 00  
Chapter- IV

- (iv) Observations/Recommendations in respect of which the Government have furnished interim replies:

Paragraph No. 4

Total: 01  
Chapter- V

3. The Action Taken Notes furnished by the DRDO, Ministry of Defence on the Observations/Recommendations of the Committee contained in their Forty-fourth Report (Sixteenth Lok Sabha) have been reproduced in the relevant Chapters of this Report. In the succeeding paragraphs, the Committee have dealt with the Action Taken by the Government on some of their Observations/Recommendations which either need reiteration or merit comments.

1. Cost Estimation/Price Negotiation  
(Recommendation Para No. 2)

4. The Committee had noted that M/s ITI Ltd. quoted a price of Rs. 17.50 crore for upgrading of CHITRA computing facility at ANURAG. Considering the rate as high, the Tender Purchase Committee negotiated the price for Rs. 16.38 crore, after which DRDO accorded financial sanction. The Committee found that DRDO in their own admission had stated that they did not take into account the dollar variation cost while determining the cost estimation and their estimate was Rs. 15.00 crore without tax and Rs. 16.00 crore was considered reasonable. To their utter surprise, the Committee found that the Tender Purchase Committee negotiated for Rs. 16.38 crore although DRDO considered Rs. 16.00 crore to be reasonable. The Ministry, however, had a different view point which highlighted 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 felt that in the absence of competitive price bids, the cost of the upgradation project was not reasonably fixed. Moreover, they were of the opinion that the contention of the Ministry did not conform to modern methods of cost estimation. The Committee, therefore, recommended that the Ministry setup 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.

5. The Ministry in their Action Taken Notes have stated as under:

"An inquiry has been initiated by Ministry of Defence in the instant case. DRDO has now adopted policy of employing Cost Estimation Committee for arriving at reasonable cost. An officer of ICoAs (Indian Cost Accounts Service) will be a member of Cost Estimation Committees in all matters requiring concurrence of Defence Finance".

6. The Committee noted that for purchasing hardware and other peripherals for upgrading the computing facility, the Tender Purchase Committee of the Ministry settled for Rs. 16.38 crore although the DRDO itself admitted that Rs. 16.00 crore was reasonable. The Committee find it surprising that the DRDO accorded financial sanction to spend a higher amount without asking the Tender Purchase Committee to either re-negotiate or to invite competitive bids. The Ministry had replied that an inquiry has been initiated by the D (Vigilance), Ministry of Defence. The Committee desire that the said enquiry be fast tracked and the findings be carefully studied and implemented across the board to ensure transparency, for saving public money and also getting the requisite hardware at a reasonable/ competitive cost. The Committee note that in pursuance of their recommendation, the DRDO has since adopted the policy of employing Cost Estimation Committee for arriving at a reasonable cost in all matters requiring concurrence of Department of Defence Finance, the Committee desire that the roles of the Cost Estimation Committee and the Tender Purchase Committee be clearly defined and timelines prescribed for estimation and approvals.

II. Outsourcing of Project Execution  
(Recommendation Para No. 3)

7. The Committee were 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 Rs. 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 Rs. 16.38 crore. They were, 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 understood that the representatives of the vendor associates of M/s ITI Ltd. included the members of M/s RTTS, who must had attended the price negotiation committee meeting in December, 2010. Meanwhile, the Committee noted 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 felt 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 wondered 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 felt 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 it 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 Rs. 14.26 crore shows that the DRDO officials must have acted as facilitators for their profit, thereby incurring losses to the exchequer. The Committee considered this a very serious issue not only because of financial loss but also because of the intentions behind officials who were in charge of scientific and defence research of the sub-continent. They, therefore, recommended 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 recommended 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 were 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 was still awaited. The Committee desired an expeditious action in the matter.

8. The Ministry in their Action Taken Notes have stated as under:

"On the directive of PAC Sub Committee, ANURAG had sought explanation from M/s ITI, vide letter dated 23<sup>rd</sup> January 2015, for breach of trust & violating tender stipulation in outsourcing job to M/s RTTS. In response, M/s ITI had submitted, vide their letter dated 20<sup>th</sup> February 2015, that they have not violated any terms and conditions of RFP. They have informed that M/s RTTS was selected as per their procedure in view of limited financial resources and need of specialized software for HPC cluster. Further, it has also been confirmed by M/s ITI they had included confidentiality clause in their enquiry and hence not violated confidentiality clause of tender. M/s ITI have maintained that difference between ANURAG PO on M/s ITI and M/s ITI PO on RTTS units is around 8.83% of POs on RTTS. They have also had paid additional amount of Rs. 13 lakh due to revision in service tax which was not reimbursed by ANURAG as revision became effective after expiry of original PDC. MoD has initiated an enquiry against M/s ITI, Bangalore in the instant case. ANURAG had not placed any PO on M/s ITI after 2010. ANURAG has decided to stop all transactions on-going/scheduled with M/s ITI Limited. DRDO has issued a standard template for RFP vide letter no. DMM/I/PP0050912/P-1 (RFP) dated 17 May 2013, wherein under standard terms and conditions at SI No. 12 it has been specified that "The seller has no right to give, bargain, sell, assign or sublet, or

otherwise dispose of 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 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."

9. The Committee note that in congruence of their recommendation the Ministry has directed all labs/ Establishments not to enter into any contract/ issue SO (Supply Order) with M/s ITI Ltd., Bengaluru. The Committee are of the view that giving a foreign company a sub contract to upgrade a sensitive system which was connected to all DRDO Labs was a serious lapse as it gave access to the strategic data to the outsiders and merely including a confidentiality clause cannot safeguard the security interests of the country. In the instant case, the ITI Ltd, a Government of India Undertaking, failed to even inform ANURAG, the sub contracting of the execution of a defence contract to a foreign company. The Committee are, further, astonished to note the callous attitude of ANURAG as it was not even aware of the sub contracting of execution to the M/s RTTS Ltd. till 2011 despite several indications like seeking of Customs Duty Exemption Certificate by M/s ITI Ltd. and presence of the officials of M/s RTTS Ltd. during meetings etc. The Committee while noting that DRDO has issued a standard template wherein it has been specified that "The seller has no right to give, bargain, sell, assign or sublet or otherwise dispose of 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 Buyer", are of the view that a robust monitoring mechanism be developed wherein the DRDO/ MoD can monitor the award/ execution of contracts and take legal recourse accordingly.

### III. CONCLUSION (Recommendation Para No. 4)

10. The Committee are disturbed to note that ANURAG proposed the up-gradation of the existing system (CHITRA) on single tender basis through M/s ITI Limited only in order to have a seamless up-gradation. Although, the Committee are convinced with the rationale for up-gradation of the CHITRA facility, they do not find any justification behind award of work of up-gradation 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 up-gradation 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.

11. The Ministry in their Action Taken Notes have stated as under:

An enquiry has been initiated by Ministry of Defence in the instant case as recommended by the Hon'ble PAC. Further action taken would be submitted to the Hon'ble PAC.

12. The Committee noted that ANURAG awarded the upgradation of the existing system (CHITRA) on single tender basis to M/s ITI Ltd for ensuring seamless upgradation. However, M/s ITI Limited sub-contracted the job to M/s RTTS Ltd in view of its limited financial resources and need of specialized software for HPC cluster without informing ANURAG. The Committee note that as per Defence Research and Development Organisation (DRDO) Procurement Procedure 2006, for non-proprietary items single tender system should be adopted with the approval of Competent Financial Authority (CFA) only when single response is available inspite of limited tendering on more than one occasion. The Committee are of the considered view that ANURAG not only violated the Procurement Procedure of DRDO by not inviting competitive bids but also awarded the contract to a party which did not have adequate resources. Further, neither ANURAG nor DRDO could not satisfactorily respond to the query regarding involvement of a third party during execution of

security of the nation is not put to risk or is not compromised in any manner while undertaking such turn-key projects .

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NEW DELHI;  
9<sup>th</sup> August, 2017  
18 Shrawana, 1939 (Saka)

MALLIKARJUN KHARGE  
Chairperson  
Public Accounts Committee

**APPENDIX-II**  
(Vide Paragraph 5 of Introduction)

**ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE  
OBSERVATIONS/RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE  
CONTAINED IN THEIR FORTY-FOURTH REPORT (SIXTEENTH LOK SABHA)**

- |   |                                 |
|---|---------------------------------|
| (i) Total number of Observations/Recommendations  | - 04                            |
| (ii) Observations/Recommendations of the Committee which have been accepted by the Government:<br><br>Para Nos. 1, 2 and 3  | - Total : 03<br>Percentage: 75% |
| (iii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:<br><br>-NIL-                    | - Total : 0<br>Percentage: 0%   |
| (iv) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:<br><br>-NIL- | - Total : 00<br>Percentage: 0%  |
| (v) Observations/Recommendations in respect of which the Government have furnished interim replies:<br><br>Para No. 4   | - Total : 01<br>Percentage: 25% |