

INJUDICIOUS PROCUREMENT OF AN ADDITIONAL CNC HORIZONTAL BORING AND MILLING MACHINE: PATIALA LOCOMOTIVE WORKS

[Action Taken by the Government on the Observations/Recommendations of the Public Accounts Committee contained in their 96th Report (17th Lok Sabha)]

**PUBLIC ACCOUNTS COMMITTEE
(2024-25)**

SEVENTH REPORT

EIGHTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE **(2024-25)**

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Presented to Lok Sabha on: 17.12.2024

Laid in Rajya Sabha on: 17.12.2024

LOK SABHA SECRETARIAT
NEW DELHI

December 2024/ Agrahayana 1946 (Saka)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2024-25)

Shri K. C. Venugopal - Chairperson

MEMBERS

LOK SABHA

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3. Dr. Nishikant Dubey
4. Shri Jagdambika Pal
5. Shri Jai Parkash
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22. Shri Sudhanshu Trivedi

Secretariat

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Muraleedharan. P - Director
3. Shri Vijay Mishra - Committee Officer
4. Shri Prakhar Prakash Anand - Assistant Committee Officer

INTRODUCTION

I, the Chairperson, Public Accounts Committee (2024-25), having been authorised by the Committee, do present this Seventh Report (Eighteenth Lok Sabha) on Action Taken by the Government on the Observations and Recommendations of the Committee contained in their Ninety Sixth Report (17th Lok Sabha) on **"Injudicious procurement of an additional CNC Horizontal Boring And Milling Machine: Patiala Locomotive Works"** relating to the Ministry of Railways.

2. The Ninety Sixth Report was presented to Lok Sabha/laid on the Table of Rajya Sabha on 07.02.2024. The Committee considered the draft Action Taken Report on the subject and adopted the same at their sitting held on 12.12.2024. Minutes of the Sitting of the Committee form appendix to the Report.

3. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in **bold** 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 Committee Secretariat and 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 96th Report (17th Lok Sabha) is given at Appendix-II

NEW DELHI:
12 December, 2024
21 Agrahayana, 1946 (Saka)

K. C. VENUGOPAL
Chairperson,
Public Accounts Committee

CHAPTER - I

REPORT

This Report of the Public Accounts Committee deals with the Action Taken by the Government on the Observations and Recommendations of the Committee contained in their Ninety Sixth Report (17th Lok Sabha) on "Injudicious procurement of an additional CNC horizontal boring and milling machine: Patiala Locomotive Works".

2. The Ninety sixth report was presented to Lok Sabha/laid in Rajya Sabha on - 07.02.2024. It contained six Observations/Recommendations. The Action Taken Notes on all the Observations/Recommendations have been received from the Railway Board, Ministry of Railways, and are categorized as under:

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

Para Nos. 1, 2, 3, 4, 5, 6.

Total: 6
Chapter - II

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

Para No. NIL

Total: 0
Chapter - III

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

Para No. NIL

Total: 0
Chapter - IV

- (iv) Observations/Recommendations in respect of which Government have furnished interim replies/no replies:

Para No. NIL

Total: 0
Chapter - V

3. The detailed examination of the subject by the Committee had revealed several deficiencies on the part of the Ministry of Railways, Railway Board concerning the procurement of a CNC machine for Patiala Locomotive Works (PLW). Despite the Railway Board's 2014 directive to cease production of mainline ALCO locomotives, PLW continued with the machine's procurement without reassessing its necessity. Delays in installation and commissioning of the machine, along with a declining demand for diesel locomotives, led to significant time and cost overruns. The machine faced various issues post-commissioning and a Prove-Out Test certificate remained pending as of April 2022. This resulted in an infructuous expenditure of Rs 22.87 crore. The Ministry's mismanagement to review procurement after policy changes minimized the project's intended benefits. The Committee had accordingly given their observations/recommendations in their Ninety sixth Report.

4. The Action Taken Notes furnished by the Ministry of Railways, Railway Board on each of the Observations/Recommendations of the Committee contained in their Ninety sixth Report have been reproduced in the relevant Chapters of this Report. The Committee will now deal with the action taken by the Government, on some of their Observations/Recommendations which either need reiteration or merit comments.

5. The Committee desire the Ministry of Railways, Railway Board to furnish Action Taken Notes in respect of Observations/ Recommendations contained in Chapter I of the Report, positively within three months of the presentation of the Report to the Parliament.

Recommendation Paragraph No. 1 of PAC Report No. 96 (17th Lok Sabha)

6. The Indian Railways has a very crucial role in connecting people and facilitating the transportation of goods across the Nation and is moving ahead in the right trajectory and achieving its objectives. Post-independence, Indian Railways entered into technical agreement with American Locomotive Company (ALCo) and a diesel locomotive manufacturing unit was established at Varanasi. The Diesel Loco Modernization Works was established in the year 1981 in Patiala (now PLW) with a view to undertaking the upgradation and mid-life rehabilitation of ALCo engines.

During 1999-2000, Indian Railways entered into understanding with General Motors of USA for manufacturing state-of-the-art two stroke Electro-Motive Diesel (GM-EMD) locomotives at Diesel Locomotives Works (DLW), Varanasi. These high powered EMD engines received wider acceptance due to low fuel consumption, better haulage capacity, increased maintenance periodicity and higher reliability.

7. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“These are facts on record.”.

Audit in their vetting comments have stated as under:

“No Comments.”

Recommendation Paragraph No. 2 of PAC Report No. 96 (17th Lok Sabha)

8. *The Committee noted that in the year 2011-12, DMW (now renamed as PLW) was engaged in mid-life rebuilding of old diesel locomotives as its primary activity. The process required rebuilding of the engine blocks, which are actually the heart of the diesel engines. During the rebuilding process of old engine blocks, all the distorted and worn-out surfaces were rebuilt by depositing metal through welding process, following which the welded areas were machined on sophisticated CNC machines to create accurate mating surfaces. For this machining activity the PLW had one machine at that point of time, which was a replacement of an old machine. Nevertheless, due to excessive workload, Patiala Locomotives obtained permission from the Railway Board to continue using the old machine till December 2011 with limited capacity and both these machines were able to machine about 160 engine blocks in a year, by following a 3-Shift working. With the phasing out of the old machine from service, the capacity of the one new machine would have come down to 10 blocks per month only (i.e. 120 blocks per year). In 2010-11, as per the information furnished, out of the total production of about 160 blocks, 109 blocks were being used internally for rebuilding of old diesel locos and the balance quantity of engine blocks were being sent to Zonal Railways to meet their maintenance requirements. Therefore, these machines were not only meeting the internal requirement of PLW but also the Zonal Railways’ maintenance requirements. Further, in the year 2010, the Railway Board advised PLW to create capacity for manufacturing about 100 new ALCo diesel locomotives per annum.*

The capacity of the existing machine being grossly inadequate to meet the enhanced requirement, the proposal for procuring the new machine was made under M&P Program of Railway Board. With the addition of the new machine, the combined targeted capacity was anticipated to be 22 engine blocks per month (10 old + 12 proposed machine), which would translate to 264 engine blocks per year. The Committee were surprised to note that in 2010, Railway Board advised PLW to create capacity for manufacturing 100 new ALCo diesel loco engines per annum when more efficient GM-EMD engines were already being manufactured in India. The Committee therefore wanted to have been apprised of the reasons for the Railway Boards directive to increase the capacity to build new ALCo engines instead of the more efficient EMD engines.

9. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“Vision-2020: Action Plan for increasing production of Diesel locomotives of Indian Railways envisaged production of 5334 Diesel locomotives during the period 2010-11 to 2019-20. The production plan of DLW (now BLW) for 2010-11 provided for manufacturing of only 250 locomotives. In order to reach close to the goals of Vision-2020, production/acquisition of Diesel locomotive by Indian Railways needed to be scaled up substantially. In this regard, following decisions were taken to increase the Diesel loco production:

1. ALCO loco production to be fully phased out from DLW.
2. The capacity of DLW to be augmented to manufacture 300 EMD type locomotives.
3. ALCO loco production to be initiated at DMW (now PLW) and along with the capacity of ALCO loco assembly generated at Parel. DMW (now PLW) should be able to deliver 100 ALCO locomotives. As there will be a consistent requirement of about 100 ALCO locomotives to meet the combined demands of (a) Non-Railway Customers/export (b) Shunting operations (c) Inferior passenger services.”

Audit in their vetting comments have stated as under:

“No comments.”

10. In view of the availability of the more efficient GM-EMD engines, the Committee had desired to know the reasons for the Railway Boards directive to increase the capacity to build new American Locomotive Company (ALCo engines). The Committee note from the reply of the Ministry that despite the existence of more efficient EMD locomotives, there remains a consistent domestic and export market for ALCo locomotives. Therefore, it was necessary for the Ministry to continue ALCo production, especially for exports, shunting and inferior services or lower-performance applications. While the Ministry has provided a detailed rationale for continuing ALCo production, the Committee however desires to be apprised of more detailed cost-benefit analysis comparing ALCo and EMD locomotives, specifically regarding their lifecycle costs (fuel efficiency, maintenance, and operational costs) so as to have clarity on whether it is still cost effective to invest in ALCo production and validate the long term economic rationale for continuing ALCo production. The Ministry should regularly monitor and report on the actual demand for ALCo locomotives in the non-railway and export markets to ensure that production capacity remains aligned with real market needs, avoiding overproduction. The Committee also recommend the Ministry to explore and evaluate how long requirements for these ALCo engines will persist, considering global trends in hybrid or more environmentally friendly locomotive technology.

Recommendation Paragraph No. 3 of PAC Report No. 96 (17th Lok Sabha)

11. *As for the reasons for PLW not reviewing its procurement plan in 2014 following the Railway Board's directive to stop production of mainline ALCO Locomotives; and not reconsidering the decision to procure the CNC machine, the Committee noted from the information furnished that although the Railway Board had advised discontinuing manufacturing of new locomotives in 2014, the proposal for procuring the new machine was not dropped, because of the huge requirement of new engine blocks for replacing old engine blocks in the Zonal Railways. The fresh demand for new engine blocks was so high that even following the decision to stop manufacturing new Diesel locomotives, the new machine would have been fully utilised for manufacturing of the new engine blocks, required by Zonal Railways. The Railway Board had sanctioned a total of 1077 new engine blocks between 2012-13*

and 2017-18 under various annual rolling stock programs and PLW was entrusted with the responsibility of supplying of the new engine blocks to Zonal Railways. PLW had to procure a total of 1318 new engine blocks from private firms between 2013-14 and 2020-21 by following an arduous process of developing new sources. The Committee found that this had become imperative because the machining capacity available with PLW was inadequate and the commissioning of the new machine was getting delayed due to technical deficiencies. As for the manner in which PLW adapted to the policy change communicated by the Railway Board in June 2014, which called for stopping production of mainline ALCo Locomotives and whether the issue of going ahead with the procurement of the new CNC machine was assessed, the Committee noted that the matter was well considered by PLW. While acknowledging the context in which the initial decision of procuring the CNC machine was taken, it was also evident that with the changing policy landscape, as communicated by the Railway Board in 2014, a thorough review of the procurement plan was a necessity. The Committee therefore, did not find the reasons afforded by the Ministry for going ahead with the proposal for procuring the machine despite the changed policy dimension to the convincing; and recommended that the Ministry should own responsibility for the failure to review the proposal for purchasing the CNC machine in light of the change in policy. The Committee also recommended that the Ministry should establish a mechanism for periodic review of procurement policies in line with evolving directives to prevent recurrence of such infructuous expenditure in future.

The Committee in this regard also recommended in no uncertain words the Ministry to strengthen their due diligence at all stages of the decision-making process, from placing the initial request for procurement to commissioning and to implement measures to ensure efficient utilization of resources in alignment with the changing requirements. This may, inter-alia, involve periodic reassessment of production targets and reallocation of resources to areas of higher priority and need. It would be pertinent to also bring out here that the Ministry should invariably assess the necessity and relevance of machinery prepared for being procured in light of evolving policies. Further, the Committee expressed concern over the lack of documented internal discussions within PLW regarding the changing requirements following the Railway Board's directive in 2014. Hence, the Committee recommended the Ministry to improve its internal communication channels which

should encompass thorough documentation and decision-making processes. This will aid in transparency, accountability, and better understanding of the rationale behind critical decisions. The Committee also desired to be apprised of the cost benefit analysis that may have been done by the Ministry to adjudge whether it would have been economical to procure a CNC machine or directly procure additional new engine blocks from private firms.

12. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“Recommendations of the Committee are noted for compliance.

Further, the Ministry of Railways has a very robust mechanism for sanctioning of machines under M&P programme. The proposal for sanctioning of a machine is received in Railway Board only after its departmental approval and financial vetting at Division and Zonal Railways/PUs level. The proposals compiled by Zonal Railways & PUs, thereafter, are sent to Railway Board for sanction. Keeping in view the limited resources, efforts are made to restrict sanction to essential items only after critical review of justification furnished for the procurement of the machine.

Sanctioned M&Ps are reviewed regularly in line with changing requirement of Zonal Railways/PUs and, if required, dropped also as per changing scenario.

PLW has also initiated a formal system of critical reviewing the procurement cases of CNC machines, including the requirement of machines in light of any change in policy directives received from Railway Board. This review is being conducted on a quarterly basis. The changes in the Production plan or any policy changes due to Railway Board instruction are regularly taken in account during review. The minutes of these reviews are issued which will strengthen the documentation of internal discussions at PLW.

Further, at that point in time, i.e. FY 2010-11, BLW and PLW were the only units in Indian Railways that were capable of manufacturing/rebuilding ALCO engine blocks. No known private firm was existing in the country having proven capability of manufacturing new ALCO engine blocks at that time.

Therefore, cost benefit analysis regarding in-house manufacturing versus procurement from private firms was not feasible at that time.”

Audit in their vetting comments have stated as under:

“As far as compliance to the recommendation of the PAC at PLW is concerned, no further comments”

13. In view of the fact that the PLW went ahead with the procurement of new CNC machine despite changes in the policy landscape, the Committee had recommended the Ministry to establish a mechanism for periodic review of procurement policies in line with evolving directives to prevent recurrence of infructuous expenditure in future and strengthen their due diligence at all stages of the decision making process with regards to procurement, commissioning and efficient utilization of resources. The Committee note from the reply of the Ministry that proposals for machine procurement under the Machinery & Plant program go through departmental approvals and financial vetting at divisional, zonal and production unit levels before being sent to the Railway Board and only essential items are sanctioned after a critical review which suggests an attempt to optimize the procurement process. The Committee also note from the reply of the Ministry that PLW has introduced a formal system for quarterly reviews of procurement, particularly for CNC machines, considering any policy changes from the Railway Board. The Committee further note from the reply that during the financial year 2010-11, no private firms had the proven capability to manufacture new ALCo engine blocks. Therefore, a cost-benefit analysis comparing in-house production with procurement from private firms was not feasible which is why a decision was made to procure the CNC machine, given the lack of alternative suppliers. While the Ministry outlines a formalized review process at PLW, the Committee reiterates their recommendation to strengthen due diligence throughout the decision making process so as to ensure that the said process is robust enough to detect and act on evolving policies in real time. The Committee further note from the reply of the Ministry that no private firms were available to produce ALCo engine blocks in 2010-11, making in-house production the only feasible option. However, in view of the fact that 1318 engine blocks were eventually procured from private firms between 2013-14 and 2020-21, the

Committee opine that it would be prudent for the Ministry to undertake a retrospective cost-benefit analysis comparing in-house production costs with external procurement costs so as to assess whether continuing investments in in-house CNC machines remain justified or relying on external suppliers could be more economical. The Committee may be apprised of this analysis at the time of furnishing the Action Taken Statements.

Recommendation Paragraph No. 4 of PAC Report No. 96 (17th Lok Sabha)

14. *The Committee did note that the significant delay of over two and half years in the installation, commissioning and prove-out test of the CNC machine had been attributed entirely to the supplier and initially one of the trucks carrying machine parts in a container, met with a road accident in November 2016 in which some critical parts were damaged and had to be replaced; following the commencement of machining trials, it was found that the tooling used for machining of Serrations was not as per actual requirement; and subsequent to the commissioning, it was found that the machine was not able to achieve specified process capability requirements (Cpk parameter, which is basically repeated accuracy of machining over multiple operations). Later, PLW sought to transfer the CNC machine to some other Railway Unit and within six months of the commissioning i.e., in November, 2020 rejected the machine with the remarks 'no replacement required'. As far the reasons that prompted these steps, the Committee noted from the information furnished that till 2019-20 PLW was continuing to manufacture old engine blocks at full capacity. The requirement however came down abruptly, in view of decision taken by Ministry of Railways for 100% electrification. Consequently, PLW had to realign its working as per changed scenario and the attempt to offer the machine to some other workshop production unit through COFMOW, where it could be put to alternate use was made. Further, as the supplier could not meet the technical requirements of the contract even after repeated attempts, following the commissioning of the machine, the decision to reject the machine had to be taken in November 2020. As seen from the information furnished, there was no interest shown by any Indian Railway unit in accepting the machine. What the Committee found to be surprising was the fact that PLW sought to transfer the machine to some other workshop when it was already proven that it was incapable of obtaining the process capability requirements as prescribed in the contract and the same defect of process capability was popping up again and again, which could not be resolved. The Committee in this regard, wanted*

to have been apprised of the objectives that could have or were intended to be achieved by PLW by transferring a defective machine to some other workshop.

15. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“The main reason for rejection of machine was non compliance to achieve the specified process capability requirements which was a contractual requirement and therefore its non compliance forced PLW to reject the machine. This parameter indicates the machining accuracy within a narrower tolerance band than the specified accuracy band when machine is new so that during its useful codal life operations the machining accuracy does not go beyond the specified requirement due to normal wear and tear in the machine. It means that the machine was functional and capable of performing its intended operations with slightly lesser accuracy requirements as mandated in engine block machining. Since Indian Railways has already made 80% payment to the firm and the machine had become the Indian Railways property, it was therefore necessary to explore alternate use of this machine, so that it could be fruitfully utilised elsewhere. The firm in any case was not showing any interest to rectify the machine as per contractual requirement. In this situation Railways would have withheld firm’s balance 20% payment along with forfeiture of Performance Guarantee and would have utilized the machine in sub-optimal conditions for some other applications on Indian Railways. As the effort of offering the machine to other Railways didn’t materialize, so PLW finally took a decision to reject the machine.”

Audit in their vetting comments have stated as under:

“PLW (earlier DMW) in their Rejection Memo dated 05/11/2020 has mentioned that “None of 42 Engine Blocks machined so far has been without deviation in any of the key parameters”. In view of the same, Ministry of Railway’s justification that “Machine was functional and capable of performing its intended operation with slightly lesser accuracy” is not acceptable. MoR is requested to forward the ATR along with above Audit comments to the PAC for their consideration.”

The Ministry has responded to the Audit Comments as below:

“None of 42 Engine Blocks machined so far have been without deviation in any of the key parameters”. The said statement was mentioned in the rejection advice issued by PLW. This was informed in reply to PAC question pertaining to intended objective to be achieved by PLW transferring a defective machine to some other workshop. The above statement concludes that the machine was unable to meet the process capability requirements as per AT clause 3.2.8.1 in respect to bore size, Cpk value and serration pitch which are most critical parameters in engine block machining during its rebuilding. As per PLW, the machine was capable of performing the machining operations like boring, counter-boring, milling, serration milling, drilling, tapping and spot facing etc. with lesser accuracy requirements vis-à-vis that mandated for engine block machining. It was construed by PLW that the machine could have been used for machining operations (as mentioned above) on items/jobs other than engine blocks which didn't require such higher level of accuracy.”

16. The Committee had found it surprising that Patiala Locomotive Works (PLW) sought to transfer the machine to some other workshop when it was already proven that it was incapable of obtaining the process capability requirements as prescribed in the contract. Therefore, the Committee had inquired about the objectives that were intended to be achieved by PLW by transferring a defective machine to some other workshop. The Committee note from the reply of Ministry that the CNC machine was rejected by PLW due to its failure to meet the specified process capability requirements, a contractual obligation. This failure pertained to critical parameters like bore size, Cpk value (accuracy over multiple operations), and serration pitch, which are vital for engine block machining. The Committee further note that PLW rightly decided to reject the machine when it became clear that these parameters could not be consistently met. The Ministry has further clarified that while the machine was not suitable for engine block machining due to accuracy issues, it was still functional and capable of performing other machining tasks like boring, counter-boring, milling, drilling, and tapping, with less stringent accuracy requirements. The Committee also note from the reply of the Ministry

that Railways had already made 80% payment to the supplier and the machine had become the property of Indian Railways, so it was imperative to explore alternate uses for the machine rather than writing it off immediately. The attempt to transfer the machine to another railway unit was based on the rationale of making some use of it, given that withholding the remaining payment and forfeiting the Performance Guarantee were the only other options. Despite PLW's efforts to find an alternate use for the machine, no other Railway units showed interest in accepting the same and finally PLW had to reject the machine. While the Ministry has provided the rationale for this decision, the Committee still find it necessary to recommend that the Ministry develop clearer and formal guidelines for handling defective and underperforming machinery. These guidelines should include a clear process for evaluating whether such equipment can be transferred to another unit, with emphasis on ensuring that the receiving unit's requirements are fully met. The Committee further recommend that defective machines should not be transferred to other workshops unless a formal and detailed cost-benefit evaluation confirms that the machine can meet the operational requirements of the intended recipient unit as otherwise the Ministry risks spreading inefficiency across its workshops. The Committee would also like to be apprised of the actions taken against the supplier, including any financial penalties and steps to prevent the recurrence of such issues in future contracts.

Recommendation Paragraph No. 5 of PAC Report No. 96 (17th Lok Sabha)

17. The delays and deficiencies in the commissioning of the CNC machine being attributable to the supplier, the Committee desired that the Ministry establish a robust 'supplier oversight mechanism' so as to ensure timely delivery, adherence to technical specifications, and prompt resolution of any issues that may arise during the commissioning process of the machinery/equipment may be procured. This will help in mitigating the risk of project delays and financial losses. The Committee also expressed the need for developing and implementing comprehensive contingency plans to address potential disruptions in project timelines, including mechanisms to expedite the replacement of critical components in case of accidents or unforeseen

circumstances. Further, considering the experience of the delay in the commissioning of the machine, the Committee recommended that the Ministry improve the modalities of documentation of deficiencies identified during commissioning, including specific details on how these deficiencies impact the functionality of the machine. Clear and comprehensive documentation will aid in the resolution of issues and facilitate a better understanding of the challenges faced during the commissioning process.

18. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“Recommendations of the Committee are noted for compliance. Further, COFMOW (the central procurement agency of IR) and ultimate consignee normally coordinate with each other on a regular basis during the commissioning process of the machine, so that all timelines are met as per contractual requirements. There are contractual provisions, wherein Liquidated Damages (normally @ ½% per week) are imposed for delays at any milestones stages, defined in the contract. Despite all these checks, in this particular case, there were delays in supply and commissioning due to highly complex nature of the machine and also due to un-anticipated accident during transport. Notwithstanding the above, as advised by Hon’ble PAC, PLW would work to make its systems more robust so that timely review of the purchase process and stage wise monitoring is done effectively and well documented to avoid any kind of delays in the project execution process. PLW will also improve the documentation during the commissioning process to identify any deficiencies that may impact the functionality of machine.”

Audit in their vetting comments have stated as under:

““As far as compliance to the recommendation of the PAC at PLW is concerned, no further comments.””

19. The Committee while noting that the delays and deficiencies in the commissioning of the CNC machine being attributable to the supplier, had desired that the Ministry establish a robust 'supplier oversight mechanism' so

as to ensure timely delivery, adherence to technical specifications, and prompt resolution of any issues that may arise during the commissioning process of the machinery/equipment. The Committee had also recommended for developing and implementing comprehensive contingency plans to address potential disruptions in project timelines, including mechanisms to expedite the replacement of critical components in case of accidents or unforeseen circumstances. The Ministry in their reply have acknowledged the Committee's recommendation for establishing a robust supplier oversight mechanism. They have highlighted that coordination between COFMOW (Central Organisation for Modernisation of Workshops) and the ultimate consignee (PLW) takes place regularly during the commissioning process to ensure adherence to timelines and the contract provisions include penalties like Liquidated Damages for delays at milestone stages. The Ministry have also pointed out that the delays in this particular case were partly due to the complex nature of the CNC machine and the unforeseen transport accident that damaged critical parts. Further, the Ministry have assured that PLW will enhance its review process, stage-wise monitoring and documentation process during machine commissioning to identify deficiencies and their impact on functionality thus preventing future delays. While the Ministry has cited its coordination efforts and the imposition of Liquidated Damages, it may be necessary to go beyond these existing measures. Hence, the Committee recommend the Ministry to establish a specific team or task force within COFMOW dedicated to overseeing complex and high-value procurements, particularly for technically advanced machinery by more frequent progress updates from suppliers and early warning mechanisms for potential delays. The Committee also recommend the Ministry to implement more rigorous supplier monitoring mechanisms, including progress updates at regular intervals, escalation procedures for delays, and clearer guidelines for imposing Liquidated Damages or other penalties. Although the Ministry has mentioned that the delays were partly due to an unexpected accident, the Committee's recommendation to develop contingency plans for unforeseen circumstances has not been fully addressed. Hence, the Committee re-iterate their recommendation regarding creation of comprehensive contingency plans by the Ministry. The Committee further desire that the Ministry must put in

place systems for faster procurement of replacement parts, maintain a list of backup suppliers, and be ready with mitigation strategies for potential disruptions such as transport accidents or delays in component delivery in project timelines. These contingency plans should be periodically reviewed to ensure that they are effective when needed.

Recommendation Paragraph No. 6 of PAC Report No. 96 (17th Lok Sabha)

20. From the information available, the Committee noted that 80% of the payment towards procuring the CNC machine was made to the supplier before the actual shipment. The Committee wished to be apprised of the reasoning behind agreeing to this payment schedule, and safeguards, if any, that may have been put in place to protect the Ministry's interests in the event of non-compliance by the supplier. As regards action initiated and taken to mitigate the loss caused, the Committee noted that COFMOW had encashed performance Bank Guarantee (PBG) for Rs. 2,55,55,519/- submitted by the firm on 22.09.2023 and gave an advisory for recovering the cost of the machine. Considering the information furnished by the Ministry, the Committee were appalled to observe that instead of taking measures for returning the defective machine directly and claiming the entire refund from the supplier, COFMOW sought to transfer the defective machine to some other Railway unit and issued an advice for recovering the costs. The Committee were of the view that atleast now the COFMOW should take recourse to legal measures for reclaiming the whole amount paid to the supplier, directly. The Committee also recommended that, especially in case of transactions involving suppliers outside India, the Ministry ought to review the 'agreement clauses' with a view to ensuring the financial interests are adequately protected in case of delay or deficiencies attributable to the supplier. The Committee also recommended that, in future procurements, the Ministry considers all viable options and selects the most suitable solution to meet its manufacturing or maintenance needs, and minimizing the risk of encountering deficiencies or delays. The Committee further felt that it would be appropriate for the Ministry to establish a comprehensive supplier developing and handholding programme for identifying, developing and providing technological support for Indian suppliers so that they could be an integral part of the 'Make in India' supply chain system.

21. The Ministry of Railways, Railway Board in their Action Taken Notes have stated as under:-

“Recommendations of the Committee are noted for compliance. Further, it is submitted that 80% of the payment towards procuring the CNC machine was not made to the supplier before the actual shipment but after shipment and submission of documents by the supplier to the bank in accordance with the terms and conditions of the contract. In the subject case, tender was a global tender and contract was on Free on Board (FOB) basis. FOB means that the seller delivers the goods loaded onto a vessel nominated by the buyer at the named port of shipment and gets the goods cleared for export. In the subject case, the payment to the supplier was made after pre-inspection of machine and its dispatch and submission of documents by the supplier to the bank fulfilling the conditions of letter of credit as per the contract. Encashment of Performance Bank Guarantee (PBG) was done in accordance with the terms and conditions of the contract. All Railway Units were advised for recovering the balance payment of the machine from the defaulting supplier.

As per the contract, the place of consignee was Patiala Locomotive Works (PLW) and PLW currently has the physical possession of the defective machine. The machine cannot be returned back to the supplier until either the supplier pays back entire amount or railway recovers the entire paid amount from the supplier from its other pending bills. As desired by the Hon’ble Committee, COFMOW will take recourse to legal measures for reclaiming the balance payment from the firm.”

Audit in their vetting comments have stated as under:

“MoR has not furnished any ‘action taken reply’ with respect to following recommendations of the Committee:

1. The Committee recommends that, especially in case of transactions involving suppliers outside India, the Ministry ought to review the

'agreement clause' with a view to ensuring the financial interest are adequately protected in case of delay or deficiencies attributable to the supplier.

2. The Committee also recommends that, in future procurements, the Ministry considers all viable options and selects the most suitable solution to meet its manufacturing or maintenance needs and minimizes the risk of encountering deficiencies or delays.

3. The Committee also feel that it would be appropriate for the Ministry to establish a comprehensive supplier developing and handholding programme for identifying, developing and providing technological support for Indian suppliers so that they could be an integral part of the 'Make in India' supply chain system.

MoR is requested to forward the ATR along with above Audit comments to the PAC for their consideration.”

The Ministry has responded to the Audit Comments as below:

“1. The committee has raised concerns on two specific issues:

i. Recourse of Legal action.

ii. Payment of 80% through Letter of Credit

With regards to issue no. 1, it is submitted that recourse to take legal action is always open and as desired by the Committee, COFMOW has also confirmed that it will take recourse to Legal measures for reclaiming the balance payment from the firm.

For issue 2, it is submitted that Payment through irrevocable Letter of Credit are part of standard agreement clauses.

Para 6.4 of Manual for Procurement of Goods issued by Ministry of Finance, Department of Expenditure, states about terms of payment of imported Goods. Para 6.4.1 (ii) specifically states that in Cases where installation, erection and commissioning are the responsibility of the supplier – 80-90 (eighty to ninety) percent net FOB/FAS/CFR/CIP price will be paid against the invoice, inspection certificate (where applicable), shipping documents, and so on, and balance within 21-30

(twenty-one to thirty) days of successful installation and commissioning at the consignee's premises and acceptance by the consignee.

Para 6.4.2 of the Manual specifically states that: "For imported goods, payment usually happens through the LC opened by the State Bank on India or any other scheduled/authorized bank as decided by the procuring entity. The amount of LC should be equal to the total payable amount, and be released as per the clauses mentioned above. Provisions of Uniform Customs and Practices for Documentary Credits should be adhered to while opening the LC for import into India".

Thus, the existing clauses for payment through Letter of Credit are in line with the policy followed by Government of India.

2. Noted for compliance. All Indian Railway tenders are done through Indian Railways E-Procurement System (IREPS) which ensures an open and transparent tendering process. The IREPS allows vendors from all over India to participate in the bidding process, fostering healthy competition and promoting regional development.

3. In order to promote local suppliers and manufacturers a set of instructions for implementation of Public Procurement (Preference to Make in India) have been issued by Ministry of Railways over a period of time as per the Policy initiatives issued in this regard by Gol. These initiatives have been undertaken with a view to enable widespread participation of Indian Suppliers/Manufactures in the tenders/contracts of Railways for supply of Goods/Services/Works. Instructions have specifically been issued for guidance and compliance by Railway Units that terms and conditions of the tenders are not restrictive and discriminatory against the Indian suppliers which result in unreasonable exclusion of local suppliers."

22. While noting that 80% of the payment towards procuring the CNC machine was made to the supplier before the actual shipment, the Committee desired to be apprised of the reasoning behind agreeing to this payment schedule, and safeguards, if any, that were put in place to protect the Ministry's interests in the event of non-compliance by the supplier. The

Ministry in their action taken notes have clarified that the 80% payment for the CNC machine was not made before shipment but after shipment, following pre-inspection, and upon submission of the required documents to the bank, in line with the terms of the Letter of Credit (LC) and Free on Board (FOB) basis which also complies with established practices for international procurement, as per the Manual for Procurement of Goods issued by the Ministry of Finance. The Committee in this regard recommend that future contracts for high-value machinery include more stringent clauses for supplier performance, such as performance-linked payment schedules and actual payments only against successful milestone achievements, performance guarantees tied to product functionality, or third-party verification before releasing last installment. The Committee, while observing that instead of taking measures for returning the defective machine directly and claiming the entire refund from the supplier, COFMOW sought to transfer the defective machine to some other Railway unit and issued an advice for recovering the costs, recommended that COFMOW should take recourse to legal measures for reclaiming the whole amount paid to the supplier, directly. The Ministry have confirmed through their action taken notes that COFMOW has taken steps to encash the Performance Bank Guarantee (PBG) and will now initiate legal recourse to recover the remaining balance from the supplier which aligns with the Committee's recommendation for holding the supplier accountable. Though COFMOW is taking legal recourse, the Committee is of the view that there should be development of a more proactive legal framework, including faster dispute resolution mechanisms and pre-defined penalties for supplier's non-compliance thus minimizing delays and ensuring faster recovery of funds. The Ministry's response to the Committee's recommendation for fostering local suppliers is encouraging. However, the Committee are of the opinion that Ministry has not provided detailed information on whether any handholding or technical support programs for Indian suppliers are currently being developed. Therefore, the Committee recommend the Ministry to help local suppliers meet technical and global supply chain standards by implementing a support program, providing technological training, and establishing a supplier accreditation process.

CHAPTER II

OBSERVATIONS/RECOMMENDATIONS OF THE COMMITTEE WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Observation/Recommendation

The Indian Railways has been playing a crucial role in connecting people and facilitating the transportation of goods across the Nation and is moving ahead in the right trajectory and achieving its objectives. Post-independence, Indian Railways entered into technical agreement with American Locomotive Company (ALCo) and a diesel locomotive manufacturing unit was established at Varanasi. The Diesel Loco Modernization Works was established in the year 1981 in Patiala (now PLW) with a view to undertaking the upgradation and mid-life rehabilitation of ALCo engines. During 1999-2000, Indian Railways entered into understanding with General Motors of USA for manufacturing state-of-the-art two stroke Electro-Motive Diesel (GM-EMD) locomotives at Diesel Locomotives Works (DLW), Varanasi. These high powered EMD engines received wider acceptance due to low fuel consumption, better haulage capacity, increased maintenance periodicity and higher reliability.

[Observations/Recommendation No. 1 of 96th Report of the Public Accounts Committee (17th Lok Sabha)]

Action Taken

These are facts on record.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

Audit's vetting comments on Ministry's ATN

No Comments.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

Observation/Recommendation

The Committee note that in the year 2011-12, DMW (now renamed as PLW) was engaged in mid-life rebuilding of old diesel locomotives as its primary activity. The process required rebuilding of the engine blocks, which are actually the heart of the diesel engines. During the rebuilding process of old engine blocks, all the distorted and worn-out surfaces are rebuilt by depositing metal through welding process, following which the welded areas are machined on sophisticated CNC machines to create accurate mating surfaces. For this machining activity the PLW had one machine at that point of time, which was a replacement of an old machine. Nevertheless, due to excessive workload, Patiala Locomotives obtained permission

from the Railway Board to continue using the old machine till December 2011 with limited capacity and both these machines were able to machine about 160 engine blocks in a year, by following a 3-Shift working. With the phasing out of the old machine from service, the capacity of the one new machine would have come down to 10 blocks per month only (i.e. 120 blocks per year). In 2010-11, as per the information furnished, out of the total production of about 160 blocks, 109 blocks were being used internally for rebuilding of old diesel locos and the balance quantity of engine blocks were being sent to Zonal Railways to meet their maintenance requirements. Therefore, these machines were not only meeting the internal requirement of PLW but also the Zonal Railways' maintenance requirements. Further, in the year 2010, the Railway Board advised PLW to create capacity for manufacturing about 100 new ALCo diesel locomotives per annum.

The capacity of the existing machine being grossly inadequate to meet the enhanced requirement, the proposal for procuring the new machine was made under M&P Program of Railway Board. With the addition of the new machine, the combined targeted capacity was anticipated to be 22 engine blocks per month (10 old + 12 proposed machine), which would translate to 264 engine blocks per year. The Committee are surprised to note that in 2010, Railway Board advised PLW to create capacity for manufacturing 100 new ALCo diesel loco engines per annum when more efficient GM-EMD engines were already being manufactured in India. The Committee would therefore like to be apprised of the reasons for the Railway Boards directive to increase the capacity to build new ALCo engines instead of the more efficient EMD engines..

[Observations/Recommendation No. 2 of 96th Report of the Public Accounts Committee (17th Lok Sabha)]

Action Taken

Vision-2020: Action Plan for increasing production of Diesel locomotives of Indian Railways envisaged production of 5334 Diesel locomotives during the period 2010-11 to 2019-20. The production plan of DLW (now BLW) for 2010-11 provided for manufacturing of only 250 locomotives. In order to reach close to the goals of Vision-2020, production/acquisition of Diesel locomotive by Indian Railways needed to be scaled up substantially. In this regard, following decisions were taken to increase the Diesel loco production:

1. ALCO loco production to be fully phased out from DLW.
2. The capacity of DLW to be augmented to manufacture 300 EMD type locomotives.
3. ALCO loco production to be initiated at DMW (now PLW) and along with the capacity of ALCO loco assembly generated at Parel. DMW (now PLW) should be able to deliver 100 ALCO locomotives. As there will be a consistent requirement of about 100 ALCO locomotives to meet the combined demands of (a) Non-Railway Customers/export (b) Shunting operations (c) Inferior passenger services.

Audit Vetting comments on Ministry's ATN

No comments.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

Observation/Recommendation

As for the reasons for PLW not reviewing its procurement plan in 2014 following the Railway Board's directive to stop production of mainline ALCO Locomotives; and not reconsidering the decision to procure the CNC machine, the Committee note from the information furnished that although the Railway Board had advised discontinuing manufacturing of new locomotives in 2014, the proposal for procuring the new machine was not dropped, because of the huge requirement of new engine blocks for replacing old engine blocks in the Zonal Railways. The fresh demand for new engine blocks was so high that even following the decision to stop manufacturing new Diesel locomotives, the new machine would have been fully utilised for manufacturing of the new engine blocks, required by Zonal Railways. The Railway Board had sanctioned a total of 1077 new engine blocks between 2012-13 and 2017-18 under various annual rolling stock programs and PLW was entrusted with the responsibility of supplying of the new engine blocks to Zonal Railways. PLW had to procure a total of 1318 new engine blocks from private firms between 2013-14 and 2020- 21 by following an arduous process of developing new sources. The Committee find that this had become imperative because the machining capacity available with PLW was inadequate and the commissioning of the new machine was getting delayed due to technical deficiencies. As for the manner in which PLW adapted to the policy change communicated by the Railway Board in June 2014, which called for stopping production of mainline ALCo Locomotives and whether the issue of going ahead with the procurement of the new CNC machine was assessed, the Committee note that the matter was well considered by PLW. While acknowledging the context in which the initial decision of procuring the CNC machine was taken, it is also evident that with the changing policy landscape, as communicated by the Railway Board in 2014, a thorough review of the procurement plan was a necessity. The Committee, therefore, do not find the reasons afforded by the Ministry for going ahead with the proposal for procuring the machine despite the changed policy dimension to the convincing; and recommend that the Ministry should own responsibility for the failure to review the proposal for purchasing the CNC machine in light of the change in policy. The Committee also recommends that the Ministry should establish a mechanism for periodic review of procurement policies in line with evolving directives to prevent recurrence of such infructuous expenditure in future.

The Committee in this regard also recommend in no uncertain words the Ministry to strengthen their due diligence at all stages of the decision-making process, from placing the initial request for procurement to commissioning and to implement measures to ensure efficient utilization of resources in alignment with the changing requirements. This may, inter-alia, involve periodic reassessment of production targets and reallocation of resources to areas of higher priority and need. It would be pertinent to 2024-BC-PAC-XVII/96thReport I/3093996/2024 also bring out here that the Ministry should invariably assess the necessity and relevance of machinery prepared for being procured in light-of-evolving-policies. Further, the Committee express concern over the lack of documented internal discussions within PLW regarding the changing requirements following the Railway Board's directive in 2014. Hence, the Committee recommend the Ministry to improve its internal communication channels which should encompass thorough documentation and decision-making processes. This will aid in transparency, accountability, and better understanding of the rationale behind critical decisions. The Committee also desires to be apprised of the cost benefit analysis that may have been done by the Ministry to adjudge whether it would have been economical to procure a CNC machine or directly procure additional new engine blocks from private firms.

[Observations/Recommendation No. 3 of 96th Report of the Public Accounts Committee (17th Lok Sabha)]

Action Taken

Recommendations of the Committee are noted for compliance.

Further, the Ministry of Railways has a very robust mechanism for sanctioning of machines under M&P programme. The proposal for sanctioning of a machine is received in Railway Board only after its departmental approval and financial vetting at Division and Zonal Railways/PUs level. The proposals compiled by Zonal Railways & PUs, thereafter, are sent to Railway Board for sanction. Keeping in view the limited resources, efforts are made to restrict sanction to essential items only after critical review of justification furnished for the procurement of the machine.

Sanctioned M&Ps are reviewed regularly in line with changing requirement of Zonal Railways/PUs and, if required, dropped also as per changing scenario. PLW has also initiated a formal system of critical reviewing the procurement cases of CNC machines, including the requirement of machines in light of any change in policy directives received from Railway Board. This review is being conducted on a quarterly basis. The changes in the Production plan or any policy changes due to Railway Board instruction are regularly taken in account during review. The minutes of these reviews are issued which will strengthen the documentation of internal discussions at PLW.

Further, at that point in time, i.e. FY 2010-11, BLW and PLW were the only units in Indian Railways that were capable of manufacturing/rebuilding ALCO engine blocks. No known private firm was existing in the country having proven capability of manufacturing new

ALCO engine blocks at that time. Therefore, cost benefit analysis regarding in-house manufacturing versus procurement from private firms was not feasible at that time.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

Audit Vetting comments on Ministry's ATN

As far as compliance to the recommendation of the PAC at PLW is concerned, no further comments.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

Observation/Recommendation

The Committee note that the significant delay of over two and half years in the installation, commissioning and prove-out test of the CNC machine has been attributed entirely to the supplier and initially one of the trucks carrying machine parts in a container, met with a road accident in November 2016 in which some critical parts were damaged and had to be replaced; following the commencement of machining trials, it was found that the tooling used for machining of Serrations was not as per actual requirement; and subsequent to the commissioning, it was found that the machine was not able to achieve specified process capability requirements (Cpk parameter, which is basically repeated accuracy of machining over multiple operations). Later, PLW sought to transfer the CNC machine to some other Railway Unit and within six months of the commissioning i.e., in November, 2020 rejected the machine with the remarks 'no replacement required'. As far the reasons that prompted these steps, the Committee note from the information furnished that till 2019-20 PLW was continuing to manufacture old engine blocks at full capacity. The requirement however came down abruptly, in view of decision taken by Ministry of Railways for 100% electrification. Consequently, PLW had to realign its working as per changed scenario and the attempt to offer the machine to some other workshop production unit through COFMOW, where it could be put to alternate use was made. Further, as the supplier could not meet the technical requirements of the contract even after repeated attempts, following the commissioning of the machine, the decision to reject the machine had to be taken in November 2020. As seen from the information furnished, there was no interest shown by any Indian Railway unit in accepting the machine. What the Committee find to be surprising is the fact that PLW sought to transfer the machine to some other workshop when it was already proven that it was incapable of obtaining the process capability requirements as prescribed in the contract and the same defect of process capability was popping up again and again, which could not be resolved. The Committee in this regard, would like to be apprised of the objectives that could have or were intended to be achieved by PLW by transferring a defective machine to some other workshop.

Action Taken

The main reason for rejection of machine was non compliance to achieve the specified process capability requirements which was a contractual requirement and therefore its non compliance forced PLW to reject the machine. This parameter indicates the machining accuracy within a narrower tolerance band than the specified accuracy band when machine is new so that during its useful codal life operations the machining accuracy does not go beyond the specified requirement due to normal wear and tear in the machine. It means that the machine was functional and capable of performing its intended operations with slightly lesser accuracy requirements as mandated in engine block machining. Since Indian Railways has already made 80% payment to the firm and the machine had become the Indian Railways property, it was therefore necessary to explore alternate use of this machine, so that it could be fruitfully utilised elsewhere. The firm in any case was not showing any interest to rectify the machine as per contractual requirement. In this situation Railways would have withheld firm's balance 20% payment along with forfeiture of Performance Guarantee and would have utilized the machine in sub-optimal conditions for some other applications on Indian Railways. As the effort of offering the machine to other Railways didn't materialize, so PLW finally took a decision to reject the machine.

*(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated
03.05.2024)*

Audit Vetting comments on Ministry's ATN

PLW (earlier DMW) in their Rejection Memo dated 05/11/2020 has mentioned that "None of 42 Engine Blocks machined so far has been without deviation in any of the key parameters". In view of the same, Ministry of Railway's justification that "Machine was functional and capable of performing its intended operation with slightly lesser accuracy" is not acceptable. MoR is requested to forward the ATR along with above Audit comments to the PAC for their consideration.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

The Ministry's Comment to Audit Vetting Remarks

None of 42 Engine Blocks machined so far have been without deviation in any of the key parameters". The said statement was mentioned in the rejection advice issued by PLW. This was informed in reply to PAC question pertaining to intended objective to be achieved by PLW transferring a defective machine to some other workshop.

The above statement concludes that the machine was unable to meet the process capability requirements as per AT clause 3.2.8.1 in respect to bore size, Cpk value and serration pitch which are most critical parameters in engine block machining during its rebuilding. As per PLW, the machine was capable of performing the machining operations like boring, counter-boring, milling, serration milling, drilling, tapping and spot facing etc. with lesser accuracy requirements vis-à-vis that mandated for engine block machining. It was construed by PLW that the machine could have been used for machining operations (as mentioned above) on items/jobs other than engine blocks which didn't require such higher level of accuracy.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

Observation/Recommendation

The delays and deficiencies in the commissioning of the CNC machine being attributable to the supplier, the Committee desire that the Ministry establish a robust 'supplier oversight mechanism' so as to ensure timely delivery, adherence to technical specifications, and prompt resolution of any issues that may arise during the commissioning process of the machinery/equipment may be procured. This will help in mitigating the risk of project delays and financial losses. The Committee also express the need for developing and implementing comprehensive contingency plans to address potential disruptions in project timelines, including mechanisms to expedite the replacement of critical components in case of accidents or unforeseen circumstances. Further, considering the experience of the delay in the commissioning of the machine, the Committee recommend that the Ministry improve the modalities of documentation of deficiencies identified during commissioning, including specific details on how these deficiencies impact the functionality of the machine. Clear and comprehensive documentation will aid in the resolution of issues and facilitate a better understanding of the challenges faced during the commissioning process.

[Observations/Recommendation No. 5 of 96th Report of the Public Accounts Committee (17th Lok Sabha)]

Action Taken

Recommendations of the Committee are noted for compliance.

Further, COFMOW (the central procurement agency of IR) and ultimate consignee normally coordinate with each other on a regular basis during the commissioning process of the machine, so that all timelines are met as per contractual requirements. There are contractual provisions, wherein Liquidated Damages (normally @ ½% per week) are imposed for delays at any milestones stages, defined in the contract. Despite all these checks, in this particular case, there were delays in supply and commissioning due to highly complex nature of the machine and also due to un-anticipated accident during transport. Notwithstanding the above,

as advised by Hon'ble PAC, PLW would work to make its systems more robust so that timely review of the purchase process and stage wise monitoring is done effectively and well documented to avoid any kind of delays in the project execution process.

PLW will also improve the documentation during the commissioning process to identify any deficiencies that may impact the functionality of machine.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

Audit Vetting comments on Ministry's ATN

As far as compliance to the recommendation of the PAC at PLW is concerned, no further comments.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

Observation/Recommendation

From the information available, the Committee note that 80% of the payment towards procuring the CNC machine was made to the supplier before the actual shipment. The Committee wish to be apprised of the reasoning behind agreeing to this payment schedule, and safeguards, if any, that may have been put in place to protect the Ministry's interests in the event of non-compliance by the supplier. As regards action initiated and taken to mitigate the loss caused, the Committee note that COFMOW had encashed performance Bank Guarantee (PBG) for Rs. 2,55,55,519/- submitted by the firm on 22.09.2023 and gave an advisory for recovering the cost of the machine. Considering the information furnished by the Ministry, the Committee are appalled to observe that instead of taking measures for returning the defective machine directly and claiming the entire refund from the supplier, COFMOW sought to transfer the defective machine to some other Railway unit and issued an advice for recovering the costs. The Committee are of the view that atleast now the COFMOW should take recourse to legal measures for reclaiming the whole amount paid to the supplier, directly. The Committee also recommend that, especially in case of transactions involving suppliers outside India, the Ministry ought to review the 'agreement clauses' with a view to ensuring the financial interests are adequately protected in case of delay or deficiencies attributable to the supplier. The Committee also recommend that, in future procurements, the Ministry considers all viable options and selects the most suitable solution to meet its manufacturing or maintenance needs, and minimizing the risk of encountering deficiencies or delays. The Committee also feel that it would be appropriate for the Ministry to establish a comprehensive supplier developing and handholding programme for identifying, developing and providing technological

support for Indian suppliers so that they could be an integral part of the 'Make in India' supply chain system.

[Observations/Recommendation No. 6 of 96th Report of the Public Accounts Committee (17th Lok Sabha)]

Action Taken:

Recommendations of the Committee are noted for compliance. Further, it is submitted that 80% of the payment towards procuring the CNC machine was not made to the supplier before the actual shipment but after shipment and submission of documents by the supplier to the bank in accordance with the terms and conditions of the contract. In the subject case, tender was a global tender and contract was on Free on Board (FOB) basis. FOB means that the seller delivers the goods loaded onto a vessel nominated by the buyer at the named port of shipment and gets the goods cleared for export. In the subject case, the payment to the supplier was made after pre-inspection of machine and its dispatch and submission of documents by the supplier to the bank fulfilling the conditions of letter of credit as per the contract. Encashment of Performance Bank Guarantee (PBG) was done in accordance with the terms and conditions of the contract. All Railway Units were advised for recovering the balance payment of the machine from the defaulting supplier.

As per the contract, the place of consignee was Patiala Locomotive Works (PLW) and PLW currently has the physical possession of the defective machine. The machine cannot be returned back to the supplier until either the supplier pays back entire amount or railway recovers the entire paid amount from the supplier from its other pending bills. As desired by the Hon'ble Committee, COFMOW will take recourse to legal measures for reclaiming the balance payment from the firm.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

Audit Vetting comments on Ministry's ATN

MoR has not furnished any 'action taken reply' with respect to following recommendations of the Committee:

1. The Committee recommends that, especially in case of transactions involving suppliers outside India, the Ministry ought to review the 'agreement clause' with a view to ensuring the financial interest are adequately protected in case of delay or deficiencies attributable to the supplier.

2. The Committee also recommends that, in future procurements, the Ministry considers all viable options and selects the most suitable solution to meet its manufacturing or maintenance needs and minimizes the risk of encountering deficiencies or delays.

3. The Committee also feel that it would be appropriate for the Ministry to establish a comprehensive supplier developing and handholding programme for identifying,

developing and providing technological support for Indian suppliers so that they could be an integral part of the 'Make in India' supply chain system.

MoR is requested to forward the ATR along with above Audit comments to the PAC for their consideration.

(Audit vide their UO No. 277/Rly/NR/12-52/2020 dated. 23.04.2024)

The Ministry's Comment to Audit Vetting Remarks

1. The committee has raised concerns on two specific issues:

- i. Recourse of Legal action.
- ii. Payment of 80% through Letter of Credit

With regards to issue no. 1, it is submitted that recourse to take legal action is always open and as desired by the Committee, COFMOW has also confirmed that it will take recourse to Legal measures for reclaiming the balance payment from the firm.

For issue 2, it is submitted that Payment through irrevocable Letter of Credit are part of standard agreement clauses.

Para 6.4 of Manual for Procurement of Goods issued by Ministry of Finance, Department of Expenditure, states about terms of payment of imported Goods. Para 6.4.1 (ii) specifically states that in Cases where installation, erection and commissioning are the responsibility of the supplier – 80-90 (eighty to ninety) percent net FOB/FAS/CFR/CIP price will be paid against the invoice, inspection certificate (where applicable), shipping documents, and so on, and balance within 21-30 (twenty-one to thirty) days of successful installation and commissioning at the consignee's premises and acceptance by the consignee.

Para 6.4.2 of the Manual specifically states that: "For imported goods, payment usually happens through the LC opened by the State Bank on India or any other scheduled/authorized bank as decided by the procuring entity. The amount of LC should be equal to the total payable amount, and be released as per the clauses mentioned above. Provisions of Uniform Customs and Practices for Documentary Credits should be adhered to while opening the LC for import into India".

Thus, the existing clauses for payment through Letter of Credit are in line with the policy followed by Government of India.

2. Noted for compliance.

All Indian Railway tenders are done through Indian Railways E-Procurement System (IREPS) which ensures an open and transparent tendering process. The IREPS allows vendors from all over India to participate in the bidding process, fostering healthy competition and promoting regional development.

3. In order to promote local suppliers and manufacturers a set of instructions for implementation of Public Procurement (Preference to Make in India) have been issued by Ministry of Railways over a period of time as per the Policy initiatives issued in this regard by Gol. These initiatives have been undertaken with a view to enable widespread participation of Indian Suppliers/Manufactures in the tenders/contracts of Railways for supply of Goods/Services/Works. Instructions have specifically been issued for guidance and compliance by Railway Units that terms and conditions of the tenders are not restrictive and discriminatory against the Indian suppliers which result in unreasonable exclusion of local suppliers.

(Ministry of Railways/ Railway Board; OM No. 2024-BC-PAC-XVII/96th Report; Dated 03.05.2024)

CHAPTER III

**OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT
DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM THE
GOVERNMENT**

NIL

CHAPTER IV

**OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF
THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND
WHICH REQUIRE REITERATION**

NIL

CHAPTER V

**OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH
GOVERNMENT HAVE FURNISHED INTERIM REPLIES/NO REPLIES**

NIL

**NEW DELHI:
12 December, 2024
21 Agrahayana 1946 (*Saka*)**

**K.C. Venugopal
Chairperson,
Public Accounts Committee**

APPENDIX-I

MINUTES OF THE 9th SITTING OF THE COMMITTEE ON PUBLIC ACCOUNTS (2024-25) HELD ON 12th DECEMBER 2024 FROM 1530 HRS. ONWARDS

The Committee met on Thursday from 1530 hrs. to 1730 hrs. on 12th December, 2024 in Committee Room 'B', PHA, New Delhi.

PRESENT

Shri K.C. Venugopal

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Chairperson

Members

LOK SABHA

2. Dr. Nishikant Dubey
3. Shri Jagdambika Pal
4. Shri C. M. Ramesh
5. Shri Magunta Sreenivasulu Reddy
6. Prof. Sougata Ray
7. Smt. Aparajita Sarangi
8. Dr. Amar Singh
9. Shri Tejasvi Surya
10. Shri Anurag Singh Thakur
11. Shri Dharmendra Yadav

RAJYA SABHA

12. Shri Ashokrao Shankarrao Chavan
13. Shri Shaktisinh Gohil
14. Dr. K. Laxman
15. Shri Sukhendu Sekhar Ray
16. Shri Sudhanshu Trivedi

LOK SABHA SECRETARIAT

1. Dr. Sanjeev Sharma - Joint Secretary
2. Shri Muraleedharan. P - Director
3. Shri Alok Mani Tripathi - Deputy Secretary
4. Shri Pankaj Sharma - Deputy Secretary
5. Shri Atul Bhave - Deputy Secretary
6. Ms. Malvika Mehta - Deputy Secretary
7. Dr. Faiz Ahmad - Under Secretary

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

1. Ms. Atreyee Das - Dy. CAG
2. Ms. Smita S. Chaudhari - Dy. CAG
3. Shri Samar Kant Thakur - Director General
4. Shri Gurveen Sindhu - Director General

PART A

XXXXX XXXXX XXXXX XXXXX XXXXX XXXXX

PART B

Thereafter, Hon'ble Chairperson stated that the following three draft reports may be taken up for consideration and adoption :-

- a) Action Taken by the Government on the observations/recommendations of the Public Accounts Committee contained in their 96th Report (17th Lok Sabha) on "Injudicious Procurement of an additional CNC Horizontal Boring and Milling Machine: Patiala Locomotive Works";
- b) XXXXX XXXXX XXXXX; and
- c) XXXXX XXXXX XXXXX.

After some deliberations, the Committee adopted the aforesaid Draft Reports without any modifications and authorised the Chairperson to finalise the Reports in the light of factual verification done by the Audit.

The Committee then adjourned.

A copy of the transcript of audio recording of the proceedings of the sitting has been kept on record.

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 NINETY SIXTH REPORT (SEVENTEENTH LOK SABHA)

(i)	Total number of Observations/Recommendations	06
(ii)	Observations/Recommendations of the Committee which have been accepted by the Government: Para Nos. 1, 2, 3, 4, 5 and 6	Total: 06 Percentage: 100
(iii)	Observations/Recommendations which the Committee do not desire to pursue in view of the reply of the Government: Para No. – NIL	Total: 0 Percentage: 0
(iv)	Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration: Para No. – NIL	Total: 0 Percentage: 0
(v)	Observations/Recommendations in respect of which the Government have furnished interim replies: Para No. – NIL	Total: 0 Percentage: 0
