P.A.C. No. 440

PUBLIC ACCOUNTS COMMITTEE (1974-75)

(FIFTH LOK SABHA)

HUNDRED AND FORTY-FOURTH REPORT

[Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil) relating to the Department of Supply—Para 44—Purchase of Padlocks, Para 45—Purchase of Lathes, Para 46—Purchase of zinc base Alloy Ingots, Para 47—Purchase of Insulation tape.]

LOK SABHA SECRETARIAT
NEW DELHI

March, 1975/Chaitra, 1897 (S)

Price : *Rs.* 2.20

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

Sl. No.	Name of Agent

ANDHRA PRADESH

1. Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam).

2. G. R. Lakshmipaty Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.

ASSAM

3. Western Book Depot, Pan Bazar, Gauhati.

BIHAR

4. Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.

5. M/s. Crown Book Depot, Upper Bazar, Ranchi.

GUJARAT

6. Vijay Stores, Station Road, Anand.

7. The New Order Book Company, Ellis Bridge, Ahmedabad-6.

HARYANA

8. M/s. Prabhu Book Service, Nai Subzi Mandi, Gurgaon.

MADHYA PRADESH

9. Modern Book House, Shiv Vilas Palace, Indore City.

MAHARASHTRA

10. M/s. Sunderdas Gianchand, 601, Girgaum Road, New Princess Street, Bombay-2.

11. The International Book House, (Private) Limited, 6, Ash Lane, Mahatma Gandhi Road, Bombay-1.

12. The International Book Service, Deccan Gymkhana, Poona-4.

13. Charles Lambert & Company, 10, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.

14. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.

15. Deccan Book Stall, Fergusson College Road, Poona-4.

16. M.& J. Services, Publishers Representatives, Accounts & Law Book Sellers, Bahri Road, Bombay-15.

MYSORE

17. People Book House, Opp. Jaganmohan Palace, Mysore.

RAJASTHAN

18. Information Centre, Government of Rajasthan, Tripolia, Jaipur City.

19. M/s. Usha Book Depot, 585/A, Chitra Bazar, Tripolia, Jaipur.

UTTAR PRADESH

20. Law Book Company Sardar Patel Marg, Allahabad-1.

CONTENTS

PUBLIC ACCOUNTS COMMITTEE
(1974-75)

CHAIRMAN

Shri Jyotirmoy Bosu

MEMBERS

2. Shri S. C. Besra
3. Shri C. D. Gautam
4. Shri Pampan Gowda
5. Shri Jagannathrao Joshi
6. Shrimati Parvathi Krishnan
7. Shri Y. S. Mahajan
8. Shri Bibhuti Mishra
9. Shri Paripoornanand Painuli
10. Shri Narain Chand Parashar
11. Shri H. M. Patel
12. Shri P. Antony Reddi
13. Shri Shibban Lal Saksena
14. Shri Biswanarayan Shastri
15. Shri Sunder Lal
16. Shrimati Pratibha Singh
17. Shri G. R. Patil
18. Shri V. B. Raju
19. Shri Mohammed Usman Arif
20. Shri T. N. Singh
21. Shri Sasankasekhar Sanyal
22. Shri A. K. A. Abdul Samad

SECRETARIAT

Shri B. K. Mukerjee—*Chief Legislative Committee Officer.*

Shri N. Sunder Rajan—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee having been authorised by the Committee do present on their behalf this Hundred and Forty-Fourth Report of Public Accounts Committee on the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil) relating to the Department of Supply—Para 44—Purchase of Padlocks, Para 45—Purchase of Lathes, Para 46—Purchase of zinc base Alloy Ingots, Para 47—Purchase of Insulation tape.

2. The Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Civil), was laid on the Table of the House on the 30th April, 1974. The Committee examined the paragraphs at their sitting held on the 26th and 27th September, 1974 (FN). This Report was considered and finalised by the Committee at their sitting held on 24th March, 1975 (A.N.). Minutes of the sittings form Part II* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report. *For facility of reference, these have been prited 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 examination of these paragraphs by the Comptroller and Auditor General of India.

5. The Committee also like to express their thanks to the officers of the Ministries of Supply and Rehabilitation (Department of Supply), Defence, Labour, Law, Justice and Company Affairs and Communications (P&T Board) for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
24 *March*, 1975
Chaitra 3rd 1897 (*S*).

Chairman
Public Accounts Committee.

*Not printed. (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

REPORT

Chapter I

Purchase of padlocks

Audit Paragraph

1.1. Padlocks are reserved for purchase from small scale industrial units. During May 1967 to May 1968, the Director of Ordnance Services, Army Headquarters, placed four indents on the Director General, Supplies and Disposals, for supply of 3.74 lakhs, 0.45 lakh and 0.19 lakh iron galvanised padlocks of 40 mm, 50 mm, and 75 mm sizes as below:—

Sl. No.	Date of Indent	No. and size of padlocks			Date of tender enquiry
		40 mm	50 mm	75 mm	
1.	18-5-1967	1,29,800	2,600	1,900	11-7-1967
2.	30-10-1967	79,000	—	17,320	11-12-1967
3.	8-5-1968	—	42,000	—	3/16-7-1968 (Combined tender enquiry).
4.	28-5-1968	1,65,400	—	—	

1.2. In response to the first limited tender enquiry issued to 13 firms—12 of Aligarh and 1 of Hazaribagh—offers from 12 firms (ten of Aligarh, 1 of Hazaribagh registered with the Directorate General of Supplies and Disposals for the item and 1 from a State Government factory at Howrah, a small scale unit) were received and opened on 2nd August 1967. On the basis of tenders received, an acceptance of tender for supply of 2,600 padlocks of 50 mm size and 1,900 of 75 mm size was placed on firm 'A' of Aligarh on 28th November 1967 at Rs. 3.40 and Rs. 9.00 per padlocks respectively. For padlocks of 40 mm size, besides the State Government factory which had quoted the rate of Rs. 6.50 each, ten Aligarh firms had quoted the same rate of Rs. 2.90 each. The Director General, Supplies and Disposals, held negotiations with the firms of Aligarh on 16th November 1967 and placed acceptances of tender on four firm for supply of 36,000 padlocks at Rs. 2.69 each and 53,000 padlocks at Rs. 2.70 each. For the balance 40,800 padlocks the lowest rate of Rs. 2.69 each was counter-offered to the remaining firms of Aligarh who, however, did not accept it.

1.3. In response to the second advertised tender enquiry of 11th December 1967, offers from 9 firms from Aligarh were received and opened on 24th January 1968 and, for supply of 17,320 padlocks of 75 mm size, acceptances of tender were placed on two firms at Rs. 9.00 each. The uncovered balance of 40,800 padlocks of 40 mm size of the first indent was bulked with the second indent and fresh quotations invited in July 1968 from the tendering firms in the expectation that they would reduce their rate in view of increase in the number from 79,000 to 1,19,800 padlocks. Contrary to this expectation the firms of Aligarh pushed up their rate from Rs. 2.85 to Rs. 3.95 per padlock.

1.4. The Director General, Supplies and Disposals, had noticed that the firms of Aligarh had formed a ring and had been quoting the same rate. For breaking the ring, he counter-offered (7th January 1969) to the State Government factory as also to a State Government Corporation the rate of Rs. 2.85 per padlock. The State Government factory accepted the offer (January 1969) saying that its original quotation of Rs. 6.50 each was for padlocks with brass body and brass key-hole cover whereas padlocks of galvanised iron were required by the Defence indentor. This factory had only 39 skilled employees and its production capacity was 2,000 padlocks per month. In spite of its limited capacity, the Director General, Supplies and Disposals, placed an order on it (on 31st January 1969) for supply of 1,19,800 padlocks of 40 mm size at Rs. 2.85 each by 31st December 1969 or earlier.

1.5. That factory tendered only 1,092 padlocks (in October, 1969) which were rejected due to incorrect composition of raw material and other manufacturing defects. Thereafter, no padlocks were offered by it for inspection.

1.6. In response to the third limited tender enquiry of 3rd July 1968 (as amended on 16th July 1968), offers from 12 firms were received and opened on 8th August 1968. As the Aligarh firms had again formed a ring and quoted the same rate of Rs. 3.90 each for 40 mm size padlocks and three of those firms had quoted the same rate of Rs. 4.90 each for 50 mm size, the Director General, Supplies and Disposals, on 19th December 1968 held negotiations with two firms during which one firm offered to reduce the rate from Rs. 3.90 to Rs. 3.85 each for 40 mm size and from Rs. 4.95 to Rs. 4.85 each for 50 mm size. The other firm declined to give any reduction. Since the former firm subsequently did not confirm its offer of reduction, the Director General decided (20th February 1969) to ask the State Government factory to accept order for supply of padlocks of 40 mm size at Rs. 2.85 each and of 50 mm size at Rs. 3.40

each. On receipt of its acceptance (13th March 1969), an acceptance of tender was placed on it on 11th April 1969 for supply of 31,000 (increased to 42,000 on 24th May 1969) padlocks of 50 mm size at Rs. 3.40 each and 1,65,400 padlocks of 40 mm size at Rs. 2.85 each by 30th September 1969 or earlier. The factory, however, tendered only 706 padlocks (during September 1969) which were rejected in bulk.

1.7. In November 1969 and January 1970, the State Government requested increase in the rates but the request was not acceded to as the contracts were on fixed and firm price basis. Thereafter, in March 1970 the State Government factory stated that its rates had been approved by the State Government (in spite of apprehended loss) and that it would be in a position to supply at least 15,000 padlocks per month against the acceptances of tender if the delivery period was extended. In July 1970 the State Government also requested extension of delivery period on the basis of production programme of 15,000 padlocks per month. In view of the urgency of requirements the Defence department did not agree to this and, as such, the Director General, Supplies and Disposals, requested (20th August 1970) the State Government to agree to reduction of the number on order to six months' supply, *i.e.*, 90,000 padlocks against the two acceptances of tender and to cancellation of the balance order without financial repercussions. Efforts of the Director General to persuade the State Government to supply at least part of the contracted quantity, however, failed. Both the acceptances of tender were, therefore, cancelled at the risk and expense of the factory on 24th September 1970; claims for risk purchase loss were not to be enforced against a Government establishment according to the existing policy of Central Government. In August 1972 the State Government admitted that its factory had neither the capacity nor the experience to execute such order.

1.8. Orders were placed in February 1971 for 2,75,200 padlocks of 40 mm size and 23,400 padlocks of 50 mm size on five firms of Aligarh at Rs. 6.50 each for 40 mm size and Rs. 8.50 each for 50 mm size, which were quoted by those firms in November 1970 against forming a ring. Besides assistance given to the firms through release of steel on replenishment basis, these purchases would cost Rs. 8.96 lakhs extra, as compared to the rates offered earlier against the three tender enquiries of July 1967, December 1967 and July 1968 or offered after negotiations. These firms have also been allowed 27 to 31 months time to complete the supply.

1.9. For breaking the ring of Aligarh parties all of which used to quote to the same rates and offer protracted delivery schedules, the Director General, Supplies and Disposals, approached the Department of Supply in July 1971 for removal of padlocks from the list of items reserved for small scale units for purchase against "operational", "express" and "urgent" indents. It was decided in September 1973 to maintain the status-quo, mainly in view of the improved prospects of supply of padlocks by the small scale units.

1.10. As compared to the rates offered by the Aligarh firms in August 1967, the increases in prices of padlocks of 40 mm and 50 mm sizes allowed in February 1971 were 124 per cent and 150 per cent respectively. During that period the whole sale price index of iron and steel manufactures had increased by about 20 per cent only. Even as compared to the rates offered by those firms in July 1968, the increases in prices of padlocks of 40 mm and 50 mm sizes allowed in February 1971 were 67 per cent and 73 per cent respectively, when during the same period the whole sale prices index of iron and steel manufacturers had increased by about 13 per cent only. When, as in this case, manufacturers of articles reserved or the small scale industries sector form rings and ask for too high prices, it is moot point whether the Director General, Supplies and Disposals, should not have the authority to invite (or reinvite) quotations from also the bigger manufacturers (in addition to these belonging to the small scale sector) and further, if circumstances justify, also purchase the articles from the bigger producers.

[*Paragraph* 44 *of the Report of the Comptroller and Auditor General of India for the year* 1972-73 Union Government (Civil)]

Padlocks

1.11. Padlocks were included in the list of Group IV items reserved for exclusive purchase from Small Scale Industry Units in the year 1956-57. This position has remained unchanged ever since, except for a short spell during the course of emergency declared in October 1971 when the Director General, Supplies and Disposals was given general relaxation to procure from large scale units such of the Group IV items as could not be supplied by the small scale industry units according to the programme laid down by the Defence indentor.

1.12. The Committee have been informed that the small scale industry making these padlocks is mostly concentrated in Aligarh, Offers made by small scale units located outside are also considered.

1.13. Asked to state the steps taken to encourage production of padlocks by Small Scale Industry in other parts of the country, the

Department of Supply have, in a written note furnished to the Committee, stated as under:—

"As early as 1956 this organisation conducted a survey of Pad Lock Industry in all the 4 regions of the country and an industrial outlook report was prepared with a view to assessing the status of the industry and also to recommend measures for further improvement of various type of Pad Lock manufactured in the country at various centres. The various recommendations contained in the report have to a large extent been implemented. An extension centre for lock industry has been established at Aligarh which is the major concentration of this industry in India.

According to this survey there were 1,457 small scale and cottage units manufacturing locks in the country and produce goods worth Rs. 124 lakhs. The distribution of the units is as under:—

Northern Region	1310 (including cottage units)
Southern Region	118
Eastern Region	4
Western Region	25

In 1968 this organisation conducted another survey on lock industry and prepared an Industry Prospect Sheet. According to this survey there were 4 large scale and 107 small scale units in the country and their production in 1966 was of the order of Rs. 228 lakhs. Since 1956 when the last survey was conducted a number of units have come up in various States and their distribution is given below:—

Andhra Pradesh	3
Bihar	1
Delhi	6
Tamil Nadu	13
Maharashtra	7
Punjab	6
Uttar Pradesh	37
West Bengal	34

It will, therefore, be seen that the industry is now well dispersed in almost all states though Uttar Pradesh and West Bengal are major concentrations. The demand for locks of various types was expected to increase at the rate of 5 to 10 per cent per annum and it was expected that in 1970-71 the demand would be the order of about Rs. 5 crores. Regarding scope for further expansion of this industry it may be stated that considerable capacity remained unutilised. As against the total installed capacity of Rs. 694 lakhs worth of locks the production in 1966 was about Rs. 388 lakhs. It was therefore, considered that there was no large scope for further Uttar Pradesh State.

Indian Standard Institution have formulated standard for locks. It is reported that quite a large number of units at Aligarh and in other States produce quality mark locks. The quality marking scheme at Aligarh is administered by the Industries Department of Uttar Pradesh State

1.14 To meet the four demands from the Director of Ordinance Services, Army Headquarters, for supply of 3.74 lakh, 0.45 lakh and 0.19 lakh iron galvanised padlocks of 40 mm, 50 mm, and 75 mm sizes respectively a limited tender enquiry was issued to the following 13 firms:

1. Shri Gopal Metal and Wood Works, Aligarh.
2. Universal Button Emporium, Aligarh.
3. Harais & Co., Aligarh.
4. R. S. Brothers & Co., Aligarh.
5. Agarwal Metal Foundary (Regd.), Aligarh.
6. Seth Brothers, Aligarh.
7. K. C. Ruby & Co., Aligarh.
8. Abdul Aleem & Sons, Aligarh.
9. P. C. Mukerji & Sons, Aligarh.
10. Imperial Metal Works, Aligarh.
11. Audyogik Kalakar Sahkari Samiti Ltd., Aligarh.
12. Jairam & Sons, Aligarh.
13. Bihar State Small Industries Lock Factory, Hajaribagh.

1.15 It will be seen that 12 of these firms belong to Aligarh and one belongs to Bihar, viz. Bihar State Small Industries Lock Factory, Hazaribagh.

1.16 In response to the limited tender enquiry, offers were received from 12 firms—10 of Aligarh, 1 of Hazaribagh and 1 from a State Government factory at Howrah (Central Lock Factory, P.O. Bargachia).

1.17 It has been stated in the audit paragraph that, on the basis of tenders received, an acceptance of tender for supply of 2,600 padlocks of 50 mm size and 1,900 padlocks of 75 mm size was placed on Jairam & Sons, Kutab Street, Aligarh on 28th November, 1967 at Rs. 3.40 and Rs. 9.00 per padlock respectively. Orders were also placed on four firms of Aligarh for supply of 36,000 padlocks at Rs. 2.69 each and 53,000 padlocks at Rs. 2.70 each after holding negotiations with them on the 16th November, 1967. To meet the balance requirements of 40,800 padlocks of 40 mm size, the lowest rate of Rs. 2.69 each was counter offered to the remaining firms of Aligarh, who however, did not accept it. A limited tender enquiry was issued on 11-12-1967 and the following 9 firms of Aligarh made offers:—

Firm	Rate	
	40mm	75mm
1. Harais & Co., Aligarh	2·85	..
2. Vulcan Bright Lock Works, Aligarh	2·85	..
3. Jairam & Sons, Aligarh	2·85	9·00
4. Universal Button Emproium, Aligarh	2·85	9·00
5. Shri Gopal Metal & Wood Works, Aligarh	3·00	13·50
6. K. C. Ruby & Co., Aligarh	2·85	..
7. R. S. Brothers, Aligarh	2·85	..
8. Audyogik Kalakar Samiti, Aligarh	2·85	..
9. P. C. Mukerjee, Aligarh	2·85	..

1.18 The expectation of the DGS&D that the Aligarh firms would reduce their rate consequent on the increase in the demand of padlocks (from 79,000 to 1,19,800) did not materialise.

1.19. The rate offered by Central Lock Factory, Bargachia was Rs. 6.50 for 40 mm size and Rs. 14.00 for 75 mm size. Suspecting that the Aligarh firms had formed a ring, the DGS&D counter-offered to State Government factory, Bargachia and to the Bihar State Small

Industries Corporation, Patna, the rate of Rs. 2.85 per padlock. The State Government factory, Bargachia accepted the offer in January 1969.

1.20 The Committee enquired the reasons for holding negotiations on 16-11-67 and placing acceptances of tender on 4 firms instead of giving orders to the lowest tenderers. The Secretary, Department of Supply has stated during evidence:—

> "I would submit that negotiations should not be held in each and every case unless and until one finds that the rates quoted are too much at variance as between the one and the other and you have reasons to feel that the rates which are quoted by one party against the other parties are abnormally high. If you want to encourage the small scale people to get a chance to complete, you may offer certain rates to them. But I would agree and it is our policy that normally negotiations should not be held when the tenders come in. It has been made quite clear to the Director General, Supplies and Disposals from time to time that negotiations should only be resorted to when it is absolutely essential and in the matter of negotiations orders of the higher officers have to be obtained and as I had submitted earlier, this was not a case where even though there was a ring, it could have been deemed as if an unhealthy ring has been formed."

1.21 According to the Audit, the State Government Factory at Bargachia had only 39 skilled employees and its production capacity was 2,000 padlocks per month. The Committee wanted to know how an order of supply of 1,19,800 padlocks of 40 mm size was placed on the State Government factory on 31-1-1969 in spite of its having limited capacity. In a written note furnished to the Committee, the Department of Supply have stated as under:

> "The Central Lock Factory, Government of West Bengal in their tender dated 20-1-1968 had guaranteed to supply the quantity of 76,000 Nos. plus 17,320 Nos. (Total 93,320 Nos.) by November, 1968, i.e. at the average rate of 9,332 Nos. per month.

The offers received from the Aligarh based firms indicated ring formation. They had quoted a rate of Rs. 2.85 each for 40 mm size padlocks against the tender for 79,000 Nos. opened on 24-1-1968. Subsequently, when the quantity was increased to 1,19,800 Nos., the

Aligarh firms were asked to offer maximum reduction in price, considering the increase in the quantity. They, instead of offering any price reduction, increased their price to Rs. 3.95 each. Considering the attitude of the ring firms, efforts were made to explore the possibility of supply through the Govt. Central Lock Factory, West Bengal. They agreed to the rate of Rs. 2.85 each and assured in their letter No. 264|CLF|13|68-69 dated 15-1-1969 as under:—

> "For your information it may be added that our unit is a Govt. owned Lock Factory run under this Directorate having requisite machinery and all other arrangements. Perhaps our unit is the only member of ISI and manufacturing all types of padlocks, strictly as per ISI specifications. Considering our quality, many Banks including State Bank of India for their offices and Branches, throughout India, are our regular customers. Government offices, Govt. owned Corporation, Hindustan Steel and other Public undertakings are our regular customer. These are possible only due to our good quality and security of locks."

With a view to diversifying the sources of procurement as also to break the tendency of ring formation and taking into consideration the price, the capacity offered and the assurance held out by the Central Lock Factory, the order for 1,19,800 Nos. of locks was placed on them.

As the Government owned Central Lock Factory was functioning under a Department of the West Bengal Government, the State Government were not specifically consulted before placing an order on their factory."

1.22. Asked to comment on the justification for making a counter-offer to the State Government factory, Bargachia in view of the attitude of the ring firms, the Secretary, Department of Supply has stated during evidence:—

> "As a postmortem of this case I have come to the view that it may be that they had formed a ring for the purpose of quotation. But, as a result of my postmortem examination of the case, I can only submit that to me the rates do not appear to be such as would involve that drastic action. The ring was formed and the rates which were quoted, in my opinion, as a result of this post-mortem, do not appear to me to be such as would have required this action as to not to have placed the orders. The matter

could have been proceeded with, but it is the accepted policy of the Government to encourage small scale industries. I think it becomes the function of any purchase organisation to see what is the cost of the material, what are the rates which have been quoted and whether they are abnormally high. Even if the rates are quoted at the same level, I submit they are of a small value and do not require the drastic action unless and until it is found that supplies would come much cheaper or you can get the supplies from elsewhere. This is my understanding of the situation in which they had considered that they have formed a ring. When they found that the West Bengal Government were prepared to supply, they accepted that offer, but I do not think a very careful detailed scrutiny at that time was done, whether that order would materialise. My own assessment of this is that we should have placed the order on these firms and later on examined what remedial measures should be adopted."

1.23. In view of the fact that the padlock manufacturing concerns are scattered all over the country in far-flung areas and tender enquiries are not likely to reach them within the time stipulated in the tender enquiries, the Committee enquired whether any arrangements were made by the DGS&D through the State Governments or through cooperatives to attract the attention of those widely dispersed units to respond to the enquiries made by the Director General of Supplies and Disposals. The Secretary, Department of Supply, has stated during evidence:—

"The tenders are advertised, copies of the tenders are also made available to NSIC for distribution to the small scale industries, tender copies are also sent to the Directors of Industries of each State Government who in turn advises the industry. So there is enough provision for the purpose of giving adequate publicity and bringing it to the notice of the people."

1.24 In a written note furnished to the Committee, the Department of supply have stated that "the tender enquiries were advertised in the "Indian Trade Journal" dated 27-12-1967 and 21-10-70." Copies of these advertisements are given in Appendices I and II.

Asked to state whether any arrangement was made for giving publicity to the advertisements through the All India Radio, the Secretary, Department of Supply, has stated in evidenve:

> "Our purchases are large in number and publicity through the All India Radio may not be feasible. But here again I would say that this is the job primarily for the State Government, for the Director of Industries to take care of."

1.25. During the evidence, the Committee pointed out to the representative of the Ministry that an order for supply of 1,19,800 padlocks was placed on the State Government Factory, Bargachia on 31-1-1969 for supply by 31st December, 1969 or earlier but against this order that factory tendered only 1,092 padlocks by October 1969 which were rejected due to incorrect composition of raw material and other manufacturing defects. Asked to state the justification for placing the order and for giving so much time to the firm, the Secretary, Department of supply has stated:—

> "They offered 42,000 on a six-monthly basis. When we wrote to the West Bangal Government, they confirmed they would be able to execute the order. The review showed that mere acceptance of the order by West Bengal Government should not have been taken as assured supplies in time. They should have gone into the details of it. They should have given further thought, they accepted the letter of the State Government in good faith and went ahead. This is what had happened."

1.26 The Committee wanted to know how the urgent requirements of the Defence Services were met when the supplies failed to materialise. In a note furnished to the Committee, the Ministry of Defence have stated as under:

> "Due to delay in the supply of padlocks from Central Purchase Agency, the urgent requirements of the Army in respect of padlocks were partially met by resort to local purchases. A statement indicating details of padlocks locally purchased by the Army authrities during the year 1969—72, is given in Appendix III. It will be seen from the enclosed statement that the extra expenditure involved in the local purchase of padlocks, where the local purchase rates were higher than the DGS&D rates, works out to Rs. 2,435.70. However, in many cases the local

purchase rates were lower than the DGS&D rates, and if these are also taken into account, the conclusion would emerge that there was no extra expenditure on the total quantity acquired through local purchase."

1.27. The representative of the Ministry of Defence has informed the Committee in evidence that "the demand for Padlocks (40 mm size) placed for the year 1967-68 was 1,29,800 for the whole army. On account of failure of supplies the Ministry of Defence went in for local purchase. Padlocks of 40 mm and 50 mm sizes were purchased during 1969—72 at Rs. 2.65 to Rs. 3.45. He has also stated that the rates were cheaper because the payment was made much earlies across the counter" as against the normal delayed payment of the DGS&D."

1.28 Asked to state whether the information regarding the prices of padlocks which were paid for local purchases was communicated to the DGS&D, the representative of the Ministry of Defence has stated in evidence as under:

"When we buy from the local dealer we purchase only our immediate requirements which are not required for the purchase of stocking; it for the purpose of meeting our urgent needs. And referring to the Chairman's question as to why we don't keep our right hand and left hand coordinated, I had mentioned that our price structure and their price structure is approximately the same and that the little difference in the local purchase and purchase in bulk is because our payment would be quicker to the firm as money is being made over immediately."

1.29 The Committee wanted to know the criteria for deciding whether the rate quote in the tender was lower or higher and whether the rate quoted was malafide or not. The Secretary of the Department of Supply has stated in evidence as under:

"We have the estimated rate for the indent and we also have the last purchase price at that time. We don't merely go by the quoted rate. We consider all the aspects. We take into consideration four points: (i) what is the estimated rate of the indenting Ministry; (ii) how this item was purchased in the past; (iii) how the rates have been quoted in the tenders; (iv) what has been the experience of the DGS&D of suppliers' performance in regard to delivery etc. These are points to be considered before the placement of orders."

1.30 In reply to a question whether the above criteria were applied in the present case, the Secretary, Department of Supply has stated in evidence as under:

"In this particular case, I had already mentioned that as a result of the post-mortem, I don't think they took into consideration what was the prevailing price etc. Of course, in the case of 2.50 they had referred it to the indentor and the indentor said that there is a difference in the specifications and they won't buy, etc. But as for the price quoted, it was not abnormally high. I have already submitted this."

1.31. The Committee enquired whether any attempt was made to do the costing in respect of the manufacture of padlocks. The Secretary, Department of Supply has stated in evidence:

"Costing was gone into at that time. Not only the cost of steel is involved in this. Labour's wage, cost of non-ferrous metals and all kinds of things also go into this. But, there is nothing to show that the costing had been done actually. In this case, as I have submitted, only a rough estimate was adopted at that time."

1.32. The Committee enquired from the representative of the Department of Supply whether the Department had any machinery for costing in view of the fact that they had to deal with small sector units and the question of limited tenders and negotiations with suppliers would arise from time to time. The Secretary, Department of Supply, has stated in evidence:

"We have been trying to have a cell in our organisation for this purpose, but we have not as yet been succesful in getting this through..... We have got a Cost Accounts Officer who studies cases which are doubtful. He can study a few cases. We would like to go through a large number of cases, if possible."

1.33. The Committee enquired from the representative of the Department of Defence whether the local purchase of padlocks were made from large scale units or from the small scale units. The representative of the Department of Defence has stated in evidence: "We do not go to the manufacturers in all cases unless that happens to be absolutely necessary."

1.34. It has been stated in the Audit para that in response to the third limited tender enquiry of 3rd July, 1968, offers were received from 12 firms. The names of the firms from whom offers were received and the prices quoted by them in respect of 40 mm and 50 mm Padlocks are as follows:

Firm	Price 40mm	Price 50mm
	Rs.	Rs.
1. Vulcan Bright Lock Works, Aligarh	3·90	3·5 4·95
2. The Central Lock Factory, Howrah	..	6·09
3. The Universal Button Emporium, Aligarh	3·90	4·90
4. The Agarwal Metal Foundry, Aligarh	..	4·50
5. Shri Gopal Metal & Wood Works, Aligarh	4·00 Less 10 nP discount	5·30
6. Audyogik Kalakar Sahkari Samiti, Aligarh	3·90	..
7. Jairam & Sons, Aligarh	3·90	4·90
8. R. S. Brothers & Co., Aligarh	3·90	4·90
9. P. C. Mukerjee & Sons, Aligarh	3·90	....
10. Haris & Co., Aligarh	3·90	5·70
11. Dte. of S.S.I., Howrah	5·75	..
12. K. C. Ruby & Co., Aligarh	3·90	5·50

1.35. Apprehending the formation of a ring by the Aligarh firms, the Director General Supplies and Disposals, held negotiations with two firms on 19-12-1968, *viz.*, Vulcan Bright Lock Works, Aligarh and Jairam & Sons., Aligarh, during which the former offered to reduce the rate from Rs. 3.90 to 3.85 each for 40 mm size and from Rs. 4.95 to Rs. 4.85 each for 50 mm size. The other firm declined to give any reduction. Subsequently, Vulcan Bright Lock Works, Aligarh did not confirm its offer of reduction.

1.36. The Director General, Supplies and Disposals thereupon decided on 20th February, 1969 to ask the State Government Factory, Bargachia to accept order for supply of padlocks of 40 mm size at Rs. 2.85 each and of 50 mm size at Rs. 3.40 each.

1.37. According to the information furnished by the Department to the Audit. "The last purchase price (L.P.P.) for 40 mm and 50 mm padlocks was Rs. 2.69 and Rs. 3.40 each respectively. The price quoted by the ring firms of Aligarh was therefore 44 per cent higher than the L.P.P. which was explained by them as due to the labour charges and prices of raw materials going up considerably."

1.38. According to the Director, Small Industries Service Institute, Kanpur (July 1972), the units engaged in manufacture of padlocks had organised themselves into a ring for the reason that the Director General, Supplies and Disposals, instead of giving orders to lowest tenderer, used to negotiate with all tenderers and fixed up one rate for all. Further, the high rates quoted by the industry were attributed to the cushion that they had to provide owing to the upward trend in the prices of raw material to cover the time-lag between the submission of tenders and fixation of the contracts and the long period of two years thereafter for which the contracts would remain valid after their conclusion.

1.39. After the State Government factory, Bargachia communicated its acceptance of the order on 13th March 1969 for supply of padlocks of 40 mm size at Rs. 2.85 each and of 50 mm size at Rs. 3.40 each, an acceptance of tender was placed on it on 11th April 1969 for supply of 31,000 (increased to 42,000 on 24th May 1969) padlocks which was to be supplied by 30th September 1969 or earlier.

1.40. It was pointed out by Audit that the Factory tendered only 706 padlocks during September 1969 which were rejected in bulk.

1.41. The Committee have been informed that in addition to the acceptance of tender placed on Government Central Lock Factory, Bargachia on 11-4-1969 and the earlier A/T placed on it on 31-1-1969, the Director General, Supplies and Disposals also placed on it a Rate Contract on 16-5-1969. Yet another A/T bearing No. SMH-6|101|46|236|386 dated 24-7-1969 was placed on it by the Director General, Supplies and Disposals for 10,500 padlocks of 50 mm size.

1.42. Requests were made by the State Government in November 1969 and January 1970 for increase in the rates of manufacture of padlocks by the State Government Factory, Bargachia was not acceded to as the contracts were on fixed and firm price basis. The State Government Factory in March 1970 requested that the delivery period be extended and that it would be in a position to supply at least 15,000 padlocks per month. The Defence Department did not agree to this.

1.43. In a note furnished to the Audit, the Department of Supply has stated in December 1973 as under:

"They (Central Lock Factory, P.O. Bargachia, Distt. Howrah) were requested to step up production from 15,000 Nos. to 30,000 numbers, which they did not agree. However, after consultation with the indentor a reference was made to the factory whether they would agree to supply a quantity of 90,000 numbers against both the contracts within a period of six months and to cancellation of the balance quantity. The Factory, however, expressed their inability to make any supply because they had decided to stop their programme of padlocks. When they were insisted, they stated that they could not resume production because the location of the factory was under flood. But the A/Ts were cancelled at their risk and expense." The cancellation was done on 24th September 1970.

1.44. It has been stated in the Audit para that the claims for risk purchase loss were not to be enforced in as much as the Factory was a Government establishment. In a note furnished to the Audit, the Department of Supply has stated in December 1973 that "the contracts were placed (on State Government Factory, Bargachia) with the best of intention as it was felt that although the Factory had mentioned their production capacity as 2,000 pieces per month, they being a Government establishment, would step up their production and complete supply satisfactorily. The firm actually came up at one stage with an enhanced production programme of 15,000 numbers per month in lieu of 2,000 numbers per month as shown in the tender from which it was abundantly clear that this Government Factory had the requisite production potentiality. But eventually they stopped the production of padlocks and expressed their inability to execute the contracts. This could not be visualised at the time of placing orders with them."

1.45. It has been pointed out by the Audit that orders were placed in February 1971 for 2,75,200 padlocks of 40 mm size and 23,400 padlocks of 50 mm size on five firms of Aligarh at Rs. 6.50 each for 40 mm size and Rs. 8.50 each for 50 mm size, which were quoted by those firms in November 1970 again forming a ring. Besides assistance given to the firms through release of steel on replenishment basis, these purchases would cost Rs. 8.96 lakhs extra. A break-up of the extra cost of Rs. 8.96 lakhs, as furnished by the Department of Supply, is given in Appendix IV.

1.46. The Committee enquired why increased rate was offered to the Aligarh firms and no increase was given to the State Government Factory when they asked for it. The Secretary, Department of Supply, has stated in evidence:

> "They came much later. That was in 1970. In 1971 this thing came. If we go back to the history, even if this increased rate would have been given to them, I am afraid, the supplies would never have been forthcoming. In my opinion the entire order was a misplaced order on the State Government."

1.47. In reply to a question, the Secretary, Department of Supply, has stated that the decision not to dereserve padlocks from the list of items reserved for exclusive purchase from small scale industries sector was taken at the highest level of the Minister.

1.48. The Committee enquired whether any concrete steps were taken to prevent monopolistic trends even in small scale sector and any attempt made to diffuse the manufacture of this important item and entrusting it to other regions of India, keeping in view the accepted policy of the Government to encourage the small scale industries. The representative of the Department of Supply has stated in evidence:

> "We have been pursuing consistently this policy of increasing the number of items to be brought under the reserved list. First of all we started with six items and when we went upto 192 items. Reservations have been made and the D.G., SSI with the assistance of Small Industries Service Institutes has been promoting the sources of supply from all over the country. He has got his Service Insitutes established all over in India. And inspection reports received from each State have been considered. We have brought them on our registered lists. Initially the quantum of purchase was in the region of a few lakhs of rupees. Now we have increased our total purchases to a considerable extent, that is to 20 per cent. One year it was nearly Rs. 89 crores or so from this source. Now, this has been gradually increasing. Now units have been examined jointly by our inspectorate with the Directors of Industries and with N.S.I. units and more and more units have been partaking in our purchases programmes."

1.49. In so far as the question of reservation of padlock item is concerned, the Secretary, Department of Supply, has stated that "what had been done was in consultation with the D.G., S.S.I." He has added: "So far as the items reserved for small sector units are concerned, we can make a fresh review made of all the items to see whether the purchases are concentrated in one area and what can be done to diversify it and diffuse it. We shall have a fresh look at all the items reserved exclusively for small scale industries and see whether in consultation with the Industries Ministry and the State Government concerned, certain diffusion can take place. Of course, certain items like hosiery are limited in certain pockets, like Ludhiana, etc."

1.50. The Committee enquired whether the suppliers of padlocks were middlemen, the real manufactureres being nowhere in the picture. In a written note furnished to the Committee, the Department of Supply has stated that "none of the firms who participated in the tender were middlemen, according to records of the DGS&D."

1.51. As regards the orders placed in February 1971 for supply of padlocks of 40 mm and 50 mm sizes on five firms of Aligarh, it has been stated by the Department of Supply in a note furnished to the Audit:

> "Since the demand of the indentor still existed, there was no other alternative but to place orders at higher rates against the re-purchase tenders due to circumstances beyond control of Director General, Supplies and Disposals. On receipt of the copies of the As/T, the Army Headquarters pointed out to the Director General, Supplies and Disposals on 27-5-1971 that the delivery periods shown in the As/T did not suit them and requested phasing of the deliveries in a way to enable Army Headquarters to meet immediate requirements in the first instance and to maintain subsequently also smooth supply. The urgency of the requirement was stressed by the Defence Department at the meetings held in the Directorate General of Supplies and Disposals on 27-5-1971, 16-7-1971 and 10-8-1971."

1.52. In a written reply furnished to the Committee, the Department of Supply has stated that out of 11 firms who quoted in 1971, orders were placed on the following five firms:

1. M/s Jairam & Sons, Aligarh.
2. M/s K. C. Ruby & Co., Aligarh.
3. M/s Universal Buttons Emporium, Aligarh.

4. M/s Shree Gopal Metal & Wood Works, Aligarh.
5. M/s P. C. Mukherjee & Son, Aligarh.

The offers of the remaining six firms could not be accepted for the reasons indicated below:—

1. M/s Godrej & Boyce Mfg. Co., New Delhi. This offer was for stores different from the tender enquiry requirement and hence unacceptable.

2. M/s. The Security Equipment Mfrs., Ahmedabad. The capacity of this firm was not recommended by the Inspectorate of General Stores, Bombay and hence the offer was not accepted.

3. M/s. RS Brothers & Co., Aligarh. The firm was asked to confirm that they could accept an order for 50,000 lacks, to confirm validity of their offer upto 10-3-1971 to withdraw their stipulation regarding tolerance in respect of dimensions and to indicate the minimum definite delivery, but no reply was received till the date of decision.

4. M/s. Vulcan Bright Lock Works, Aligarh. The firm's capacity was reported to be small i.e. 1500 Nos. per month. Even this was subject to approval of their sample by the Defence Inspection Authorities, hence this could not be accepted.

5. M/s. Samar Castalloy & Co., P. Ltd., Calcutta. The Inspectorate General of Stores, Calcutta, who was requested to report on this firm's capacity advised that the locks manufactured by them were of different design and internal mechanism and hence, the offer was not acceptable.

6. M/s. Lala Chiranjilal Kanhayalal & Co., Bombay. The firm made two offers (i) commercial quality and (ii) superior quality. They were recommended by the Defence Inspector for a trial order only, but the firm did not confirm that their offer conformed to the tender enquiry Specification. They were, therefore, ignored.

1.53. It has been pointed out by Audit that "as compared to the rates offered by the Aligarh firms in August, 1967, the increases in prices of padlocks of 40 mm and 50 mm sizes allowed in February 1971 were 124 per cent and 150 per cent, respectively. During the period the whole sale price index of iron and steel manufactures had increased by about 20 per cent only.

1.54. Even as compared to the rates effored by these firms in July 1968, the increases in prices of padlocks of 40 mm and 50 mm sizes allowed in February 1971 were 67 per cent and 73 per cent respectively when during the same period the whole sale price index of iron and steel manufactures had increased by about 13 per cent only.

1.55. It has been pointed out in the Audit paragraph that the Director General, Supplies and Disposals, approached the Department of Supply in July 1971 for removal of padlocks from the list of items reserved for small scale units for purchase against "operational", "express" and "urgent" indents. It was decided in September 1973 to maintain the *status quo*, mainly in view of the improved prospects of supply of padlocks by the small scale units.

1.56. The Committee asked whether in view of the fact that the suppliers of padlocks had quoted the highest possible rates and had formed a ring, Government should not have considered the question of removal of padlocks from the list of items reserved for small scale units. The Secretary, Department of Supply has stated in evidence:

> "Where the Department feels that small scale industry is trying to have undue advantage of the position of an item reserved to them and is trying to quote prices which are not reasonable, then the officer, with the approval of the Government, should have asked quotations from large scale industries. You can make a dispensation always. It may be done with the Government approval, but, simply because in one or two matters things have gone wrong, that would, in my opinion, not justify a de-registration of the item."

1.57. The Committee have noted that to meet four demands from the Director of Ordnance Services, Army Headquarters, for supply of padlocks of 40 mm, 50 mm and 75 mm sizes, a limited tender enquiry was issued to 13 firms. In response to the limited tender enquiry offers were received from 10 firms of Aligarh, 1 of Hazaribagh and 1 from the State Government Factory, Bargachia, Distt. Howrah. On the basis of tenders received, the DGS&D placed an acceptance of tender on 28 November 1967 for supply of 2,600 padlocks of 50 mm size and 1,900 padlocks of 75 mm size on M/s. Jairam & Sons, Kutab Street, Aligarh at Rs. 3.40 and Rs. 9.00 per padlock, respectively. For padlocks of 40 mm size negotiations were held with firms of Aligarh on 16.11.1967 for supply of 36,000

padlocks at Rs. 2.69 each and 53,000 padlocks at Rs. 2.70 each. Acceptances of tender were placed on four firms of Aligarh for supply of 36,000 padlocks 40 mm at Rs. 2.69 each and 53,000 padlocks at Rs. 2.70 each. An offer was made to the six other firms of Aligarh for supply of 40,800 padlocks (40 mm) at Rs. 2.69 each but this was not accepted. A limited tender enquiry surprisingly enough was issued on 11-12-1967 to 9 firms of Aligarh for supply of 40,800 padlocks of 40 mm size. Suspecting that the Aligarh firms had formed a ring in as much as they quoted a uniform rate of Rs. 2.85 per padlock, the DGS&D counter-offered to State Government Factory, Bargachia and to the Bihar State Small Industries Corporation, Patna, the rate of Rs. 2.85 per padlock. The former accepted the offer although the rate offered by it initially was Rs. 6.50 for 40 mm size and Rs. 14.00 for 75 mm size. The Committee have also been informed that the State Government Factory, Bargachia had only 39 skilled employees and its production capacity was 2,000 padlocks per month.

1.58. On the question of holding negotiations with certain firms and not giving orders to the lowest tender, the Secretary Department of Supply has informed the Committee that "negotiations should not be held in each and every case unless and until one finds that the rates quoted are too much at varience as between the one and the other and you have reasons to feel that the rates which are quoted by one party against the other are abnormally high."

1.59. The Committee foil to understand why in spite of the clear instructions issued from time to time to the Director General of Supplies and Disposals that negotiation should only be resorted to when it is absolutely essential, the DGS&D considered it necessary to hold negotiations with the firms of Aligarh instead of placing order on the basis of the tender submitted. The Committee would like that responsibility for this lapse should be fixed under advice to them.

1.60. It has been stated that considering the attitude of the ring firms, the DGS & D made efforts to explore the possibility of supply through the Government Central Lock Factory, West Bengal which agreed to the rate of Rs. 2.85 each and also assured the DGS&D that they posessed the requisite machinery and all other arrangements." It has been admitted by the Secretary, Department of supply in his evidence that no careful detailed scrutiny about the capcity of the State Government factory was made all nor was it ensured whether the order would materialise. The Committee deeply regret that despite poor performance of the State Government factory, Bargachia—it supplied 1,092 padlocks by October 1969 (out of the orer of 1,18,800 padlocks placed on it on 31-1-1969) which were rejected due to incorrect composition of raw material and other manufacturing defects—the DGS&D placed further orders on it on 11-4-1969, 16-5-1969 (rate contract) and 24-7-1969 (A/T).

1.61. The Committee take a serious view of the fact that although the DGS&D has inspector who make an on-the-spot study and give capacity reports, they were unable to check the production capacity of the factory on which it placed its orders. The Committee fail to understand why, in view of the urgency of the demand and the large size of the order, the DGS&D did not depute one of his officers to the State Government Factory for on-the-spot inspection before placement of the order or ask the Director of Industries, West Bengal to furnish the required information about the factory. The Committee suggest that in the future the Department of Supply must make it obligatory for the DGS&D to do the on-the-spot inspection of premises before issue of acceptance of tenders involving urgent defence supplies.

1.62. As to the question of ring formation, the Secretary, Department of Supply has stated before the Committee that "the ring was formed on the rates which were quoted, in my opinion, as a result of this post-mortem, do not appear to me to be such as would have required this action as to not to have placed the orders. The matter could have been proceeded with.... Even if the rates are quoted at the same level, I submit they are of a small value and do not require the drastic action unless and until it is found that supplies would come much cheaper or you can get the supplies from elsewhere."

1.63. The Committee are very much constrained to observe that no costing whatsoever was done by the DGS&D before placement of the orders. It has been admitted by the Secretary, Department of Supply that purchase organisation like the DGS&D should see and examine the rates quoted by the firms with a view to seeing whether they are abnormally high. It has also been admitted that in the present case the DGS&D did not as certain what the prevailing price of padlocks was. The Committee would like the Department of Supply to undertake comprehensive cost studies in respect of imported item, of the value of Rs. 1 lakh and above which are ought to be procured whether by traders or by negotiation.

1.64. The Committee find from the opinion furnished by the Director, Small Industries Service Institute, Kanpur, in July 1972, that the units engaged in the manufacture of padlocks had organised themselves into a ring for the reason that the Director General, Supplies and Disposals, instead of giving orders to lowest tenderers, used to negotiate with all tenderers and secured one rate for all. Further, the high rates quoted by the industry were attributed to the cushion they had to provide owing to the upward trend in the prices of raw material to cover the time lag between the submission of tenders and fixation of contracts and the long period of two years thereafter for which the contracts would remain valid after their conclusion. The Committee desire that the Department of Supply should examine whether there is any substance in the opinion expressed by the Director, Small Industries Service Institute, Kanpur and take suitable remedial measures to prevent the formation of rings and to streamline the existing procedures. Negotiations should also be resorted to only when it is absolutely essential.

1.65. The Committee have noted that tenders are advertised in the Indian Trade Journal and copies of tenders are also made available to NSIC for distribution to the small scale industries. In view of the fact that small scale manufacturers are dispersed in far-flung areas of the country, the Department should utilise the services of All India Radio in the most suitable manner for publishing the advertisement without fail. There should also be close liason between the DGS&D and the State Directors of Industries on every such matter.

1.66. The Committee have noted that on account of delayed supply of padlocks, the Defence Department had to resort to local purchases. The extra expenditure involved in the local purchases of padlocks, where the local purchase rates were higher than the DGS&D rates, worked out to Rs. 2,435.70. The Committee suggest that the Defence Department should maintain effective coordination with the DGS&D in the matter of placement of contracts for watching their progress and their progression so that the necessity for local purchases at higher rates is obviated.

1.67. The Committee note with surprise that while requests made by the State Government of West Bengal for increase in the rates of manufacture of padlocks by the State Government Factory, Bargachia, were not acceded to on the ground that the contracts were fixed on a firm price basis, the DGS&D in February 1971 placed orders on five Aligarh firms at the increased rates of Rs. 6.50 and Rs. 8.50 per padlock for 40 mm size and 50 mm size respectively which were quoted by these firms in November 1970. Besides, assistance was assured to these firms through release of steel on replenishment basis. It has been calculated that these purchases would cost Rs. 8.96 lakhs extra as compared to the rates offered earlier against the three tender enquiries of July 1967, December 1967 and July 1969 or offered after negotiations. Strangely the firms were also allowed as much as 27 to 31 months time to complete the supply, although the defence requirements were said to be urgent. The Committee would urge that a thorough probe should be conducted in this matter and individual responsibility fixed under advice to the Committee.

1.68. The Department narrated the steps taken by them in diffusing the manufacture of padlocks and encouraging the small scale industries, keeping in view the accepted policy of the Government. The Committee would, however, like that Government should take concrete steps to prevent monopolistic trends even in small scale sector and go in for cost analysis when circumstances so justify.

CHAPTER II

Purchase of lathes

Audit Paragraph

2.1. The Director General, Supplies and Disposals, had entered into rate contracts with a firm for supply of lathes during the periods 1st July 1962 to 30th June 1964, 22nd July 1964 to 30th June 1966, and 12th July 1966 to 30th June 1968. Rupees 23,268 were recoverable from the firm against a supply order placed on it in February 1965.

2.2. When the above rate contracts were placed on the firm, it was not registered with the Director General, Supplies and Disposals. This aspect was specifically considered before placing the rate contract for 22nd July 1964 to 30th June 1966 and it was decided to place that rate contract as the performance of the firm was considered satisfactory. At that time it was also decided to ask the firm to apply for registration. The firm applied for registration with the Director General, Supplies and Disposals, in September 1966. On the recommendation of the Inspection Directorate, the firm was registered in May 1967 for supplies of the following types of lathes upto Rs. 1 lakh in value per individual order:—

(i) Centre lathes 6½" height of centre;

(ii) Bench lathes 6" height of centre; and

(iii) Hand-operated Capstan lathes ¾" bar capacity.

In November 1966 an acceptance of tender was placed on the firm for supply of 11 lathes for Defence Department. As mentioned in paragraph 9 of the Report, Union Government (Defence Services) for 1970-71, all the lathes supplied against this acceptance of tender were found defective. The Public Accounts Committee has observed as follows in its 92nd Report (5th Lok Sabha) of April 1973:—

> "The lathes could have been rejected if proper inspection had been carried out by actual trial by Director General, Supplies and Disposals' inspectors before despatch. The Committee desire that the matter should be investigated with a view to fixing responsibility."

Rupees 1.75 lakhs were recoverable from the firm in the above case.

2.3. In August 1967 the Director General, Employment and Training, Ministry of Labour, Employment and Rehabilitation, placed an indent for procurement of 11 master Capstan lathes required for training purposes in nine industrial training institutes. The performance of the sample lathe produced by the above firm was jointly inspected by the Deputy Director (Inspection) and two representatives of the indentor. On the basis of the joint inspection report and with the approval of the indentor, the Director General, Supplies and Disposals, placed an acceptance of tender on the firm in January 1968 for supply of 11 Grade-I master Capstan 1" bar capacity lathes and accessories at a cost of Rs. 1.72 lakhs plus sales tax. According to the terms of the contract, 95 per cent payment was to be made after inspection and proof of despatch, and balance 5 per cent on receipt of stores by the consignee in good condition.

2.4. Although the firm was registered with the Director General, Supplies and Disposals, for other types of lathes and not for this type, the acceptance of tender was placed without obtaining any security deposit or capacity report (for this tppe of lathe). The lathes were accepted by the inspector of the Director General, Supplies and Disposals, between January 1968 and July 1968 and were despatched by the firm between April 1968 and August 1968. Rupees 1.68 lakhs were paid to the firm between April 1968 and February 1969 as 95 per cent of the value.

2.5. Six consignees pointed out defects in 9 of the lathes received. The firm repaired 3 lathes to the satisfaction of three consignees. In the case of the other three consignees who had received defective lathes, the defects (which included rusty machines and accessories, faulty operation of levers and inadequate performance) persisted, full details of which were communicated to the firm by the Director General, Supplies and Disposals, on 19th January 1970. The defects were not set right by the firm, and the lathes remained unused. The amount recoverable from the firm for the six lathes is Rs. 0.92 lakh.

2.6. For meeting a demand placed by the General Manager, Posts and Telegraphs Workshops (redesignated as Telecom Factories), Calcutta, in July 1967, the Director General, Supplies and Disposals, concluded a contract with the same firm in March 1968 for supply of 4 Capstan lathes ½" bar capacity and allied accessories at a cost of Rs. 66,235 (as amended in October 1968) plus sales tax. As per the terms of the contract, the lathes were to be supplied by 31st August 1968, and 80 per cent payment was to be made to the supplier after inspection and proof of despatch and the balance 20 per cent on receipt of stores by the consignee in good condition. Two lathes were accepted in November 1968 after inspection by the inspectors of the Director General, Supplies and Disposals, and the remaining two lathes were accepted in January 1969 after similar inspection. One of the lathes was received by the consignee in December 1968, another in January 1969, and the remaining two in February 1969.

2.7. The Posts and Telegraphs Workshop reported to the Director General, Supplies and Disposals, in February 1969 that the lathes were not manufactured according to the design they did not even look alike, and pointed out that unless the defects were rectified it would not be possible to use those lathes. On 31st March, 1969, the Director General, Supplies and Disposals, asked the firm to rectify the defects within fifteen days. As the firm failed to rectify the defects it was again given a notice on 25th September 1969 that unless it rectified the defects|deficiencies by 30th October 1969, they would be got rectified at its risk and cost. On 3rd October 1969 the firm agreed to the defects being rectified by the Posts and Telegraphs Workshop, but the latter pointed out that the defects were of major nature and repairs could not be taken up by the consignee. After protracted correspondence the firm's representative visited the factory on 30th June 1970 and carried out repairs and commissioned only one lathe in July 1970, but still it did not work satisfactorily. The other three lathes were installed by October 1970 but could not be commissioned due to the defects. According to the Posts and Telegraphs department, the defects were of major nature whereas according to the Director General, Supplies and Disposals, (December 1972) "these lathes should not be rejected in toto on account of these minor defects".

2.8. Rupees 54,577 had been paid in February 1969 to the firm as 80 per cent of the cost of four lathes supplied to the Posts and Telegraphs Workshop, of which Rs. 2,340 were recovered from a pending bill of the firm leaving a balance of Rs. 53,340.

2.9. Apart from the cases mentioned above, Rs. 11,060 were also recoverable from the firm against three supply orders placed on it between January 1968 and April 1968. Thus the total amount recoverable from the firm was more than Rs. 3.50 lakhs. The firm went into liquidation in the meantime.

2.10. In a letter dated 14th October 1971 the Director General, Supplies and Disposals, had requested the Inspector General of Police, Delhi, to report inter alia whether the firm was registered with the Registrar of Companies or the National Small Scale Industries Corporation etc., its activities and the identity of its Directors, but no reply had been received (December 1973).

2.11. The department has not completed (December 1973) the investigation recommended by the Public Accounts Committee in its 92nd Report (5th Lok Sabha) of April 1973 mentioned earlier.

[Paragraph 45 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil)].

2.12. According to the audit paragraph a sum of Rs. 23,268 was recoverable from the firm (Reliable Engineering Works) against the supply order placed on it in February 1965. Asked if this amount had been recovered or was still outstanding to be recovered from the firm, the Department of Supply have stated in a note as follows: "Recovery of Rs. 23,268 referred to in the audit para relates to Supply Order No. 2621 placed on 25th February, 1965 for the supply of 16 machines to ITI, Karaikudi and Theni (8 Nos. each). ITI Karaikudi had reported to DGS&D on 3rd March 1967 that out of 8 machines, 6 machines were received in good condition and 2 machines in damaged condition. These were received by the consignees on 2nd March 1966 and 17th June 1966 respectively. The matter was taken up with the firm for rectification on 24th March, 1966 and 28th June, 1966 but as these were not set right by the firm, the consignee was advised to rectify the same and intimate the cost of the charges thus incurred. At one stage, the Indentor had stated that the two damaged lathes could not be put to use and he wanted recovery of the loss suffered by him in the purchase of these two machines. The Director, Employment and Training, has however, since confirmed in his telex of 5th September, 1974 that all lathes supplied to ITI, Karaikudi and Theni are in good working condition and no repair charges have been incurred except for 2 lathes for which a sum of Rs. 4,408/63 (for both lathes taken together) incurred by ITI, Karaikudi. In the circumstances, the amount recoverable would be Rs. 4,408/63 and not Rs. 23,268/- as mentioned in the Audit Report. The amount of Rs. 4,408/63 is still to be recovered. In the notice served on M/s. Reliable Engineering Works and M/s. Reme Private Ltd. on 24th September, 1974 this amount has been included."

2.13. On the question of registration with the Director General, Supplies and Disposals, the Department informed Audit in March 1974 as under:

"While placing the rate contract for the period 1962 to 1964 no capacity report was called for on account of the fact that they were graded manufacturers. No security was also taken because the firm was an SSI unit. While placing the rate contract for 1962—64, ITCC and banker's report was called for. The ITCC was dated 25th May, 1962 and the bankers' report was dated 10th May, 1962. As graded manufacturers, it is guaranteed that the machines produced by the firm are of proven accuracy. The status of graded manufacturer is accorded to the firm after either six machines (in the case of heavier machine tools) or the entire production of the firm for a period of 3 consequtive months for the light machine tools, have been inspected at their works to the standards laid down by the Director General, Technical Development, New Delhi. While all the six machines are inspected in respect of their geometrical accuracy, at least one of them is also inspected for its performance under full load conditions to ensure that the machine is rigid, robust and vibrant free. Messers Reliable Engineering Works were recommended for being recognised as graded manufacturers for 6"/6½" Centre lathes after 8 machines had been inspected. In respect of these machines, the firm was approved by Director General, Technical Development as graded manufacturers on 6-6-1962|25-7-1962.

Subsequent rate contracts for the period 1964 to 1966 and 1966 to 1968 were placed on the firm on the basis that they were holding the earlier rate contract and their performance against that rate contract was satisfactory."

2.14. The Secretary, Department of Supply has stated in evidence: "The firm, which was a registered small-scale unit, was a graded manufacturer. It is graded manufacturer and a formal registration was not insisted upon at that time. The income tax clearance report was there and that was verified before an order was placed." He has further added: "We have to see the overall performance...... In all, was placed orders for about 243 central lathes and the performance on them was satisfactory. The entire amount due from them would be reduced by such amount as we may get on disposal of unsaleable machines."

2.15. Referring to the acceptance of tender placed on the firm in November, 1966 for supply 11 lathes for Defence Department, the Public Accounts Committee in para 2.131 of their 92nd Report (5th Lok Sabha) had observed as follows: "The lathes could have been rejected if proper inspection had been carried out by actual trial by Director General, Supplies and Disposals inspectors before despatch. The Committee desire that the matter should be investigated with a view to fixing responsibility." The representative of the Department of Defence Production, while referring to the audit para in regard to the supply of 11 lathes to Defence Department had stated in evidence:

> "The details as given in the para have generally been accepted. We had placed the indent some time during 1967. The ordinary tender enquiry was issued by the DGS&D. We were informed about the proposal to place the order on one firm. On the basis of the technical evaluation made by the DGS&D they had suggested that they were going to place the order on this firm. We were asked to indicate the accessories required. At that stage, we did so and the orders were placed and the supply was made subsequently, some time during December, 1968. One machine came then, followed by others in January and February. After the first machine was received, we tried to instal them and found certain defects. They were reported immediately to the DGS&D who were requested to take up the matter with the firm for rectification. We have been pursuing this since then: but up till now, the case has not been resolved completely to our satisfaction. At one stage, we were asked to get the defects rectified in our own factory. We tried it but could not make the machines workable. Subsequently, a joint inspection was carried out earlier this year, with the representative of the DGS&D; it was held that the machines were not workable. It was not possible to repair them within our resources."

2.16. The Secretary, Department of Supply, has informed the Committee during evidence that in so far as 11 machines were concerned, these were inspected by two officers, one of whom had resigned before the matter came up: action is being taken against the other officer who had inspected eight of the eleven machines.

2.17. In their reply showing action taken on the Committee's observations the Department have stated on 3rd July, 1974: "The examination of the case from the vigilance angle has been completed and the case has been referred to the Central Vigilance Commission for advice in regard to the penalty to be imposed on the concerned officer responsible for this lapse."

2.18. The Department of Supply have further stated in a written note that "The advice of the Central Vigilance Commission has since been received and the DGS&D has been requested to issue the charge sheet to the officer responsible for the lapse in inspection"

2.19. Asked to state if the amount of Rs. 175 lakhs recoverable from the firm in respect of the 11 machines supplied in November, 1966 had been recovered, the Secretary, Department of Supply has stated in evidence: "According to the Report of the Ministry of Defence, those 11 lathes could not be put to use; they were our rejected stores. We had one difficulty in respect of these lathes. Unfortunately, the defect got reported after the warranty period was over. This was also explained before the last PAC."

2.20. The Secretary, Department of Supply has informed the Committee during evidence that no orders were placed on the firm after the defects had been reported.

2.21. According to the audit paragraph, on the basis of joint inspection conducted by the Deputy Director (Inspection) and two representatives of the indentor, and with the approval of the indentor, the Director General, Supplies and Disposals, placed an acceptance of tender on the firm in January, 1968 for supply of 11 Grade-I Master Capstan 1" bar capacity lathes and accessories at a cost of Rs. 1.72 lakhs plus sales tax.

2.22. The Ministry of Labour informed audit in March, 1974 as under:

> "As regards the joint inspection carried out by officers of the Director General, Employment and Training and the representatives of the Director General, Supplies and Disposals, the recommendation for the machine offered by the firm was subject to the alignment tests as per Grade-I accuracy, which could be conducted and certified by Inspecting Officer of the Director General, Supplies and Disposals only."

The Department of Supply also informed audit in March, 1974 as under:

> "Prior to the placement of the order for 11 Nos. of Capstan Lathes....the Director General, Supplies and Disposals had placed two other orders for the same size and type

of machines against the requirements of the same indentor as detailed below:—

(i) A/T No. 215|12|233|30-12-66|3326, dated 12-5-1967 for 21 Nos.

(ii) A/T No. 215|12|066|2-8-67|3348, dated 5-8-1967 for 7 Nos.

In regard to the calling of the capacity report referred to in the audit para it may be clarified that when a firm has already been accorded recognition as Grade I manufacturer for a particular size and type of machine, they can be considered capable of manufacturing machines of slightly higher or lower capacity also, provided the type remains the same. In this case, the orders were placed for 1" capacity Capstan lathes without calling for a capacity report because the firm stood graded for 3/4" capacity Capstan lathes.

Further they had also executed the first contract for 21 Nos. of these lathes satisfactorily without any complaint having been received from the consignee, which was sufficient proof of their capacity to manufacture 1" Capstan lathes. In view of this position, two more contracts for 7 Nos. and 11 Nos: of 1" capacity capstan lathes were also placed on the firm. In the case of contract (in question), a joint inspection of one sample lathe had also been carried out by the representatives of the Directorate of Employment and Training and Inspection Wing of the Director General, Supplies and Disposals"

2.23. The Committee desired to know whether the alignment tests as per Grade I accuracy were conducted by the Inspector and, if so, why the defects could not be dectected at the time of such tests. The Department of Supply have in a written note stated as under:—

"The joint inspection of the lathes manufactured by M/s. Reliable Engineering Works, New Delhi, and Auto Machine Tools, Ludhiana, was carried out by the representatives of the C.T.I. and the DDG(I) at the pre-tender stage with the limited object of arriving at a decision as to which of the two was better by making a 'LIKE TO LIKE' comparison in respect of their design aspects, i.e., Head Stocks, Driving Arrangement, Clutch System, Functioning of Operating Levers, Positioning of Capstan Head and availability of standard, special & extra tool holders etc. in order to decide the offers. No performance tests were taken on either of the two machines. Also, the machines were not subjected to the alignment tests as their Grade I accuracy in any case would have had to be tested and certified by the Inspecting Officer at the time of the actual inspection of the machines after the A/T had been placed.

2.24. The record of the DGS&D shows that the machines were subjected to alignment tests. 10 alignment charts for 10 machines out of 11 on order are available on the file. For one machine the chart is not available.

2.25. The defects pointed out by three of the consignees in respect of three machines were confined to the machines not taking load, the motors getting over-heated, the lighting switches and plugs being not in working position and the machines being rusty. None of the above defects have any bearing on the alignment tests of the machines which at the time of inspection were satisfactory and have not been disputed by any of the consignees.

2.26. It has been pointed out by Audit that although the firm was registered with the Director General, Supplies and Disposals, for other types of lathes and not for this type (Grade-I "Master Capstan Lathe 1", the acceptance of tender was placed without obtaining any security deposit or capacity report for this type of lathe.

2.27. According to the information furnished by the Department of Supply to Audit on 14th October, 1971, the Director General, Supplies and Disposals had written a letter to the Inspector General of Police requesting whether the firm (Reliable Engineering Works) was registered with the National Small Industries Corporation.

2.28. In March, 1974, however, the Department of Supply informed Audit that no security was also taken because the firm was an SSI (Small Scale Industries) Unit.

2.29. The Committee wanted to know how did the Department state in March, 1974 that security deposit was not taken because the firm was a Small Scale Industries Unit in view of the reference made to the Inspector General of Police in October, 1971. In a written note, the Department of Supply have stated: "The reference to I.G. Police in October, 1971 was to the effect that the firm had been reminded many times by the various consignees as well as by the DGS&D to attend to the defects in the machines etc. but no reply for about a year had been received. As it appeared that the concern had been sold out but continue to exist in the same name and as the DGS&D had to recover Government money from the said party, the IG's help was solicited for ascertaining whether the concern was registered with Registrar of Companies, Registrar of Firms and Societies, National Small Industries Corporation, Railways etc.

No reply was received from I.G. Police and the matter also not pursued with the I.G. by the DGS&D, thereafter.

Reference to NSIC was made on 9th September, 1974 and in reply they stated that the unit was enlisted with them and registered since May, 1962 for Bench Lathe and Centre Lathes 4" and 6" and that the firm still continued to be on their roll for these stores."

2.30. Questioned about the justification for the statement that security deposit was not taken because the firm was a small scale industries unit, the Department of Supply have further stated in a written note: "M/s. Reliable Engineering Works were recognised as a graded manufacture by DGTD for 6"/6½" Centre Lathe on 6th June, 1962/25th July, 1962 and 3|4" Capstan Lathe on 27|28th August, 1965 and for 1" Capstan Lathe on 18th November, 1967. The firm were registered with DGS&D in May, 1967 with a monetary limit of 1 lakh for individual order for 6"/6½" Lathes as well as 3/4" Bar Capacity Capstan Lathe.

The firm in their tender No. REW/130|62 had mentioned that they were enlisted as a small scale unit by National Small Industries Corporation Limited under No. SIC/GP/8(2)/E. 45|339. dated 4th May, 1962 (this statement of the firm tallies with the information given by NSIC).

Since the firm was a small scale unit and a graded manufacturer, no security deposit was called for from the firm."

2.31. In March, 1974 the Department of Supply informed Audit that "against three contracts the firm had supplied a total of 39 Nos. of machines of the same size and type against the demands from the same indenting officer As supplies to most of the consignees had been satisfactory, the defects reported later by some of the consignees should not be taken to mean that there was poor workmanship or design defects in the machines. In fact, these defects should have been rectifiable at the consignee's end."

2.32. Asked to state (i) how many of the 39 lathes supplied by the firm against acceptances of tenders placed on them on 12th May, 1967, 5th August, 1967 and 12th January, 1968 were defective, (ii) how many of the defective lathes were repaired by the firm and (iii) if all the defective lathes repaired subsequently were giving satisfactory service, the Department of Supply have in a written note stated as under:—

"39 Lathes were supplied by the firm against the following three contracts for supply of 1" Capstan Lathe:—

(a) A/T No. 215/12/233/30-12-66/3326 dated 12-5-67 for 21 Nos.

(b) A/T No. 215/12/066/2-8-67/3348 dated 5-8-67 for 7 Nos.

(c) A/T No. WMT-2/215/12/078/3398 dated 12-1-48 68 for 11 Nos.

6 of the Consignees reported 9 machines as defective (this does not take into account those where only some items were received damaged or missing or short supplied and which were replaced).

Though, at the time of discussions before the P.A.C. on 26.9.1974, four machines were still reported as lying defective, that is 3 Nos. supplied to Bhopal and 1 no. to I.T.I., Koni, the DGS&D have since received confirmation from ITI, Koni, vide letter of 27th September, 1974 that the machine supplied to them was repaired by the firm and is working satisfactorily. This would leave only 3 machines supplied to ITI, Bhopal still defective. The other six machines were rectified by the firm and there are no subsequent complaints about the same. The firm had also looked into the defects in respect of 3 Nos. of machines supplied to ITI, Bhopal but according to the consignee, the machines could not give satisfactory service."

Supply of Lathes to P & T Workshop:

2.33. Audit has pointed out that the Director General, Supplies and Disposals, concluded a contract with the same firm in March, 1968 for supply of 4 Capstan Lathes ½" bar capacity and allied accessories at a cost of Rs. 66,235 plus sales tax. Two lathes were accepted in November, 1968 after inspection by the inspectors of the DGS&D and remaining two lathes were accepted in Janury, 1969. The Working receiving the lathes reported that "the lathes were not manufactured according to the design, they did not even look alike, and pointed out that unless the defects were rectified it would not be possible to use those lathes."

2.34. The Department of Supply informed Audit in March, 1974 as under:

"All the machines which were inspected and accepted were of basically the same type and design. Their dissimilar look, reported by the consignee, has been investigated and the following has been observed:—

(a) Two lathes were provided with longitudinal channel like groove on the rear side of the coolant and chip tray. The other two lathes were without this groove.

(2) On the rear side of 1 lathe, there is an open hole of about 2" dia approximately. which is missing on the other three lathes.

(c) The main driving motors provided on the lathes though of the same capacity are of different frame sizes with the result that the inner valves of the motor housings have been opened in 3 lathes to accommodate the motors and the opening is covered with M.S. saucer type covers with the vent holes in two lathes and dish type cover in one lathe. The fourth one has, however, no opening in the motor housing.

(d) In two lathes electric lamps are fitted on the head stock side and coolant carrying tubes have been fitted on the tail stock side whereas in the other two lathes these are fitted vice versa.

(e) Housing for electrical is having opening on the rear side in one of the lathes whereas the other lathes are provided with openings on the front side.......the differences are minor nature and these will not affect the working of the machines.

The other defects pointed out by the consignee in lathes supplied by the firm were the result of the design adopted by the firm. No specific details in this regard could have been spelt out in the acceptance of tender and the Inspector accepted the machines which were in conformity with the broad specifications as mentioned in the acceptance of tender. The defects evidently came to the surface when the machines were put to use. These were, however, of minor nature and could have been easily rectified by the user workshop."

2.35. The Committee enquired how the machines which were not similar in look were accepted as conforming to specifications given in the acceptance of tender and if the machines were tested in actual operation. The Department of Supply have stated in a written note: "The dissimilar look of the machines could not be considered to be a defect which would affect the functional requirements of the machines. No such provision could have been made in the A|T nor was there one. The machines were subjected to alignment tests and idle running only. No performance tests were taken." To the question as to why it was not possible to detect at the time of inspection the defects in the lathes which were subsequently found to be not production-worthy, the Department of Supply have stated: "Since at the time of inspection, the Inspector checked only the geometrical accuracy of the machines and the general specifications and accessories supplied therewith, it was not possible to detect these defects at the time of inspection which were to make the machines not production-worthy."

2.36. In April 1974, the Director-General, Posts and Telegraphs informed Audit that "It has been reported by a joint team which comprised of the Manager, Telecom Factory, Bombay, the Assistant Manager, Telecom Factory, Bombay, the Deputy Director of Inspection and the Assistant Inspecting Officer, Bombay, of the Director General, Supplies and Disposals that these four lathes were not production-worthy due to defective design mechanism and workmanship." It has been stated in the Audit Para that Rs. 54,577 had been paid in February 1969 to the firm as 80 per cent of the cost of four lathes supplied to the Posts and Telegraphs Workshop, of which Rs. 2,340 were recovered from a pending bill of the firm leaving a balance of Rs. 53,340.

2.37. Asked when the joint team submitted its report and what their conclusions were, the Department of Supply have stated in a note: "The Joint Inspection team submitted its report on 13.3.74 with the remarks that keeping in view the utilisation of these machines and to make use of the money already blocked on the machines, the Manager, Telecommunication, Bombay, had done whatever was possible with the facilities at his end. The results obtained were not encouraging and it was felt that no useful purpose would be served in carrying out further rectification at his end. The defects pertaining to the Cross Slide, Coolant System, Protection for the Driving mechanism and Driving belt and Plug Point for the work light, pointed out by the consignee in his original complaint were considered to be such as could be rectified within 20 per cent of the cost of the machines, presuming that not only necessary facilities would be available at the user factory to rectify the machines but an earnest effort would be made to do so in order to make the best of the bargain and put the machines into use. This opinion was expressed at that time by a senior officer on the basis of his judgement formed by experience gained by him through the years. Only one of the four machines was rectified by the consignee to the extent he could do but with discouraging results. In essence, the machines have not been rectified to be put into beneficial use. The cost incurred on rectifying one machine was Rs. 1875.61 made up as Rs. 1502.53 by way of labour charges and Rs. 373.09 on material account."

2.38. The Secretary, Department of Supply, has stated during evidence: "It appeared that the defects were of minor nature. When the joint inspection took place, the P & T's contention that the defects were of a major character, was accepted."

2.39. It has been stated in the Audit Para "Apart from the cases mentioned above Rs. 11,060 were also recoverable from the firm against three supply orders placed on it between January 1968 and April 1968. Thus the total amount recoverable from the firm was more than Rs. 3.50 lakhs. The firm went into liquidation in the meantime."

2.40. The Secretary, Department of Supply, has stated during evidence that the word 'liquidation' was loosely used by the reporting liaison officer. "This firm" he said, "has gone out of business so far as this item is concerned. The parent firm is still there. When we investigated this matter in detail, during the last two or three months to see whether a firm can get away like this, we found that there is a parent firm, Reme Pvt. Ltd. which has got the entire responsibility for this firm. Now, in consultation with our Contract and Law Officer, we are serving a notice on them."

2.41. The Committee enquired about the total amount recoverable from the firm for all the defective lathes supplied and the reasons for the closure of the firm. In a written note the Department of Supply have stated: "The exact time of closure is not known. However, the firm had mentioned in their letter dated 4.8.69 in the case relating to contract No. 202|12|171|19.9.67|3417| PAOD dated 26.3.68 that their factory was closed for the last 3 months, indicating that the lock out occurred around May, 1969 or thereabouts. It is not known when the lock out was lifted but another letter dated 24.6.1970 in the same case mentions that they were deputing their service engineers for carrying out the repairs.

2.42. An enquiry in this regard was made through the Director of Inspection, New Delhi, and he intimated on 11.9.1974 as follows:—

> 'It was learnt from Shri Jayaraman (one of the present nominated Directors) that the firm was closed during 1969-70 and it was purchased as a closed down unit sometimes in 1970 and that the old management had discontinued manufacture of Lathes from 1969, and that the present management also do not manufacture Lathes but had switched on to new items altogether from the beginning and are now manufacturing fluid line products such as hydraulic cylinders, pneumatic cylinders solenoid valves etc.'

2.43. At the time of discussions before the P.A.C. on 26.9.74, total amount due for recovery had been calculated as Rs. 1,99,377 less Rs. 33,027 due to the firm.

This amount represents—

(i) Recovery due to excess payment against R|C No. 2317 dated 25.7.64 due to non-deduction of discount against some supply orders for Rs. 11,314.

(ii) Actual rectification charges for 5 machines amounting to Rs. 7068.38 with break-up as under:—

(a) Supply order No. 2621 dated 25.2.65 for Rs. 4,408|63 for 2 machines for ITI, Karaikudi.

(b) Supply order No. 615 dated 23.12.67 for Rs. 1500 for 1 machine for XEN Poornia (Bihar) as per recovery indicated on Inspection Note.

(c) Supply order No. 694 dated 13.2.68 for Rs. 200.85 being cost of one chuck for ITI, Kalamassery.

(d) Supply order No. 804 dated 30.4.68 for Rs. 958.90 as rectification charges incurred for Radio Officer, Jaipur.

(iii) Estimated rectification charges for 6 machines amounting to Rs. 8,413 with break-up as under:—

(a) Supply order No. 653 dated 12.1.68 for Rs. 3800 for 2 machines for ITI, Nahan.

(b) Supply order No. 655 dated 12.1.68 for Rs. 3995 for 3 machines, 2 for ITI, Nahan and I for ITI, Shahpur.

(c) Supply order No. 694 dated 13.2.68 for Rs. 618 for ITI, Chalakudi as cost of Coolant Motor not replaced.

(iv) Full cost of 10 machines not put to use against:—

(a) Supply order No. 694 dated 13.2.68 for 6 machines for Rs. 53,052.56, 2 machines each for ITI, Chunganoor, Ettamanoor, Trivandrum.

(b) A|T No. 3348 dated 5.8.67 for Rs. 16,078|30 for 1 No. machine for ITI, Bhopal.

(c) A|T No. 3398 dated 12.1.68 for Rs. 48,234.90 for 2 machines for ITI, Bhopal and 1 No. for ITI, Koni.

(v) A|T No. 3417 dated 26.3.68 for Rs. 55,216.41 for 4 machines for P&T, as 80 per cent payment of the cost already paid and other incidental charges like freight, rectification cost incurred by the consignee, departmental charges etc.

Subsequently, however, ITI, Koni has confirmed vide letter of 27.9.74 that defects had been rectified by the firm in July, 1970 and that the machine is working satisfactorily and that no rectification charges were incurred by them in rectification. This would reduce the above mentioned amount by a further Rs. 16,078.30.

Thus the total amount as finally recoverable against the various contracts mentioned above would work out to Rs. 1,83,299 minus Rs. 33,027 available to firm's credit with P&AO, Calcutta|New Delhi.

It may, however, be mentioned that the amount shown as recoverable in respect of the machines not yet put to use may not be legally recoverable in full since the machines were not rejected by the consignees. As such the DGS&D may be in a position to hold the firm liable only for damages due to breach of warranty."

2.44. The Secretary, Department of Supply, has stated during evidence that "the total amount according to us, as the situation is today, is Rs. 1.66 lakhs. We have not taken into account only eleven machines, where we cannot recover legally any damages. But, if the entire cost of Rs. 1.75 lakhs is added, then this amount will go up."

2.45. Asked to state whether the Department accepted the figure of Rs. 3.50 lakhs as the recoverable amount, the Secretary, Department of Supply has stated in evidence: "No, Sir. Legally, we can enforce a claim upto Rs. 1.66 lakhs. As I mentioned earlier, so far as Rs. 1.75 lakhs is concerned, in respect of those machines, which were previously commented upon in the audit report, these defects were reported after the warranty period was over."

2.46. The Department of Supply have further stated that the DGS&D came to know some time in 1969 that the firm's works were under lock out and that the circumstances leading to the closure of the firm were not known.

2.47. Asked to state why the DGS&D were not aware earlier about the proprietorship of the firm when it was located in Delhi, the Secretary, Department of Supply has stated during evidence: "Somebody else took over this firm and this should have been known to an organisation like ours. In 1971 when this information was available, we should have acted promptly." He has assured the Committee that "We are reviewing the entire system of inspection in consultation with the Central Vigilance Commission to see that what are the loopholes and what remedial measures can be taken."

2.48. The Department of Supply informed Audit in March 1974 that "On the basis of information obtained by the Director General, Supplies and Disposals from the Registrar of Companies, the Ministry of Law has advised on 27-2-1973 that M|s. Reme Private Limited would be liable for any recoveries to be made from M/s. Reliable Engineering Works. Likewise they would also be legally entitled to receive any outstanding amount due to M/s. Reliable Engineering Works. This is so because M/s. Reliable Engineering Works is a proprietorship firm of M/s. Reme Private Limited."

2.49. As regards the recovery of amount from M|s. Reme Pvt. Ltd., the Secretary, Department of Supply has stated during evidence as under:—

> "As a result of this investigation and coming to know that Reme Pvt. Ltd. has still got the responsibility for it, we have issued a notice only 2 or 3 days ago, asking the firm to make good the loss of Rs. 1.66 lakhs. As a result of this further probe and detailed investigation we have not accepted, at least in the Department, that this firm can be treated as having gone into liquidation. We should be able to pursue the matter with them. For this purpose, we have issued a notice 2 or 3 days ago. So far as taking action against the staff is concerned, we have to settle it in consultation with the Central Vigilance Commission."

2.50. The Department of Supply have in a written note stated: "No steps were taken earlier to effect recovery from M|s. Reme Pvt. Ltd., (Proprietors of M|s. Reliable Engineering Works) though two registered recovery notices had been issued to M|s. Reliable Engineering Works on 14-10-71 and 24-10-71 against Supply order No. 804 dated 30-4-68 and Supply order No. 2621 dated 25-2-65 respectively for deposit of Rs. 958.90 and 3 per cent rebate against R/C No. 2317 dated 25-7-64. The two letters however remained unreplied.

On 24-9-74, registered notice has been issued to both M/s. Reliable Engineering Works and M/s. Reme Pvt. Ltd., for depositing a sum of Rs. 1,99,377 within thirty days. The acknowledgment form with the letter has been received back but no reply has so far been received from the firms."

2.51. The Committee pointed out to the Department that the firm was originally graded for manufacture of 3/4" machine and desired to know when this limit was relaxed and what was the justification for the same. The Department of Supply in their reply have stated: "At the time of placement of the order the firm stood graded as manufacture of 3/4" capacity and 1" capacity Capstan Lathes vide Development Officer (Tools), DGTD letter No. DT-1|13(50)65|2581 dated 27|28-8-1965 and DT-1|13(50)67|Tools dated 18-11-67. The gradation for the above two sizes had been granted on the basis of satisfactory inspection reports on 12 nos. of 1" and 3 nos. of 3/4" from the Director of Inspection, N.I. Circle, New Delhi. The firm were not formally graded for 1/2" size at the time of placement of the order, but this aspect could not prejudice the award of contract to them specially when they stood graded for the higher sizes of machines of the same type."

2.52. Asked to state the difference between registration and gradation, the representative of the Department of Supply has stated during evidence:

> "Registration essentially takes into account the machinery installed at the firm, their past performance etc. Gradation also takes care of past performance in the sense that machines inspected by us for gradation are checked and a report submitted to the DGTD."

2.53. Questioned about the steps taken to reform the system of gradation with a view to avoiding pitfalls, the representative of the Department of Supply has stated:

"The ISI have brought in certain alignment charts, more or less on the same lines as those of DGTD in 1942-43. The gradation process starts like this. A firm applies to the DGTD for gradation and the DGTD writes to the DGSD for inspection. We start the process of inspection of the type of machines which they want to be graded and submit our reports along with the alignment charts to the machine tools directorate of the DGTD who inform us whether that firm has to be regarded as grade I or not. This process was gone through in so far as this firm was concerned. We graded them as manufacturers of 1" capstan lathes after we inspected 12 numbers and for 3/4" capstan lathes after inspecting 8 numbers."

2.54. The firm (Reliable Engineering Works) was given rate contracts by the DGS&D for the supply of lathes during the periods 1st July, 1962 to 30th June, 1964, 22nd July, 1964 to 30th June, 1966 and 12th July, 1966 to 30th June, 1968. The Committee have been informed that while placing the rate contract for the period 1962 to 1964 no capacity report was called for on account of the fact that the firm was a graded manufacturer and no security was also taken as the firm was an S.S.I. Unit. The Committee have been told that as graded manufacturers, it was guaranteed that the machines produced by the firm would be of proven accuracy. M/s. Reliable Engineering Works were recommended as graded manufacturers for 6"/6½" Centre Lathes after 8 machines had been inspected. Subsequent rate contracts were placed on the firm on the basis that they were holding the earlier rate contract and the performance against that contract was said to be satisfactory.

2.55. That the performance of this firm was anything but satisfactory has been pointed out by the Audit in paragraph 9 of their report, Union Government (Defence Services) for 1970-71 in respect of supply of 11 lathes to Defence Department. The Public Accounts Committee also in their 92nd Report (5th Lok Sabha) had observed as under:—

"The lathes could have been rejected if proper inspection had been carried out by actual trial by Director General, Supplies and Disposals' inspectors before despatch. The Committee desire that the matter should be investigated with a view to fixing responsibility."

2.56. Even after two years of the submission of the report by the Public Accounts Committee, Government have not completed disciplinary proceedings against the officers who were responsible for

inspection of machines found to be defective. The result has been that one of the officers has resigned. The Committee deplore both the unpardonable delay in completing the disciplinary proceedings and the decision to allow the officer to resign in this particular case. The Committee desire that the reasons for the delay in completing disciplinary proceedings and also permitting an officer to resign while proceedings against him were pending should be thoroughly investigated and responsibility fixed for appropriate action.

2.57. Another feature of the whole transaction is the fact that the defects were reported after the guarantee period was over and Governmenf could not recover Rs. 1.75 lakhs from the firm. The Committee have already in their 92nd Report (5th Lok Sabha) expressed their regret that the lathes were not erected within the warranty period of 12 months and observed that these could have been rejected if proper inspection has been carried out by actual trial by the DGS&D inspectors before despatch.

2.58. In January 1968, an indent was placed on this firm for the supply of 11 Grade I Master Capstan lathes of 1" bar capacity at a cost of Rs. 1.72 lakhs although the firm stood graded for 3/4" capacity lathes. The Committee fail to understand why at the pre-inspection stage no performance tests were conducted and also why the machines were not subjected to alignment tests "as their Grade I accuracy in any case would have to be tested and certified by the Inspecting Officer at the time of the actual inspection of the machines after the A/T had been placed." Had the machines been subjected to rigorous performance tests, the defects pointed out by some of the consignees subsequently could have been rectified at the cost of the firm before actual supply. The Committee have been told that "gradation for the two sides 3/4" and 1" capacity Capstan lathes had been granted on the basis of satisfacory inspection reports of 12 number of 1" and three number of 3/4" from the Director of Inspection, NI Circle, New Delhi." The Committee have their doubts as to the effectiveness of the inspections carried out on the lathes. The fact remains that 4 out of the 11 machines were reported as lying defective as on 26th September, 1974 when the representatives of the Department appeared before the Committee. Although one of the machines was stated to have been repaired, the other three could not give satisfactory service at all.

2.59. Equally unsatisfactory was the performance of the firm in respect of supply of 4 Capstan lathes 1/2" bar capacity and allied accessories for P & T Workshops (Telcom Factories), Calcutta. The Workshops receiving the lathes reported that "the lathes were not manufactured according to the design, they did not even look alike, and pointed out that unless the defects were rectified it would not be possible to use these lathes." The Committee regret to observe that the Department of Supply attempted to play down the defects and had informed audit that "the defects evidently came to the surface when the machines were put to use. These were, however, of minor nature and could have been easily rectified by the user workshop." It was only when the joint inspection was carried out that the Dept. of Supply came to the conclusion that the defects were of serious nature. The Secretary, Department of supply had to admit before the Committee that "when the joint inspection took place, the P & T's contention that the defects were of a major character, was accepted. There was an infructuous expenditure of Rs. 1875 in the repair of one machine which could not be put to any beneficial use. The Committee would like that individual responsibility for acceptance of the defective machines by D.G.S. & D. should be fixed forthwith.

2.60. The Committee have been imformed that the total amount finally recoverable against the various contracts placed on the firm would work out to Rs. 1,83,299 minus Rs. 33,027 available to firm's credit with P&AD, Calcutta/New Delhi. The amount now intimated by the Department of Supply does not take into account Rs. 1.75 lakhs being the cost of 11 lathes supplied to the Defence Departments, as the defects were not pointed out within the warranty period and as such the department is not in a position to recover legally any damages. The Committee also note that even the recovery of the amount calculated as recoverable from the firm, Reliable Engineering Works, is doubtful as the firm has gone out of business so far as this item is concerned. Attempts to recover this amount from Reme Private Ltd., whose proprietors were also the proprietors of Reliable Engineering Works have also not been successful so far. The Committee consider that due regard has not been paid by the Department of Supply to safeguarding the financial interests of Government.

2.61. The Committee take serious note of the defective system of follow-up and execution of contracts placed by the DGS&D. No satisfactory explanation has been offered as to why the inspectors of DGS&D could not furnish timely information about the closure of the firm, which is located in Delhi itself, thereby jeopardising the interests of the Government. When the firm had informed the DGS&D as early as August, 1969 that its factory was closed it is incomprehensible why after a lapse of four years the Director of Inspection caused an enquiry into the affairs of this firm. The delay is completely indefensible. The Committee hope that, as assured by the Secretary, Department of Supply, during the course of evidence before the Committee, review of the entire system of inspection would be carried out to ensure that no loopholes exist and to take remedial measures. In the present case, the Committee would recommend that suitable disciplinary action should be taken, against the officers who failed to safeguard the Government interests.

2.62. The Committee have been informed that no security deposit was taken from the firm in as much as it was a Small Scale Industrial Unit. The fact that encouragement should be given to Small Scale Units does not mean that the public exchequer should be put in jeopardy. The record of the firm shows that the Department took a very unwise risk and the performance of the firm over the years does not justify the confidence that the Department had placed on them. The Committee would like the Department to take all possible steps to effect recoveries of the amounts due from the firm and also to initiate disciplinary proceedings against those responsible for placing contracts without investigating the performance and achievements of the firm over the years under advice to the Committee.

CHAPTER III

Purchase of zinc base alloy ingots Audit Paragraph

3.1 Zinc base alloy ignots (containing 94 per cent zinc) are used by ordnance factories for production of various die casting components for ammunitions. In November, 1968 an ordnance factory placed an indent on the Director General Supplies and Disposals, for 90 tonnes of the ignots. After inviting tenders the Director General placed an order in February, 1969 on a firm for supply of the ingots at Rs. 37,000 per tonne by May, 1969. As the firm failed to supply due to a strike in its factory, the contract was cancelled on 1st November, 1969 at its risk and cost.

3:2 A limited risk purchase tender enquiry was issued on 30th October, 1969 and the tenders received were opened on 21st November, 1969. The risk purchase was to be completed by 30th November, 1969, i.e., within 6 months from 31st May, 1969 which was the date of breach of the cancelled contract. None of the three offers received against this enquiry was acceptable for valid risk purchase as the lowest offer of Rs. 3,810 per tonne was subject to foreign exchange assistance being given by Government (there was no such provision in the contract cancelled), the second lowest offer of Rs. 4,950 per tonne was from the defaulting firm in the factory of which strike was still continuing and the other offer of Rs. 5,940 per tonne was for a different size of ingots. After negotiations with the tenderers and the indentor, it was decided on 15th December, 1969 i.e., after the last date for completing risk purchase was already over, to place the order on one of the tenderers but by then its offer had expired.

3.3 The strike in the factory of the defaulting firm ended on 29th January, 1970. Thereafter the Director General, Supplies and Disposals, negotiated with that firm which agreed in April, 1970 to supply the ingots at Rs. 4,000 per tonne provided the original acceptance of tender was revived without imposition of any liquidated damages on it. On 7th June, 1970 the Director General decided to accept this offer as delay in supply of the ingots had caused stoppage of production of die casting components in the indenting ordinance factory and price for fresh purchase would be more than Rs. 4,000 per tonne (price of ingots prevailing at that time was Rs. 5,000 per tonne and London Metal Exchange price of zinc had risen from £112.5|8-112.3|4 per tonne in February, 1969 to £22.3|4 per tonne in April, 1970). Besides, the Department also felt at the time of taking this decision that legal steps to recover general damages would not serve any useful purpose. But with a view to claiming general damages, instead of reviving the cancelled contract a fresh acceptance of tender was issued on 10th June, 1970. The firm, however wrote back on 16th June, 1970 declining to accept that acceptance of tender unless the Director Genral Supplies and Disposal confirmed that the original acceptance of tender had been cancelled without any claim to liquidated damages and that this accepted of tender was in lieu of the cancelled contract. On receipt of this letter, the Ministry of Law was requested to advise if general damages could be claimed from the firm to the extent of additional expenditure which worked out to Rs. 27,000. The Ministry of Law advised (July 1970) that in view of risk purchase not being possible, general damages could be claimed and recovered to the extent of difference between the market rate on or about the date of breach and the contract price. Thereupon, the firm was asked (July 1970) to proceed with the execution of the contract. In reply the firm wrote (July 1970) that unless the earlier acceptance of tender was cancelled without financial repercussion it was prepared to accept the fresh contract, and returned the acceptance of tender issued in June, 1970. The case was again referred on August 1970 to the Ministry of Law which advised (August 1970) that the firm might be told that it had no right to return the acceptance of tender and it was bound to perform the contractual obligations. Consequently, performance notice was given (September 1970) to the firm but the firm wrote back (September 1970) that it had not accepted the contract and, as such, question of contractual obligations did not arise. A further reference was made to the Ministry of Law in December, 1970 and that ministry then reversed its earlier opinion of August, 1970 and advised that the Director General, Supplies and Disposals, had no right to issue a fresh acceptance of tender and the firm was under no obligation to execute the order. Subsequently, in February, 1971 the firm informed the Director General, Supplies and Disposals, that it was treating the contract as cancelled and non-existent.

3.4 As stated earlier, the Director General, Supplies and Disposals, was aware in June, 1970 that because of non-availability of the ingots Defence production of die casting components had stopped. In September, 1971 the indentor repeated the urgent need for the ingots. Therefore, a fresh tender enquiry was issued in April, 1972 and on order was placed on the defaulting firm in June, 1972 for supply of the ingots at the rate of Rs. 6.000 per tonne by 31st October, 1972.

3.5. Had the ingots been purchased at the rate of Rs. 4,000 per tonne there would have been extra eypenditure of Rs. 27,000 as compared to the original price fixed in February 1969. To procure the ingots, which were required for Defence production, took nearly three years and that, too, by paying Rs. 1.80 lakhs (i.e. 50 per cent) more than what it would have cost had the April 1970 offer of Rs. 4,000 per tonne by the firm been accepted.

3.6. Only general damages, being the difference between the market price on or about the date of breach (31st May 1969) and the price of Rs. 3,700 per tonne fixed in February 1969, are recoverable from the defaulting firm. hTe general damages are yet to be assessed and claimed (July 1973).

(Paragraph 46 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government Civil).

3.7. According to the information furnished to the Audit by the Department of Supply, an indent for supply of 90 tonnes of ingots requiered by the ordnance factory (Ordnance Factory, Katni) was received in the Directorate General of Supplies and Disposals on 2-12-1968. Notice inviting tenders was sent for advertisement in the Indian Trade Journal on 13-12-1968. Copy of tender enquiry was also sent to State Directors of Industries and also to 63 firms. Advance acceptance of tender was issued to M/s. Binani Metal Works Ltd. on 11-2-1969. Formal acceptance of tender was issued on 24-2-1969. The ingots were required to be supplied by May 1969 and the price quoted in A/T was Rs. 3700 per tonne.

3.8. It has been stated in the Audit Para that the firm failed to supply due to a strike in its factory and the contract was cancelled on 1-11-1969 at its risk and cost. The Committee wanted to know the reasons for the cancellation of the contract as late as 1-11-1969 when the supply was to be completed by 31-5-1969. In a written note furnished to the Committee, the Department of Supply has stated as under:

"General Manager, Ordnance Factory, Katni under his letter No. 4017|68|PV|CP dated 4th July, 1969 intimated DGS&D that the firm was not in a position to supply the stores due to strike in their factory. DGOF, Calcutta in his letter No. 4017|68|G-2|P|1 dated 12-9-1969 had asked Ordnance Factory, Katni to examie the stock position and to intimate to the DGS&D whether supply of the material from alternative source was necessary. The case was referred by DGS&D to the Law Ministry on 7-10-1969 for advice. The case was received back from the Law Ministry on 14-10-1969 for certain clarifications and was again sent back to them on 22-10-69. Ministry of Law advised on 25-10-1969 that the contract could be cancelled at firm's risk and cost, taking 31-5-69 as the date of breach. The contract was accordingly cancelled on 1-11-1969. A statement showing the action taken by the DGS&D fro m4-7-1969 till 1-11-69 as furnished by the Department of Supply is given in the Appendix V.

3.9. According to the information furnished to the Audit by the Department of Supply, 'The firm's factory had been closed because of Supply, "The firm's factory had been closed because of strike since 15-4-1969 and as per their version (based on a copy of their letter dated 22-4-1969), they had intimated this fact to Director General, Supplies and Disposals *vide* the said letter. However, this letter which is of general nature, is not available on the particular A|T file." The Secretary, Department of Supply has stated during evidence that "4th July letter (from General Manager, Ordnance Factory, Katni) can be taken as the first information......On getting the 4th July letter, we had been checking up about the supply position; we found the strike remained till about 5 September 1969." He has affirmed that there was no correspondence between the DGS&D and the factory. The Secretary, Department of Supply has further stated in evidence: "The first thing was that the D.D. Progress Calcutta informed DGOF that there was a continued strike in the factory. I do not have the file of the D.D. Calcutta with me. I presume that by checking or by some correspondence he was aware of the fact of the factory being on strike. Then there was checking up with the DGOF. We wanted the Katni people to check up whether arrangement should be made for procuring from an alternative source; when this was replied to that we have to get it from an alternative source, they had to cancel the contract."

3.10. Asked to state if the letter of the firm dated 2-4-1969 was received in the Department and, if so, the action taken thereon, the Department has in a written note stated as under:

> "The firm's letter of 22-4-1969 was duly received in the DGS&D and there is a record that it had been passed on to the concerned Directorate in the DGS&D. But the actual movement of the receipt within the Directorate could not be traced, as the diary register maintained by the Personal Section of the Director could not be located. Further, it has been noticed in the register maintained in the Purchase Section (to whom the letter would have been passed on by the Director in the normal course) that a few pages relating to the period 25-4-69 to 5-5-69 are missing. The vigi-

lance and disciplinary aspects in this regard are under examination. There is, however, no lacuna as such in the system of receipt and disposal of letters in the DGS&D."

3.11. The Secretary, Department of Supply, has further clarified that "If the letter of 22nd April 1969 was a notice to DGS&D in terms of the contract, then the loss of that letter would have been very serious matter on which very serious action has to be taken. The letter dated 22nd April, as I have submitted, is not a letter in accordance with the terms of the contract. As to what has happened to that letter which was received is a matter which has to be investigated.

3.12. Asked to state whether the contract was cancelled because of the letter or any other ground, the Secretary, Department of Supply has stated during evidence: "When the Ordnance Factory said that the they wanted this material from alternative source the contract was cancelled and arrangement for the material had to be made. Otherwise we could have extended the period".

3.13. Questioned if the Director could cancel the contract without giving notice to the party, the Secretary, Department of Supply has clarified during evidence: "The delivery period had expired on 3-5-69. If we had corresponded with the factory, that would have kept the contract alive and you could not have cancelled that easily. It is not the normal practice when the delivery period has expired that we, the contracting agent, should be corresponding with them. That is the legal position. The ordnance factory had said that they wanted the material from an alternative source."

3.14. As to the delay of six months to cancel the contract, the Secretary, Department of Supply, has stated: "It was only in September, 1969, when they said that they wanted the material from alternative source, that the Law Ministry was consulted about this matter, and we found that even a fresh A|T was not accepted by the Supplier, and so it should be cancelled so that we could procure the material through the D.G. and ask him to see whether the material can be made available in the existing factories on a new A/T."

3.15. Asked whether it did not give time to the contractor to watch the trend in the metal market, the Secretary, Department of Supply has stated during evidence that the factory had given notice even at the last period saying "Cancel the whole contract without any liability and we are prepared to give another offer."

3.16. According to the information furnished to the Audit by the Department, "the firm (M/s. Binani Metal Works Ltd.) gave (December, 1969) specific reference to the Director General Supplies and Disposals. A/T placed on them in February, 1969 enclosing copy of their letter dated 22-4-1969, informing Director General, Supplies and Disposals of the strike in their factory and stated (December, 1969) as follows:—

> "Since the strike has continued beyond the period of 60 days we have no other course but regretfully to exercise our option to terminate the contract under the said clause and shall be grateful to receive your confirmation in this behalf."

3.17. It has been stated in the Audit Para that a limited risk purchase tender enquiry was issued on 30th October, 1969, and the tenders received were opened on 21st November, 1969.

3.18. Asked to state why a limited tender enquiry was issued on 30-10-1969, the Department of Supply has stated in a written note as under:

> "As advised by Ministry of Law, the date of breach was 31-5-1969. A valid risk-purchase could only be made within six months from the date of breach. Since the decision to concel the A/T was taken on 28-10-1969 only, a period of only about a month was available for effecting valid risk-purchase. It was, therefore, decided to issue a limited tender enquiry as advertising of tenders would have taken a much longer time, which was not available in the present case."

3.19. The DGS&D issued cancellation letter to the defaulting firm on 1-11-1969.

3.20. It has been stated in the Audit para that efforts to complete the risk purchase by 30-11-1969, *i.e.*, within six months from 31st May, 1969, which was the date of breach of the cancelled contract, did not materialise. After the strike in the factory of M/s. Binani Metal Works Ltd., Calcuta, ended on 29th January, 1970, the Director General, Supplies and Disposals, negotiated with that firm which agreed in April, 1970 to supply the ingots at Rs. 4,000 per tonne provided the original acceptance of tender was revived without imposition of any liquidated damages on it. On the 7th June, 1970 the Director General decided to accept this offer as delay in supply of the ingots had caused stoppage of production of die casting components in the indenting ordnance factory (Ordnance Factory, Katni) and price for fresh purchase would be more than Rs. 4,000 per tonne. But a fresh acceptance of tender was issued to the firm on the 10th June, 1970, instead of reviving the cancelled contract.

3.21. Asked to state the reasons for this, the Department of Supply has, in a written note, stated as under:

> "In this regard, reference is invited to Deputy Director General's note dated 6-6-1970, which reads as follows: "A bad case. Proposal may be approved. General damages may be claimed in consultation with the Law Ministry."
>
> In view of this note, the question of general damages had to be considered. But once the A/T is revived, or reinstated, general damages could not be levied. The Assistant Director, therefore, discussed the matter with the Deputy Director General seeking his advice on the matter as both the decisions, *viz.*, re-instatement of contract and claiming general damages could not be implemented at the same time. On the basis of the discussion, a fresh contract was issued with the intention of retaining the claim for general damages. The decision, however, was not got approved by the Director General."

3.22. Asked to state whether the Department was aware of the increase in London Metal Exchange price of zinc at that time and, if so, how did the department think that it would be more advantageous to try for recovery of general damages, which had not even been assessed, the Department of Supply has, in a written note stated as under:

> "Director General (Supplies and Disposals) was aware of the increase in the London Metal Exchange rate during May, 1970 but there is no written record to indicate as to why decision for recovery of general damages was taken at that particular juncture. Assessment for General damages which represent the difference between the contract rate and the market rate, on or about the date of breach is usually made after cancellation of the contract."

3.23. M/s. Binani Metal Works Ltd., Calcutta, refused to accept new acceptance of tender unless the Director General, Supplies and Disposals, confirmd, that the original acceptance of tender had been cancelled without any claim to liquidated damages and that this acceptance of tender was in lieu of the cancelled contract. The Department consulted the Law Ministry to advise if general damages could be claimed from the firm to the extent of additional expenditure which worked out to Rs. 27,000. In July, 1970, the Ministry of Law advised that, in view of risk purchase not being possible, general damages could be claimed and recovered to the extent of difference between the market rate on or about the date of breach and the contract price. The firm having refused to proceed with the execution of the contract (July, 1970) unless the earlier acceptance of tender was cancelled without financial repercussion, the case was again referred to the Ministry of Law which advised that the firm might be told that it had no right to return the acceptance of tender and it was bound to perform the contractual obligations. As the performance notice given to the firm was ignored, a further reference was made to the Ministry of Law in December, 1970 and that Ministry reversed its earlier opinion of August, 1970 and advised that the Director General, Supplies and Disposals, had no right to issue a fresh acceptance of tender and the firm was under no obligation to execute the order.

3.24. The Committee enquired what the consequences would be if the Department did not conclude any arrangement with the defaulting firm on the second occasion within the period covered by the risk. The Secretary, Department of Supply, has stated during evidence: "You can claim general damages." He has further clarified that "unless and until the original contract and the new contract offers are for the similar type of goods specification, the risk purchase is not a valid purchase."

3.25. Asked to state the justification for negotiating with the defaulting firm, the Secretary, Department of Supply has stated, "There is no bar that you cannot take the offer from the defaulting firm if it is in a position to deliver the goods, particularly when the factory was on strike and they were not able to deliver the goods." He has further stated, "So far as this case is concerned, I can say with confidence that there was no question of the firm trying to blackmail in this matter, because the firm—I do not hold any brief for the firm—had duly given the notice saying, 'Please give me the next contract and absolve me of responsibility against the old one."

3.26. The Committee pointed out that the firm (M/s. Binani Metal Works Ltd.) had quoted a higher rate of Rs. 4,950. This was not accepted within 30th November, 1969. A decision was taken on this matter only on 15th December, 1969, after the last date for the risk purchase was over. The Committee asked why the whole transaction was not completed within that period and why the Department did not correspond with the firm and ascertain the reasons for non-supply. The Secretary, Department of Supply has stated during evidence that "On the limited enquiry, the firm, Binani Metal Works had not mentioned the price. It was only on 24th November, 1969 they sent a telegram saying that they had forgotten to mention the rate which was Rs. 4,950....Besides forgetting to mention the rate, there was no guaranteed period of delivery. So the offer had to be ignored."

3.27. The Committee asked what would have happened if the second contract had been accepted at the rate of Rs. 4,950 which was quoted by M|s. Binani Metal Works. The representative of the Ministry of Law has stated during evidence, "So far as the risk purchase is concerned, if the firm's offer happens to be the lowest offer then that will be the amount which we can recover as loss but I am not sure whether the firm had also tendered in the risk purchase tenders. If they had submitted their quotations in respect of the risk purchase tender and their quotation happened to be the lowest, then that would be the amount in law which the purchaser would be entitled to recover keeping in mind the principle of mitigation of damages."

3.28. When it was pointed out that the rate quoted by the firm was the second lowest, the representative of the Ministry of Law has stated: "In that case the difference between the contracted rate and the lowest rate quoted for the risk purchase will have to be worked out." He has further stated: "There were two offers in this case. There was the first offer in respect of which there was already a cancellation. After cancellation the firm came forward with a fresh offer. There were certain conditions attached to the second offer, namely, they would offer at a higher price of Rs. 4,950 provided the purchaser was willing to give a go-by to whatever rights that has accrued to him in respect of the default committed in the earlier contract. In so far as these facts are concerned, there was a rather incorrect appreciation of the facts and, therefore, that advice was given about A|T of the firm. But before the firm could withdraw the offer, the Law Ministry revised their opinion and gave the correct position."

3.29. The Secretary, Department of Supply, has clarified the position as under:

"The original contract was cancelled as per legal advice. The second offer of Rs. 4,950 would not have been in accordance with the general level system for a risk purchase. Firstly, the offer which was given did not mention the price; the price was mentioned later on by telex. Then, the conditions imposed by the firm were not similar to the conditions which were under the original A|T. If an order was placed on the firm at that moment, then it would not have been a risk purchase tender at all."

3.30. Asked to state the reasons for the Ministry of Law changing their opinion of August 1970 in December, 1970, Ministry of Law has in a written note stated as under:

"The background in which the opinion of August 1970 was recorded may be mentioned. The DGS&D had already placed an A/T on the firm on 10-6-1970. This A|T was issued pursuant to the firm's offer to supply the stores at the rate of Rs. 4,000 per M/T but on condition that the previous A/T will be cancelled without financial repercussions. In other words, the firm wanted was reinstatement of the previous A|T subject to amendment regarding price and the delivery period. The firm's proposal was considered by the Department and instead of reinstating the previous A/T, they decided to place a fresh A|T on the firm at the revised price and a new delivery period which had been agreed to by the firm. It was clear from the notings of the DGS&D on the file that their intention was not to forgo the claim for general damages on account of breach of the previous A/T but to claim it from the firm separately at a subsequent stage. This gave the impression that the Department wanted to take a chance and see whether the firm would accept the A/T issued on 10-6-1970. When the firm refused to accept the A/T and returned the same to the DGS&D, the matter was referred to the Law Ministry. The advice given in August 1970 was based on the assumption that there was a binding contract and the question whether the A/T dated 10-6-1970 brought about a concluded contract was not then considered. In the said opinion we advised the DGS&D to give a performance notice to the firm and to watch the firm's reactions. The matter was further considered in the Law Ministry's opinon of December, 1970. The DGS&D had issued a performance notice to the firm but the firm's reaction was not favouarble. Therefore, the DGS&D posed the question of cancellation of contract and sought the Law Ministry's advice on the date of breach. At that stage, the Joint Secretary and Legal Adviser gave the opinion that the A|T dated 10-6-1970 cannot be said to have brought about a concluded contract and that the firm was under no obligation to execute the order.

It would thus appear that the opinion of August 1970, proceeding as it does on the assumption that a concluded contract had already came into existence, did not take into account all the facts in their true perspective. The matter was reconsidered and the true legal position was stated by the Joint Secretary and Legal Adviser in his opinion of December, 1970.

Incidentally it may be pointed out that the firm's offer to supply the stores at Rs. 4,000 per tonne was withdrawn only on 20-2-1971."

3.31. The Committee enquired whether the Department accepted any earnest money from the tendering firm, the Secretary, Department of Supply has stated that there was no such practice. "The Secretary, Department of Supply has stated, "It is a matter of policy. I take note of it........It is a question of policy matter whether along with each contract, we should take security deposit."

3.32. The Committee wanted to know the present position of the recovery of general damages from the firm. In a written note, the Department of Supply has stated as under:—

"A notice had been served on the firm on 17-9-1974 asking them to deposit Rs. 49,500 as general damages. P&AO, Calcutta, who was asked to withhold the said amount from any of the firm's pending bills, has now intimated *vide* his letter No. SA-13|6|SMH-5|250|2.69|AT|718-20 dated 18.11.74 that the full amount of Rs. 49,500 has been recovered from the firm.

The general damages have been calculated on the basis of the difference between the market rate on or about the date of breach and the contract price. The calculation is as follows:—

The contract price was Rs. 3,700 per MT and the date of breach as advised by the Ministry of Law was 31-5-1969. An A/T No. SMH-5|107|45|024-127|PACC|297 dated 31st July, 1969 (Advance A/T dated 19-7-69) had been placed on M|s. Binani Metal Works Ltd., Calcutta @ Rs. 4,250 per MT against tenders opened on 2-7-69. This was the rate available nearest to the date of the breach. The firm also in their letter No. H/20(69) dated 24-4-70 had intimated that the price of the store around the time when the delivery was to be completed was Rs. 4,250 per MT. Thus, the price on or about the date of breach was Rs. 4,250 per MT. The contract price was Rs. 3,700 per MT. The difference in prices was Rs. 550 per M.T. The quantity ordered against the cancelled A/T was 90 MTs. The general damages work out to Rs. 550|-x90-Rs. 49,500.

M/s. Binani Metal Works have since repudiated the claim for general damages and the matter is under examination in consultation with Law Ministry."

3.33. The Committee are very much constrained to note that on account of the inordinate delay (if not deliberate) in finalising the contract with M/s. Binani Metal Works Ltd., the Government had to incur an expenditure of Rs. 1.80 lakhs, i.e 50 per cent more than what it would have cost had the offer of the firm made in April 1970 been accepted. The circumstances leading to the (available) extra expenditure being incurred on the purchase of ingots required by the Ordnance Factory have been examined in the proceeding paragraphs.

3.34. The Committee note that the facory of Binani Metal Works Ltd., on which orders had been placed by the Director General, Supplies and Disposals, on 24th February 1969, for the supply of 90 tonnes of zinc ingots, at the rate of Rs. 3,700 per tonne, by May 1969, was closed because of a strike which began in April. It was not until July 1969 that the Director General, Supplies and Disposal came to know of the closure of the factory, after the receipt of intimation in this regard from the General Manager, Ordinance Factory, Katni. The Committee, however, find that Binani Metal Works Ltd., had also informed the their letter dated the 22nd April 1969, of the strike in their factory since the 15th April 1969. The Department of Supply have also informed the Committee that this letter of the firm had been duly received and had been passed on to the concerned Directorate of the DGS&D but the actual movement of the letter within the Directorate could not be traced. Evidence of tampering with the diary register has also been found and the vigilance and disciplinary aspects of this case are stated to be under examination. In the absence of this letter, the Directorate took cognizance of the strike in the factory only in July, on being informed by the indentor. In the opinion of the Committee, unless there had been collusion between the firm and the officials of the DGS&D, an important letter from the firm could not have been lost. The Committee, therefore, desire that this should be investigated in detail expeditiously with a view to fixing responsibility and taking appropriate disciplinary action.

3.35. *Another very surprising feature of the transaction is that while on the 7th June, 1970, the Directorate General of Supplies and Disposals had decided that the original acceptance of tender should be revived and the offer of the firm for supply of ingots at the rate of Rs. 4,000 per tonne should be accepted as the price for fresh purchase would be more than Rs. 4,000 per tonne, a fresh A/T was issued on 10th June, 1970, instead of taking action on the basis of the earlier decision of the Director General himself. The reply of the Ministry that the Assistant Director concerned discussed the matter with the Deputy Director General and on the basis of the discussion, a fresh contract was issued with the intention of retaining the claim for general damages does not at all seem convincing. In any case, the approval of the Director General Supplies & Disposals should have been obtained. It is also regrettable that the Department oi Suply has no written record to indicate as to why decision for recovery of general damages was taken at that particular juncture. The Committee feel that a deeper probe in this matter is called for.*

3.36. Whom Binani Metal Works Ltd., Calcutta, refused to accept a new acceptance of tender unless the Director General Supplies & Disposals confirmed that the original acceptance of tender had been cancelled without any claim to liquidated damages, the Department of Supply consulted the Ministry of Law to advise if general damages could be claimed from the firm to the extent of additional expenditure which worked out to Rs. 27,000.

3.37. In July 1970, the Ministry of Law advised that general damages could be claimed and recovered to the extent of difference between the market rate and the contract price, and in August 1970, the Ministry of Law had advised that the firm had no right to return the acceptance of tender and it was bound to perform the contractual obligations. But surprisingly enough in December 1970 that same Law Ministry reversed its earlier opinion of August 1970 and advised that the Director General, Supplies and Disposals, had no right to issue a fresh acceptance of tender and the firm was under no obligation to execute the order. This gives rise to serious suspicion of corruption and collusion which calls for a probe with a view to fixing responsibility under advice to the Committee. If within the Law Ministry itself such things can happen it can jeopardise the Government's interest in many spheres involving huge sums of money. In this connection the committee would like to invite attention to the case of Dhada and Pharmaceutically Ltd., exporters of silver vide commented upon in paragraphs 2.33 to 2.37 of the 131st Report of the Public Accounts Committee (1973-74) relating to the Ministry of Foreign Trade. The Committee desire that the matter should be brought to the personal advice of the Minister of Law, Justice and Company Affairs. The explanation furnished by Ministry of Law "that the opinion of August 1970, proceeding as it does on the assumption that a concluded contract had already come into existence, did not take into account all the facts in their true perspective. The matter was reconsidered and the true legal position was stated by the Joint Secretary and Legal Adviser in his opinion of December, 1970" is a laboured one and gives rise to suspicion.

3.38. The advice given by the Ministry of Law in December 1970 naturally changed the complexion of the whole case. In February 1971 the firm informed the Director General Supplies and Disposals, that it was treating the contract as cancelled and non-existent. Since the supplies were required urgently by the indentor a fresh tender enquiry had to be issued by the Director General of Supplies and Disposals and an order was placed with the defaulting firm in June, 1972 for the supply of ingots at the rate of Rs. 6,000 per tonne (a rise of Rs. 2,000 per tonne) by 31st October,1972.

3.39. Owing to the protracted negotiations between the DGS&D and the firm on the one hand and the DGS&D and the Ministry of Law on the other, there has not only been inordinate delay of over three years in the procurement of stores required for Defence Production but Govrnment had to incur additional expenditure of Rs. 1.80 lakhs as pointed out in the Audit Paragraph. The Committee would like that responsibility should be fixed and appropriate disciplinary action should be taken.

3.40. It is obvious that the proper course, having regard to the rising trend in the price of zinc in the internal market, would have been to get the firm to accept the order ever on its terms. This, according to the Committee, is not a view based on hindsight, but on a proper interpretation of the zinc price situation of which the Department of Supply appears to have been blissfully ignorant. The amount of recoverable damages would have been negligible. However, even if the alternative course of recovering general damages had been decided upon, the Committee are astonished at the leisurely pace with which pursued, without anyone at any stage finding time to ascertain the continual rising price of Zinc.

3.41. The Committee have been informed that M/s. Binani Metal Works have since repudiated the claim for general damages of Rs. 49,500 and the matter is under examination in consultation with the Ministry of Law. The Committee would like vigorous action to be taken in this regard.

CHAPTER IV

Purchase of Insulation tape

Audit Paragraph

4.1. The Director General Supplies and Disposals, had rate contracts with three firms for purchase of insulation tape during January 1970—December 1971. In August 1971 the Commandant, Central Ordnance Depot, Agra, sent to the Director General, an indent for 1,85,200 rolls of insulation tape (25 metres each), i.e., 46.30 lakh metres of tape worth Rs. 3.49 lakhs to be supplied by March 1972.

4.2. On the 30th August 1971, the Director General had opened tenders for concluding a new rate contract for the years 1972 and 1973 and had therefore become aware of higher trend of prices. On 18th September, 1971 the Director of Supplies decided that the demand might be covered straightaway through the rate contract then in force. The performance (as on 31st July, 1971) of the three firms holding rate contracts was as follows:—

(Rs. lakhs)

Name of firm	Value of orders placed	Value of orders executed	Percentage of orders executed	Remarks
Firm 'A' . . .	11·02	5·08	46	Firm 'A' and 'C'.
Firm 'B' . . .	2·74	2·31	84·3	Did not execute.
Firm 'C' . . .	1·28	0·22	17·4	The balance of the Orders till 31st December, 1971.

4.3. According to the rate contract, 100 per cent capacity of one shift and 50 per cent capacity of the second shift were to be reserved by each of the rate contract holders for supply against the rate contract. Firm 'B' which had already supplied by July, 1971 more than 84 per cent of the orders placed on it had capacity to produce 1.36 lakh metres of tape per day in two shifts. By reserving capacity of one and half shifts, firm 'B' could supply 46.30 lakh metres of tape indented by the ordnance depot (in August 1971) in about 46 days.

4.4. Instead of placing order for the supply against existing rate contracts according to the decision of 18th September 1971, an enquiry was made by the office of the Director General, Supplies and Disposals, after more than two months, i.e. on 23rd November, 1971 from all the three rate contract holders to intimate by 10th December, 1971 the guaranteed date of delivery by which they could supply the required tape, if ordered on them. Firms 'A' and 'B' in their replies dated 18th December, 1971 and 8th December, 1971 respectively declined to accept the order stating that the rate contract was going to expire on 31st December, 1971 and that they were already committed for supplies against orders which were in hand. Accordingly no order was placed on any of these firms for supply to the Central Ordnance Depot, Agra.

4.5. The Ministry of Law stated (December, 1973) that "a rate contract is of the nature of the standing offer and that it becomes legally binding as soon as a requisition for a definite quantity is made. In other words the moment a supply order is placed within the validity period of the contract, then it becomes a binding contract" and that it was open to the tenderer to revoke the standing offer before a supply order was placed on it. In the present case instead of placing order before expiry of the validity period the tenderers were asked to intimate guaranteed date of delivery and the tenderers had replied that they would not be in a position to execute the supply order proposed to be placed on them. The Law Ministry, therefore, held "the firm had communicated their revocation before the supply order was placed. In the circumstances the supply order, even if placed thereafter, would not be binding on them contractually." The Law Ministry further stated that after placement of order, the date of delivery could be negotiated, if the delivery date shown in the supply order was not acceptable to the rate contract holder.

4.6. Fresh rate contracts for the years 1972 and 1973 were concluded in December, 1971 at 42 to 49 per cent higher rates for different widths of tape than those in the earlier rate contracts. Firms 'A' and 'B' again got rate contract for the years 1972 and 1973. A supply order to cover the demand under consideration was placed in February, 1972 against the new rate contract on firm 'B' at extra cost of Rs. 1.46 lakhs. According to this supply order accepted by firm 'B' supply was to be completed by March, 1972; the supply was, however, actually completed in July, 1973.

[*Paragraph* 47 *of the Report of C&AG for the year* 1972-73. *Union Government (Civil)*].

4.7. The Committee decided to have a detailed statement indicating the actual production (shift-wise) of insulation tape by the three rate contract holders, the various quantities ordered from these three firms and the quantities actually supplied by them during the period January, 1970 to December, 1971. The Department of Supply have furnished copies of the drawal statements available in the records of DGS&D. Those are reproduced in Appendix VI. A statement showing the rates laid down in the rate contracts for the years 1971-72 and 1972-73 is given in Appendix VII. It will be seen therefrom that the price of a roll of 25 metres (25 MM) (cardboard carton packing) was Rs. 2.85 during the period 1-1-70 to 31-12-71 whereas the price for the same during the period 1-1-72 to 31-12-73 was Rs. 4.02 in respect of Acharya Industries, Bombay (Shri B R Acharya, Managing Director), ie an increase of about 42 per cent. Similarly in respect of Commercial Bureau, Calcutta (Shri D. K. Chatterjee, Managing Director), against the price of Rs. 3.10 per roll of 25 metres (25 MM) during the period 1-1-70 to 31-12-71, the price during the period 1-1-72 to 31-12-73 for a roll of 25 metres (25 MM) was Rs. 4.56, i.e. 49 per cent increase.

4.8. According to the rate contract, 100 per cent capacity of one shift and 50 per cent capacity of the second shift were to be reserved by each of the rate contract holders for supply against the rate contract.

4.9. The Department of Supply was asked to state how much time each of the three rate contract holders would have needed to complete supplies of the balance quantity as at the end of July, 1971 if capacity was utilised according to the rate contracts. A statement furnished by the Department in respect of the three firms is given in Appendix VIII. It would be seen therefrom that the Commercial Bureau, Calcutta (Shri D. K. Chatterjee, Managing Director) would have taken one week to liquidate the outstandings whereas Acharya Industries, Bombay and OHMIC Industries, Calcutta (Shri R. K. Sahgal, Managing Director) would have taken 3½ months and 3 months respectively to liquidate the outstandings.

4.10. It has been stated by the Department of Supply in a written note that Acharya Industries, Bombay did not tender any supply against the supply order dated 23-7-1970. The case is being examined from the angle of cancellation at firm's risk and cost.

4.11. Asked to state the methods to ensure that the rate contract holders are actually utilising 100 per cent capacity of the first shift and 50 per cent capacity of the second shift for making supplies against the rate contracts, the Department of Supply has informed the Committee that "no provision was made in the rate contracts enjoining upon the firms to furnish information in regard to actual production. Normally the performance of firms is judged from the monthly drawal reports on the basis of overall supplies." The Committee have been further informed that all the firms were already registered with the DGS&D. As the capacity of firms is verified before registration, no fresh inspection was made before awarding the rate contract.

4.12. It has been stated in the audit paragraph that on the 18th September, 1971 the Director of Supplies decided that the additional demand from the Commandant, Central Ordnance Depot, Agra, for 1,85,200 rolls of insulation tape (25 metres each), i.e. 46.30 lakh metres of tape worth Rs. 3.49 lakhs to be supplied by March, 1972, should be covered straightaway through the rate contract then in force. Instead of placing order for the supply against existing rate contracts according to the decision of 18th September, 1971, an enquiry was made by the office of the Director General, Supplies and Disposals, after more than two months, i.e., on 23rd November 1971, from all the three rate contract holders to intimate by 10th December 1971 the guaranteed date of delivery by which they could supply the required tape, if ordered on them.

4.13 The Committee enquired why the DGS&D, although they were aware that the prices of insulation tape in the market were going up, did not take advantage of the existing rate contract and placed orders on the rate contract holders. The Committee pointed out that in his note dated the 18th September, 1971, the Director of Supplies made a clear directive: "This indent may be covered straightaway. M/s. Acharya should also be expedited for immediate supply", but the Aissistant Director, instead of complying with the orders of Director of Supplies had noted: "Please ask Acharya for immediate supply. Ask all the three R/C holders to intimate guaranteed D/P for this demand."

4.14. The Secretary, Department of Supply has stated in evidence that the Director of Supplies "did not specify on whom the indents should be placed and why it should not be placed on all the three firms....The indentor could have himself placed this order with the rate contract holders. He need not have gone to the Director General, Supplies & Disposals. This matter need not have been referred to the Director General."

4.15 When the Committee pointed out that instead of placing orders on the rate contract holders on 18th September, 1971, an enquiry was made by the office of the DGS&D on 23rd November, 1971, that is, just 38 days before the rate contract was going to be offered, the representative of the Department of Supply has stated "This enquiry, in my opinion, was not relevant at all in the beginning....But for the DGS&D to ask the office to make an enquiry after two months is also absolutely a redundant course, and in my opinion, this is improper handling of the administrative matter.... I may submit that this has been done out of sheer laziness or lapse....I change the word 'laziness' to 'lapse' that they had conducted the enquiry after two months......I would say that there was a lapse on the part of the office for a period of two months. We are now looking into this matter."

4.16. In a written note furnished to the Committee, the Department of Supply has stated that the question of fixation of responsibility is under consideration in the vigilance wing of the DGS&D. The outcome of the vigilance enquiry will be intimated as soon as the enquiry is completed and decisions are taken.

4.17. The Committee enquired why the DGS&D did not cover the demand by placing an order on Commercial Bureau, Calcutta straightaway and negotiated the delivery date afterwards in view of comparatively better performance of Commercial Bureau, Calcutta and unsatisfactory performance against a previous supply order of Acharya Industries, Bombay. In a written note furnished to the Audit in December 1973, the Department of Supply has stated as under:

> "There is no doubt that amongst the three R|C holding firms the performance of M|s. Commercial Bureau was comparatively better but, as per existing instructions, if a supply order is placed unilaterally against a rate contract the delivery period will not be considered as mutually agreed one. The purchase officer could not have taken a risk by placing the order stipulating with unilateral delivery period in view of the reason that indentor had not received any store against the previous supply order placed on M|s. Acharya Industries, Bombay. It was, therefore, absolutely necessary to ensure that supplies against the proposed supply order were regulated at satisfactory rate. The Director General, Supplies and Disposals, were therefore justified in making enquiry from rate contract holding firm to indicate their guaranteed D|P as per letter dated 23-11-1971."

4.18. The Department of Supply has further informed the Audit in December 1973 that "adequate precautions were required to be taken before coverage of the indent and guaranteed delivery period of the rate contract holders was to be obtained prior to the placement of order to ensure supplies."

4.19. The representative of the Department of Supply has stated in evidence that "This is one of the items we find ourselves unfortunately helpless in the sense that there are not many sources of supply. The specification of the material is such that it is not manufactured by many people. All these things are to be taken into consideration. The firms in this business are very limited. This is a cloth-backed material and we accept only those firms who are the main suppliers. But what is happening is that the demand is such that they are not able to meet the requirements. So who have made a suggestion from the Department to the DGS&D that in consultation with the Industries and other Departments they find out whether we can have an alternative material like PVC, even though it is more expensive, for the purpose of insultation of the tape. The DGS&D tried to find out two or three other sources, but unfortunately their samples are not yet approved. Today the situation is that these are the only two suppliers whose samples have been approved and we have practically no other source." He has admitted that there was no hindrance on placing an order with anyone of the two firms against the existing rate contract. He has further stated that "on 18th September 1971 there were two courses open, either he (DGS&D) should have returned the indent or he could have placed the order and seen what happens in the next 10—15 days. The firm could have come back saying 'we have tried and we could not get that material'."

4.20. Asked to state whether under the rate contract, the firm could return the supply orders, the Secretary, Department of Supply has stated in evidence that "if the delivery period is not acceptable to the supplier, he is not bound to accept the supply order. The rate contract is only a price agreement between the purchaser and the seller and the rate contract can be short-closed at any time by giving notice to DGS&D that 'from such and such date I shall not accept orders'.... The rate contract is only a price agreement between the parties. It has no binding on the quantities to be supplied nor on the delivery period......The rate contract is an advantage in the sense that we shall not have to issue inquiries all the time."

4.21. Explaining the legal position, the representative of the Ministry of Law has stated in evidence: "The Supreme Court has construed the rate contract legally speaking as a standing offer. The standing offer will fructify as soon as the supply orders are placed, but it is subject to a further condition that both the parties should have agreed to a mutual delivery date. If I remember aright, there is a clause which says that as soon as the supply is placed, it is presumed that the firm will supply either from the ready stock or from a particular date. There is also a further condition that in the event of its not being able to supply within that date, it can further approach the purchaser for a mutually agreed date."

4.22. In a written note furnished to the Committee, the Department of Supply has explained the legal position as under:

"According to the legal opinion, DGS&D's Rate Contracts are in the nature of standing offers and at best a Rate Contract can be a contract only to the extent of the minimum amount guaranteed to be ordered under the proviso to clause 2 of the Conditions of Contract governing rate con tract (Form No. DGS&D-69) (Appendix IX.) These standing offers mature into legally binding contracts when a Supply order is placed in pursuance thereof.

"The Rate Contract being a standing offer only, the R.C. holder may revoke it any time during its currency. But supply orders placed before revocation is communicated, have to be executed by the R.C. holder, though he is under no obligation to execute supply orders placed after he has revoked the Rate contract. The conditions of contract governing Rate Contracts are contained in Form No. DGS&D-69. According to Clause 2 of the condition, no guarantee can be given as to the number or quantity of the store which will be ordered during the period of the contract. The rate contract is a contract for supply of stores at specified rates during the period covered by the contract. No quantities are mentioned in the contract and the contractor is bound to accept any order which may be placed on him during the currency of the contract at the rates specified therein. As receprocal consideration DGS&D undertakes to order from the contractor, all stores under the contract which are required to be purchased subject to certain reservations as detailed in Clause 2 of the Form No. DGS&D-69.

"The Clause 2 of the DGS&D-69, referred to above, also further provides for a guaranteed minimum drawal by the purchaser. According to administrative instructions, the minimum drawal value against the R.C. subject to a minimum of Rs. one thousand. In every R.C. the minimum drawal value relating to that R.C. is indicated.

"The date by which stores are required to be supplied is indicated in the supply orders placed in pursuance of the Rate Contract. The date of delivery to be binding should be a mutually agreed one, that is both by the purchaser and the contractor. In the R.C. itself, no delivery date is provided. The period of the rate contract is not the period within which the supply must be completed but it is only a period within which a series of orders at the rate provided in the contract may be placed for the goods covered by the Rate Contracts."

In the light of the opinion of the Ministry of Law, the Committee enquired whether the whole thing was not so managed and manipulated as to allow the last date mentioned in the rate contract to expire and to execute a new contract. The Secretary, Department of Supply has stated in evidence: "They could have mentioned that they wanted this material to be delivered by such and such date. Technically, the firm could have come back saying 'I cannot supply.' Either we accept it or we do not accept. This is the position." He has further stated that 'I can only say that a few cases like this may or may not be deliberate in a vast organisation like this. But we should not ignore those faults; we should take action against those defaulters."

4.23. In a written note submitted to the Committee subsequently, the Department of Supply has stated that the question of not placing the indent against the existing rate contract and delaying the issue is under examination by vigilance wing of the DGS&D.

4.24. According to the audit paragraph, "Fresh rate contracts for the years 1972 and 1973 were concluded in December 1971 at 42 to 49 percent higher rates for different widths of tap than those in the earlier rate contracts. Firms M|s. Acharya Industries, Bombay and M|s. Commercial Bureau, Calcutta again got rate contract for the years 1972-73. A supply order to cover the demand under consideration was placed in February 1972 against the new rate contract on firm M|s. Commercial Bureau, Calcutta at extra cost of Rs. 1.46

lakhs. The supply was, however, actually completed in July 1973 as against the earlier date of March 1972.

4.25. The Committee asked on whom the responsibility should be fixed for the extra expenditure of Rs. 1.46 lakhs incurred in the placement of the supply order. The Secretary, Department of Supply has stated during evidence: "I would submit that so far as this loss is concerned, it is really no loss because that order cannot be complied with within that period......Either the indent should have been returned or the indentor should have been told that deliveries will be delayed......You will have to place a new tender so that the delivery dates are acceptable to the industry......If the delivery period is not acceptable to the supplier, he is not bound to accept the supply order."

4.26. In a written note furnished to the Committee, the Department of Supply has informed as under:

> "It is true that M|s Commercial Bureau have completed the supply only in July, 1973, while the guaranteed delivery period was March, 1972. The delivery period has since been regularised. Liquidated damages amounting to Rs. 42,894|- have been imposed on the firm for delay in supply."

4.27. The Committee enquired whether the Department of Supply had made any efforts to locate other sources of supply and, if so, the details thereof. In a written note furnished to the Committee, the Department of Supply has informed as under:

> "DGS&D made efforts to locate additional sources of supply by floating an advertised tender enquiry in January, 1973 in respect of Indent No. ES-10|101|30|564|Cell-54. The tenders were opened on 22-3-1973. In response to the enquiry, 11 regular quotations and one late offer were received. The names of the firms who quoted are as follows:—

1. M|s Tapex Corp., Belgaum.
2. M|s Kinson Industries, Delhi.
3. M|s Picon Pvt. Ltd., Bombay.
4. M|s Bells Electrical Corp., Calcutta.
5. M|s Commercial Bureau, Calcutta.
6. M|s Sunbeam Electric Industries, Delhi.
7. M|s Abdul Razak & Co., Jaipur.

8. M|s Udyog Sheel, New Delhi.
9. M|s Johnson & Johnson, Bombay.
10. M|s Adtapes Ltd., Bhavnagar.
11. M|s Meclec Sales Agencies, Bombay.
12. M|s Bomb Bros., Madras (Late).

"As M|s Commercial Bureau was already registered with DGS&D the capacity reports of the remaining 10 firms were called for (excluding the late tender of M|s Bomb Bros., Madras). On receipt of the capacity reports, the DGS&D were able to place trial orders on the following three firms:—

1. M|s Kinson Industries, Delhi.
2. M|s Adtapes Ltd., Bhavnagar.
3. M|s Meclec Sales Agencies, Bombay.

Before effecting bulk supplies, the firms were required to get their advance sample approved. In respect of Kinson Industries, the advance sample has since failed in test. Firm was required to complete the supplies by 31-1-1974. They had been given a performance notice upto 31-10-1974. In their letter dated 13-9-1974, the firm have expressed their inability to improve on the quality of their sample and have requested for cancellation of the contract without any financial repercussions. The matter is under examination. The samples submitted by M|s Adtapes have also failed in test. The firm in their letter dated 30-9-1974 had informed that they were submitting improved sample by 10-10-1974 and would arrange to supply stores to the indentor, after the sample is approved. Delivery date had been extended upto 15-10-74. The Defence Inspectorate at Bangalore have been asked to intimate whether the firm has submitted the improved sample and if so, the results thereof. Advance samples of M|s. Meclec Sales Agencies have since been accepted, as intimated by them in their letter dated 22-10-74. The firm have, however, come up for price increase and extension in delivery date upto 31-12-1974 without any liquidated damages. Their request is under examination."

4.28. The D.G.S.&D. had concluded a rate contract with Acharya industries, Bombay; Commercial Bureau, Calcutta and OHMIC Industries, Calcutta for the supply of insulation tape during January, 1970 December, 1971 for Defence requirements. According to the legal opinion, the date by which stores are required to be supplied is indicated in the supply orders placed in pursuance of the rate contract.

The date of delivery to be binding is a mutually agreed one, i.e. both by the purchaser and the contractor. In the rate contract itself no delivery date is provided. The period of rate contract is not the period within which the supply must be completed but it is only a period within which a series of orders at the rate provided in the contract may be placed for the goods covered by the Rate Contracts.

4.29. The Committee have noted that when an indent for 1,85,200 rolls of insulation tape (25 metres each), i.e. 46.30 lakh metres of tape worth Rs. 3.49 lakhs to be supplied by March 1972, was received from an ordnance depot, the DGS&D, who were fully aware at that time of the higher trend of prices of insulation tape, instead of straight-away placing supply orders on any of the three rate contract holders, made an enquiry from them on 23rd November, 1971, i.e. just 38 days before the rate contract was going to expire, if they could intimate guaranteed delivery date for this demand.

4.30. The Committee are amazed at the dilatory procedure followed by the DGS&D official. From the perusal of the record made available to the Committee, it has transpired that an officer of the status of Assistant Director had deliberately ignored the clear and unambiguous orders of the Director of Supplies, viz., "This indent may be covered straight-diate supply. Ask all the three rate contract holders to intimate guaranteed D/P for this demand". The Committee cannot help concluding that the whole thing was so managed and manipulated as to allow the date mentioned in the rate contract to expire so that the DGS&D could execute a new rate contract with the suppliers for the year 1971—73 and allow higher prices to the suppliers. It is necessary in the view of the Committee, to call for the explanation of the officer and to take appropriate disciplinary action thereafter.

4.31. The Committee have noted that while the order of the Director of Supplies was given on the 18th September, 1971, the enquiry from the supplier was actually made on the 23rd November, 1971, i.e. after more than two months. The delay is wholly indefensible. The Committee have been informed by the Secretary, Department of Supply, during evidence that "to make an enquiry after two months is absolutely a redundant course and, in my opinion, this is improper handling of the administrative matter." The Committee would urge a thorough enquiry into the question of not placing the indent against the existing rate contract and into the delays at various stages. The Committee should be kept informed of the progress in the action taken in this regard.

4.32. The Committee have noted the observations made by the Secretary, Department of Supply, that "the indentor could have placed the order with the rate contract holders instead of going to the Director General, Supplies and Disposals." The Committee strongly feel that there is need for issuing clear instructions in the matter so that delays of this nature do not recur and officials are not able to take advantage of the same.

4.33. Another unsatisfactory feature of the whole transaction is that although the performance of Commercial Bureau, Calcutta was comparatively better and the performance of Acharya Industries, Bombay was wholly unsatisfactory—in fact the latter firm had failed to tender any supply against a previous supply order—the DGS&D did not consider it necessary to place the order on Commercial Bureau, Calcutta straightaway and negotiate the delivery date afterwards, as required under the terms of the rate contract. The argument of the Department of Supply that adequate precautions were required to be taken before coverage of the indent and guaranteed delivery period of the rate contract holders was to be obtained prior to the placement of order to ensure supplies, is not in accordance with the facts and is, therefore wholly unconvincing. The fact remains that although the supply order to cover the demand of the ordnance depot was placed in February, 1972 against the new rate contract on Commercial Bureau Calcutta, the supply was actually completed in July 1973, after well over a year. The Audit have pointed out that placement of order against the new rate contract of Commercial Bureau, Calcutta entailed on extra cost of Rs. 1.46 lakhs. The Committee cannot at all agree with the remarks of the Secretary, Department of Supply that so far as this loss is concerned, it is really no loss because the order cannot be complied with within that period." Had the order been placed before the expiry of the first rate contract and a delivery period mutually acceptable to the parties been settled, there would not have been the necessity of placement of the new supply order at an enhanced rate. The Committee have noted that the delivery period has since been regularised and liquidated damages amounting to Rs. 42.894 have been imposed on the firm for delay in supply. The Committee would like to be informed whether the liquidated damages have since been realised.

NEW DELHI;
March 24th, 1975.
Chaitra 3rd, 1897 (*S*).

Chairman,
Public Accounts Committee.

APPENDIX I

(*Vide* para No. 1.24)

Copy of advertisement published in the "Indian Trade Journal" of December 27, 1967.

PADLOCKS

Office of Issue : The Directorate General of Supplies & Disposals, New Delhi.

Tender No. P/101/46/695/1-11-67

Due by 1 p.m. on the 24th January, 1968.

Sealed tenders are invited on behalf of the purchaser named in the schedule to invitation to tender for—

Item No.	Cat.	Part No.	Description of stores	Quantity
	GI/IGA	. Padlocks, Iron Galvanised 4 Lever .—		
1.	2526 .	. 40 mm		79,000 Nos.
2.	2548 .	. 75 mm		17,320 Nos.

Price per tender set . Rs. 10/-

N.B.— Tenderers may obtain a copy to the letter of invitation of tender and the tender form complete with schedule to tender from the Directorate General of Supplies and Disposals, New Delhi and its Regional Offices at Calcutta/Bombay/Madras/ Kanpur on payment of Rs. 10/- per set.

(No. P/101/46/695/1-11-67/PL dated 11-12-67).

APPENDIX II

(*Vide* para No. 1·24)

(*i*)

Copy of advertisement published in the "Indian Trade Journal" of October, 21, 1970.

PADLOCKS

Office of Issue: . The Directorate General of Supplies & Disposals, New Delhi.

Tender No. . SMH-6/10/46/695/290/334/RP

Due by 10·00 A.M. on the 4th November, 1970.

Sealed tenders are invited on behalf of the purchaser named in the schedule to invitation to tender for—

Item No.	Description of stores	Quantity
1	Padlocks Iron Galvanised	1,19,800 Nos.

Price per tender set . . . . . Rs. 20/-

N.B.—Tenderers may obtain a copy of the letter of invitation to tender and the tender form complete with schedule to tender from the Directorate General of Supplies and Disposals, New Delhi and its Regional Offices at Calcutta/Bombay'Madra/ Kanpur, on payment.

(No. SMH-6/101/46/695/290/334/RP, dated 7-10-70).

(*ii*)

Office of Issue . The Directorate General of Supplies & Disposals, Parliament Street, New Delhi-1.

Tender No. . SMH-6/101/46/186/349/RP

Due by 10 a.m. on the 3rd November, 1970.

Sealed tenders are invited on behalf of the purchaser names in the schedule to the invitation to tender for—

Item No.	Description of Stores	Quantity
1	Pad Locks Iron Galvanised	2,07,400 Nos.

Price per tender set . . . . . Rs. 20/-

N.B. (*i*) Tenderers may obtain a copy of the letter of invitation to tender and the tender form complete with the schedule to tender from the Directorate General of Supplies & Disposals, New Delhi and its Regional Offices at Calcutta/Bombay/Madras and Kanpur, on payment.

(*ii*) In the event of the opening of tender being declared a close holiday for Government offices the due date will be next following working day.

(No. SMH-6/101/46/186/349/RP dated 5-10-1970).

APPENDIX III

(*Vide* Para No. 1.26)

***Statement showing details of Padlocks locally purchased by the Army Authorities during* 1969-72.**

(a) *Padlock IG 4 Lever 40 MM (DS No.* 5340·000967)

Depot	Qty	Rate Local Pur Rs. each	Total Value Rs.	Date of Purchase	DGS & D Rate Rs. each	Amount Rs.	Extra Expenditure
222 ABOD	91	2·88	262·08	18-10-69	2·85	259·35	2·73
Do.	312	2·88	898·56	22-10-69	2·85	988·20	9·36
Do.	122	2·88	351·36	31-10-69	2·85	347·70	3·6
223 ABOD	735	2·64	1938·04	7-10-71	6·50	4777·50	..
Do.	200	2·64	527·36	4-11-71	6·50	1300·00	..
Do.	14	2·44	36·92	15-11-71	6·50	91·00	..
Do.	25	2·64	65·92	25-11-71	6·50	162·50	..
Do.	579	2·64	1526·70	4-12-71	6·50	3763·50	..
Do.	51	2·64	134·47	20-3-72	6·50	331·50	..
1 FOD	650	3·60	2343·25	7-7-71	6·50	4225·00	..
Do.	2024	3·94	7981·93	5-5-72	6.50	13156·00	..
5 FOD	1300	3·44	4478·50	24-3-70	2·85	3705·00	773·50
Do.	1300	3·44	4478·50	22-4-70	2·85	3705·00	773·50
Do.	1700	2,86	4865·40	18-10-70	2·85	4845·00	20·40
Ordnance Depot ALLAHABAD	142	4·50	639·50	6-11-69	2·85	404·70	234·80

Do.	1177	4·85	5590·75	13-4-72	6·50	7650·50	..
Ordnance Depot, SHAKURBASTI	3140	3·45	10833·00	31-1-72	6·50	20410·00	..
Do.	166	3·45	572·70	23-6-72	6·40	1079·00	..
	13728						1817·95
(b) *Padlock IG 4 Lever 50 MM (DS No. 5340—000968)*							
223 ABOD	200	3·35	669·50	21-9-71	8·50	1700·00	..
Do.	50	3·35	167·37	14-10-71	8·50	425·00	..
Do.	59	3·35	197·50	29-10-71	8·50	501·50	..
Do.	3	3·35	10·03	4-12-71	8·50	25·50	..
Do.	1457	2·94	4277·02	3-3-72	8·50	12384·50	..
1 FOD	42	3·85	161·71	22-7-71	8·50	357·00	..
Do.	4	4·10	16·40	1-7-70	8·50	34·00	..
5 FOD	1150	3·92	4510·30	5-3-70	3·40	3910·00	600·30
Do.	126	6·04	761·28	18-1-72	8·50	1071·00	..
Ordnance Depot, ALLAHABAD	50	3·75	187·45	22-10-69	3·40	170·00	17·45
Do.	147	5·40	793·80	9-10-71	8·50	1249·50	..
222 ABOD	22	5·50	121·00	13-9-71	8·50	187·00	..
	3310						617·75
Grand Total :	17038					Rs. 2435·70	

APPENDIX IV

(*Vide* para No. 1·45)

Statement showing the break of extra cost of Rs. 8·96 lakhs

I. Size *A* 40 MM PADLOCKS

	Rs.	
(*i*) Cost of 2,75,200 padlocks re-purchased @ Rs. 6·50 per unit as per As/T placed in February, 1971 .	17,88,000	(A)
(*ii*) Less ; Cost of 40,800 padlocks @ Rs. 2·83 per unit *i.e.* the next higher offer of M/s. Jai Ram & Sons as a result of negotiations on 16-11-1967 after covering 89,000 Nos. (Vide Sl. No. 15 above and notes at p. 21-22/n. 24-26/n and 31/n of DGS&D File No. mentioned at Sl. No. 10 .	1,15,464	(B)
(*iii*) Less ; Cost of 79,000 Nos. @ Rs. 2·85 per unit *i.e.* lowest offers received originally against second tender enquiry dated 11-12-1967 opened on 24-1-1968 vide Sl. No. 19 above	2,25,150	(C)
(*iv*) Less : Cost of 1,65,400 padlocks @ Rs. 3·85 per unit *i.e.* the rate offered by M/s. Universal Button Emporium during negotiations held on 24-12-1968 (Vide Sl. No. 24 above	6,36,790	(D)
TOTAL .	9,77,404	(E)
£Extra cost on 40MM size (A-E) .	8,11,396	(F)

II. *Size* ; 50 MM *Padlocks*

(*i*) Cost of 23,400 padlocks re-purchased @ Rs. 8·50 per unit as per As/T placed in February 1971 .	1,98,900	(G)
(*ii*) Cost of 23,400 padlocks @ Rs. 4·90 per unit *i.e.* the lowest rate quoted by firms against third tender enquiry (Vide Sl. No. 8 above).	1,14,660	(H)
Difference (G-H)	84,240	(M)
£Total extra cost (F) plus (M) .	8,95,636 or 8·96 lakhs	

APPENDIX V

(*Vide* Para No. 3·8)

A chronological statement indicating the action taken by the DGS&D from 4-7-69 to 1-11-69, regarding cancellation of contract.

4-7-1969	General Manager, Ordnance Factory, Katni *vide* his letter No 4017/68/PV/CP dated 4-7-1969 intimated DGS&D that the firm was not in a position to supply the stores due to strike in their factory.
21-7-1969	The Progress Wing of the DGS&D at Calcutta, *vide* their letter No. Prog/Cal/Def/HQ dated 21-7-1969 informed that the strike in the firm's factory was continuing.
16-8-1969	Director General, Ordnance Factories, Calcutta, *vide* his letter No. 4017/68/G2/SP/1 dated 16-8-69 requested that the position and prospects of supply material should be ascertained and intimated.
5-9-1969	The Progress Wing of DGS&D at Calcutta in letter dated 5-9-69 intimated DGOF in response to his letter of 16-8-69 that the strike was still continuing.
12-9-1969	Director General, Ordnance Factories, Calcutta, in his letter No. 4017/68/G2/SP/1 dated 12-9-69 requested the Ordnance Factory, Katni to examine the stock position of the material and intimate to the DGS&D whether supply of the material from alternative source was necessary.
7-10-1969	The case was referred to Ministry of Law for advice.
14-10-1969	The case was received back from the Ministry of Law asking for certain clarifications.
22-10-1969	The case was resubmitted to the Ministry of Law for advice.
27-10-1969	The case was received back in DGS&D with Ministry of Law's advice suggesting cancellation of the A/T at the risk and cost of the firm and indicating the date of breach as 31-5-1969.
30-10-1969	General Manager, Ordnance Factory, Katni *vide* his letter No. 4017/68/PV/CP dated 30-10-69 suggested to the DGS&D that the stores might be procured from other sources as the strike was still continuing in the firm's factory.
30-10-1969	Risk purchase enquiry was issued (Annexure-'G).
1-11-1969	DGS&D issued cancellation letter (Annexure-H) to the defaulting firm.
7-10-1969 to 1-11-1969	Extracts of notings in file from 7-10-69 to 1-11-69 is attached (Annexure-K')

APPENDIX VI

(*Vide* para 4.7)

DRAWAL REPORT FOR THE PERIOD FROM JANUARY 1970 TO DECEMFER, 1971

1. M/S. ACHARYA INDUSTRIES, BOMBAY—R/C 429

Month/Year	Qty.O/S at the beginning of the month (Rolls)			Total (Rolls)	S/Orders receive dduring the month (Rolls)			Total	Qty. supplied during the the month (Rolls)			Total Balance O/S at the end of the period.	
	15*mm*	20*mm*	25*mm*		15*mm*	20*mm*	25*mm*		15*mm*	20*mm*	25*mm*		
July, 1971	89052	150946	14346	254344	2755	5265	2840	10860	..	8090	8090	257114	Rolls
Oct, 1971 . . .	99157	172426	18386	289969	50	5550	100	5700	..	13550	13550	297819	"
Dec, 1971 . . .	39737	148059	13485	261281	..	1702	198	1900	..	26333	26333	236848	"
				II. M/S COMMERCIAL BUREAU, CALCUTTA—R/C 430									
Aug'71 . . .				20509 Rolls				23510 Rolls			11185	32834	Rolls
Sep'71 . . .				32834 "				16718 "			25194	24358	"
Oct'71 . . .				24358 "				12306 "			15013	21651	"
Nov'71 . . .				21651 "				53395 "			6256	68790	"
Dec'71 . . .				68790 "				12949 "			20916	60823	"
				III. M/S. OEMIC INDUSTRIES, CALCUTTA—R/C 431							*Value Rs.* 124243/—		
From 1-4-71 to 30-6-71 .					600	200	..	800	Nil		Nil	800	Rolls.
From 1-7-71 to 30-9-71 .	600	200		800 Rolls	184	17118	..	17302	Nil		Nil	18102	"
From 1-10-71 to 31-12-71 .	784	17318		18102 Rolls	..	538	..	538 Rolls	Nil		Nil	18640	"

Value Rs. 38500/—

N. B. Drawal reports for the remaining months not received.

APPENDIX VII

(*Vide* para 4.7)

A STATEMENT SHOWING THE RATES LOCAL DOWN IN THE RATE CONTRACT FOR THE YEARS 1971-72 *&* 1972-73

Name of the firm	Price for R/C period 1-1-70—31-12-71			Price for R/C period 1-1-72 to 31-12-72 for Roll of 25 metres.		
	15*mm*	20*mm*	25*mm*	15*mm*	20*mm*	25*mm*
1. M/s Acherya Insustries, Bombay.	1·50	2·02	2·80	2·35	2·82	3·90
KRAFT PAPER PACKING						
CARD BOARD CARTON PACKING	1·56	2·08	2·85	2·47	2·95	4·02
2. M/s Commercial Bureau, Calcutta.	1·75	2·29	3·10	2·52 For Calcutta	3·42	4·41
				2·61 For Destination.	3·53	4·56
3. M/s Ohmic Industries, Calcutta.	1·60	2·08	2·85	ROLL OF 25 METRES		
	2·20	4·16	5·70	ROLL OF 50 METRES.		

APPENDIX VIII

(*Vide* para 4·9)

TIME EACH OF THE THREE RATE CONTRACT HOLDERS WOULD HAVE NEEDED TO COMPLETE SUPPLIES OF THE BALANCE QUANTITY AS AT THE END OF JULY, 1971 IF CAPACITY WAS UTILISED ACCORDING THE RATE CONTRACTS

Sl.	R/C No. & Date.	Quantity outstanding at the end of July, 1971	Capacity as disclosed in the tender per month.	Capacity reservation shown in the R/C	Time that should have been taken liquidation outstanding quantity
1	429 dt. 22-12-69 M/s. Acharya Industries, Bombay	15mm — 91807 Rolls 20mm .. 148121 ” 25mm .. 17186 ”	1,40,000 95,000 70,000*	100% of the capacity of first shift and 50% o the 2nd shift: Average—75,000 Rolls	3 ½ months
		TOTAL: 2,57,114 Rolls	3,05,000 Rolls * Average production assorted sizes.		
2	430 dt. 22-12-69 M/s Commercial Bureau, Calcutta	20,509 Rolls	*Working capacity*— 1,36,000 metres per day. Quantity available for allocation to the R C:— % capacity (25 working days(and 25 metres length of rolls· Net capaci;y available in the R/C in 1,08'800 Rolls per month.	100% of one shift and 50% of the 2nd 75% of 136000 Rolls. 102000 Rolls.	One week
3	431 dt. 22-12-69 M/s Ohmic Industries, Calcutta.	15mm .. 600 Rolls 20mm .. 8018 Rolls	Normal Production capacity 4000 Rolls. Maximum Production capacity 5000 Rolls	100% of the first shift and 50% of the 2nd shift Average 75% of	3 month·
	TOTAL:	8618 Rolls			

APPENDIX IX

FORM No. D.G.S.&D. 69 (*Vide* para No. 4.22)

Conditions of Contract Governing Rate Contracts.

GENERAL AND SPECIAL CONDITIONS OF CONTRACT

The General Conditions of Contract in Form No. DGS&D-68 (Revised) included in the pamhlet entitled "Conditions of Contract governing contracts placed by Central Purchase Organisation of the Government of India (now under Ministry of Supply) as modified upto-date and in addition to those General Conditions, the following special conditions shall govern the contract:—

1. Purchase of Contract and Parties to the Contract-The parties to the contract, which shall be deemed to be a "Rate Contract" and which is intended for the supply of the stores of the descriptions set forth in the Schedule to Tender during the period therein specified, shall be the Contractor of the one part and the Purchaser(s) named in the Scheduled to Tender.

2. Number of quantity contracted for-subject as herein-after mentioned, no guarantee can be given as to the number or quantity of the stores which will be ordered during the period of the contract but the purchaser(s) undertake(s) to order from the Contractor all stores as detailed in the Scheduled of Stores and Prices which he/they require(s) to purchase except that he/they reserve(s) the right (1) of submitting to competition any supply of article included in the contract the total value of which exceeds such amount as the Secretary (whose decision shall be final) may determine upon consideration of the tenders, (2) of placing this contract simultaneously or at any time during its period with one or more contracts as he/they may think fit and (3) of obtaining from any source any stores referred to in the contract to meet an emergency, if the Secretary (whose decision shall be final) is satisfied that the Contractor is not in a position to supply specific quantities or numbers within the period in which supplies are required

Provided always that the Purchaser(s) shall in any event be bound to order from the Contractor stores as detailed in the Schedule worth Rs.........

3. Deliveries—The Contractor shall, as may be required either deliver free at, or despatch "f.o.r." from the places specified in the Schedule(s) such numbers or quantities of stores as may be ordered direct from the Contractor from time to time by the Purchaser(s) or by any time during the period of contract be authorised by the said Secretary to place such orders.

4. Monetary limits for indents—The Contractor shall not, ercept with prior approval of the office placing the Acceptance of Tender, comply with the orders exceeding in value the amount determined under caluse 2 received from officers authorised by that office to place order against the contract direct on the Contractor.

5. The expression 'Secretary' has in these special conditions the same meaning as assigned thereto in the General Condition:—

Special Conditions, where they differ from the General Conditions, override the latter.

6. System of Payment-98 percent payment will be allowed on proof of inspection and despatch and balance 2 percent on receipt of stores by the consignee. In other respects, the provisions of clause 19, payments under the contract in DGS&D (Revised) will apply.

APPENDIX X

Summary of main Conclusions/Recommendations

S. No.	Para No.	Ministry/ Dept. Concerned	Conclusion/Recommendations
1	2	3	4
1	1.57	Supply Defence	The Committee have noted that to meet four demands from the Director of Ordinance Services, Army Headquarters, for supply of padlocks of 40 mm, 50 mm and 75 mm sizes, a limited tender enquiry was issued to 13 firms. In response to the limited tender enquiry offers were received from 10 firms of Aligarh, 1 of Hazaribagh and 1 from the State Government Factory, Bargachia, Distt. Howrah. On the basis of tenders received, the DGS&D placed an acceptance of tender on 28th November 1967 for supply of 2,600 padlocks of 50 mm size and 1,900 padlocks of 75 mm size on M/s. Jairam & Sons, Kutab Street, Aligarh at Rs. 3.40 and Rs. 9.00 per padlock, respectively. For padlocks of 40 mm size negotiations were held with firms of Aligarh on 16-11-1967 for supply of 36,000 padlocks at Rs. 2.69 each and 53,000 padlocks at Rs. 2.70 each. An offer was made to the six other firms of Aligarh for supply of 40,800 padlocks (40 mm) at Rs. 2.69 each but this was not accepted. A limited tender enquiry surprisingly enough was issued on 11-12-1967 to 9 firms

1	2	3	4
			of Aligarh for supply of 40,800 padlocks of 40 mm size. Suspecting that the Aligarh firms had formed a rising inasmuch as they quoted a uniform rate of 2.85 per padlock, the DGS&D counter-offered to State Government Factory, Bargachia and to the Bihar State Small Industries Corporation, Patna, the rate of Rs. 2.85 per padlock. The former accepted the offer although the rate offered by it initially was Rs. 6.50 for 40 mm size and Rs. 14.00 for 75 mm size. The Committee have also been informed that the State Government Factory, Bargachia had only 39 skilled employees and its production capacity was 2,000 padlocks per month.
2	1.58	Supply	On the question of holding negotiations with certain firms did not giving orders to the lowest tender, the Secretary Department of Supply has informed the Committee that "negotiations should not be held in each and every case unless and until one finds that the rates quoted are too much at variance as between the one and the other and you have reasons to feel that the rates which are quoted by one party against the other are abnormally high."
			The Committee fail to understand why in spite of the clear instructions issued from time to time to the Director General of Supplies and Disposals that negotiations should only be resorted to when it is absolutely essential, the DGS&D considered it necessary to held

			negotiations with the firms of Aligarh instead of placing order on the basis of the tenders submitted. The Committee would like that responsibility for this lapse should be fixed under advice to them.
3	1.60	Supply	It has been stated that considering the attitude of the ring firms, the DGS&D made efforts to explore the possibility of supply through the Government Central Lock Factory, West Bengal which agreed to the rate of Rs. 2.85 each and also assured the DGS&D that they possessed the requisite machinery and all other arrangements. It has been admitted by the Secretary, Department of Supply in his evidence that no careful detailed scrutiny about the capacity of the State Government factory was made at all nor was it ensured whether the order would materialise. The Committee deeply regret that despite poor performance of the State Government Factory, Bargachia—it supplied 1,092 padlocks by October 1969 (out of the order of 1,19,800 padlocks placed on it on 31-1-1969) which were rejected due to incorrect composition of raw material and other manufacturing defects—the DGS&D placed further orders on it on 11-4-1969, 16-5-1969 (rate contract) and 24-7-1969 (A/T).
4	1.61	Supply	The Committee take a serious view of the fact that although the DGS&D has inspector who make an on-the-spot study and give capacity reports they were unable to check the production capacity of the factory on which it places its orders. The Committee fail to understand why, in view of the urgency of the demand and the large size of the order, the DGS&D did not depute one of his officers to the State Government Factory for on-the-spot inspection before

1	2	3	4
			placement of the order or ask the Director of Industries, West Bengal to furnish the required information about the factory. The Committee suggest that in the future the Department of Supply must make it obligatory for the DGS&D to do the on-the-spot inspection of premises before issue of acceptance of tenders involving urgent defence supplies.
5	1.62	Supply	As to the question of ring formation, the Secretary, Department of Supply has stated before the Committee that "the ring was formed and the rates which were quoted, in my opinion, as a result of this post-mortem, do not appear to me to be such as would have required this action as to not have placed the orders. The matter could have been proceeded with....Even if the rates are quoted at the same level, I submit they are of a small value and do not require the drastic action unless and until it is found that supplies would come much cheaper or you can get the supplies from elsewhere."
6	1.63	Supply	The Committee are very much constrained to observe that no costing whatsoever was done by the DGS&D before placement of the orders. It has been admitted by the Secretary, Department of Supply that purchase organisation like the DGS&D should see and examine the rates quoted by the firms with a view to seeing whether they are abnormally high. It has also been admitted that in the present case, the DGS&D did not ascertain what the prevailing price of padlocks was.

			The Committee would like the Department of Supply to undertake comprehensive cost studies in respect of important items, of the value of Rs. 1 lakh and above which are sought to be procured whether by tenders or by negotiation.
7	1.64	Supply	The Committee find from the opinion furnished by the Director, Small Industries Service Institute, Kanpur, in July 1972, that the units engaged in the manufacture of padlocks had organised themselves into a ring for the reason that the Director General, Supplies and Disposals, instead of giving orders to lowest tenderers, used to negotiate with all tenderers and secured one rate for all. Further, the high rates quoted by the industry were attributed to the cushion they had to provide owing to the upward trend in the prices of raw material to cover the time lag between the submission of tenders and fixation of contracts and the long period of two years thereafter for which the contracts would remain valid after their conclusion. The Committee desire that the Department of Supply should examine whether there is any substance in the opinion expressed by the Director, Small Industries Service Institute, Kanpur and take suitable remedial measures to prevent the formation of rings and to streamline the existing procedures. Negotiations should also be resorted to only when it is absolutely essential.
8	1.65	Supply	1.65. The Committee have noted that tenders are advertised in the Indian Trade Journal and copies of tenders are also made available to NSIC for distribution to the small scale industries. In view of the fact that small scale manufacturers re dispersed in far-flung areas of the country, the Department should utilise the services of

1	2	3	4
			All India Radio in the most suitable manner for publicising the advertisements without fail. There should also be close liaison between the DGS&D and the State Directors of Industries on every such matter.
9	1.66	Supply	The Committee have noted that on account of delayed supply of padlocks, the Defence Department had to resort to local purchases. The extra expenditure involved in the local purchase of padlocks, where the local purchase rates were higher than the DGS&D rates, worked out to Rs. 2,435.70. The Committee would Suggest that the Defence Department should maintain an effective coordination with the DGS&D in the matter of placement of contracts for watching their progress and their progression so that the necessary for local purchases at higher rates is obviated.
10	1.67	Supply	The Committee to note with surprise that while requests made by the State Government of West Bengal for increase in the rates of manufacture of padlocks by the State Government Factory Bargachia, were not acceded to on the ground that the contracts were fixed on a firm price basis, the DGS&D in February 1971 placed orders on five Aligarh firms at the increased rates of Rs. 6.50 and Rs. 8.50 per padlock for 40 mm size and 50 mm size respectively which were quoted by these firms in November 1970. Besides, assistance was assured to these firms through release of steel on replenishment basis. It has been calculated that these purchase would cost 8.96 lakhs extra

			as compared to the rates offered earlier against the three tender enquiries of July 1967, December 1967 and July 1969 or offered after negotiations. Strangely the firms were also allowed as much as 27 to 31st Months time to complete the supply, although the defence requirements were said to be urgent. The Committee would urge that a thorough probe should be conducted in this matter and individual responsibility fixed under advice to the Committee.
11	1.68	-do-	The Department narrated the steps taken by then in diffusing the manufacture of padlocks and encouraging the small scale industries, keeping in view the accepted policy of the Government. The Committee would, however, like that Government should take concrete steps to prevent monopolistic trends even in small scale sector and go in for cost analysis when circumstances so justify.
12	2.54	-do-	The firm (Reliable Engineering Works) was given rate contracts by the DGS&D for the supply of lathes during the periods 1st July 1962 to 30th June 1964, 22nd July 1964 to 30th June 1966 and 12th July 1966 to 30th June 1968. The Committee have been informed that while placing the rate contract for the period 1962 to 1964 no capacity report was called for on account of the fact that the firm was a graded manufacturer and no security was also taken as the firm was an S.S.I. Unit. The Committee have been told that as graded manufactures; it was guaranteed that the machines produced by the firm would be of proven accuracy. M/s Reliable Engineering Works were recommended as graded manufacturers for 6"/6½"

1	2	3	4
			Centre Lathes after 8 machines had been inspected. Subsequent rate contracts were placed on the firm on the basis that they were holding the earlier rate contract and the performance against that contract was said to be satisfactory.
13	2.55	Defence	That the performance of this firm was anything but satisfactory has been pointed out by the audit in paragraph 9 of their report, Union Government (Defence Services) for 1970-71 in respect of supply of 11 lathes to Defence Department. The Public Accounts Committee also in their 92nd Report (5th Lok Sabha) had observed as under:— "The lathes could have been rejected if proper inspection had been carried out by actual trial by Director General, Supplies and Disposals' inspectors before despatch. The Committee desire that the matter should be investigated with a view to fixing responsibility."
14	2.56	Supply	Even after two years of the submission of the report by the Public Accounts Committee, Government have not completed disciplinary proceedings against the officers who were responsible for inspection of machines found to be defective. The result has been that one of the officers has resigned. The Committee deplore both the unpardonable delay in completing the disciplinary proceedings and the decision to allow the officer to resign in this particular case. The Committee desire that the reasons for the delay in completing

			disciplinary proceedings and also permitting an officer to resign while proceedings against him were pending should be thoroughly investigated and responsibility fixed for appropriate action.
15	2.57	-do-	Another feature of the whole transaction is the fact that the defects were reported after the guarantee period was over and Government could not recover Rs. 1.75 lakhs from the firm. The Committee have already in their 92nd Report (5th Lok Sabha) expressed their regret that the lathes were not erected within the warranty period of 12 months and observed that these could have been rejected if proper inspection had been carried out by actual trial by the DGS&D inspectors before despatch.
16	2.58	-do-	In January 1968, an indent was placed on this firm for the supply of 11 Grade I Master Capstan lathes of 1" bar capacity at a cost of Rs. 1.72 lakhs although the firm stood graded for 3/4" capacity lathes. The Committee fail to understand why at the pre-inspection stage no performance tests were conducted and also why the machines were not subjected to alignment tests "as their Grade I accuracy in any case would have to be tested and certified by the Inspecting Officer at the time of the actual inspection of the machines after the A/T had been placed." Had the machines been subjected to rigorous performance tests, the defects pointed out by some of the consignees subsequently could have been rectified at the cost of the firm before actual supply. The Committee have been told that "gradation for the two sizes 3/4" and 1" capacity Capstan lathes had been granted on the basis of satisfactory inspection reports of 12 numbers

1	2	3	4
			of 1" and three numbers of 3/4" from the Director of Inspection NIS Circle, New Delhi." The Committee have their doubts as to the effectiveness of the inspections carried out on the lathes. The fact remains that 4 out of the 11 machines were reported as lying defective as on 26th September, 1974 when the representatives of the Department appeared before the Committee. Although one of the machines was stated to have been repaired, the other three could not give satisfactory service at all.
17	2.59	Supply P. & T.	Equally unsatisfactory was the performance of the firm in respect of supply of 4 Capstan lathes ½" bar capacity and allied accessories for P & T Workshops (Teleco Factories), Calcutta. The Workshops receiving the lathes reported that "the lathes were not manufactured according to the design, they did not even look alike, and pointed out that unless the defects were rectified it would not be possible to use those lathes." The Committee regret to observe that the Department of Supply attempted to play down the defects and had informed audit that "the defects evidently came to the surface when the machines were put to use. These were, however, of minor nature and could have been easily rectified by the user workshop." It was only when the joint inspection was carried out that the Department of Supply came to the conclusion that the defects, were of serious nature. The Secretary, Department of Supply had to admit before the Committee that "when the joint inspection took place, the P & T's contention that the defects were of a major

			character, was accepted. There was an infructuous expenditure of Rs. 1875 in the repair of one machine which could not be put to any beneficial use. The Committee would like that individual responsibility for acceptance of the defective machine by D.G.S.&D. should be fixed forthwith.
18	2.62	-do-	The Committee have been informed that the total amount finally recoverable against the various contracts placed on the firm would work out to Rs. 1,83,299/- minus Rs. 33,027/- available to firm's credit with P&AD, Calcutta/New Delhi. The amount now intimated by the Department of Supply does not take into account Rs. 1.75 lakhs being the cost of 11 lathes supplied to the Defence Departments, as the defects were not pointed out within the warranty period and as such the department is not in a position to recover legally any damages. The Committee also note that even the recovery of the amount calculated as recoverable from the firm, Reliable Engineering Works, is doubtful as the firm has gone out of business so far as this item is concerned. Attempts to recover this amount from Reme Private Ltd., whose proprietors were also the proprietors of Reliable Engineering Works have also not been successful so far. The Committee consider that due regard has not been paid by the Department of Supply to safeguarding the financial interests of Government."

1	2	3	4
19	2.61	Supply	The Committee take serious note of the defective system of follow-up and execution of contracts placed by the D.G.S.&D. No satisfactory explanation has been offered as to why the inspectors of D.G.S.&D. could not furnish timely information about the closure of the firm, which is located in Delhi itself, thereby jeopardising the interests of the Government. When the firm had informd the D.G.S.&D. as early as August 1969 that its factory was closed, it is incomprehensible why after a lapse of four years the Director of Inspection caused an enquiry into the affairs of this firm. The delay is completely indefensible. The Committee hope that, as assured by the Scretary, Department of Supply, during the course of evidence before the Committee, a rview of the entire system of inspection would be carried out to ensure that no loopholes exist and to take remedial measures in the present case, the Committee would recommend that suitable disciplinary action should be taken against the officers who failed to safeguard the Government interests.

20	2.62	-do-	The Committee have been informed that no security deposit was taken from the firm in as much as Small Scale Industrial Unit. The fact that encouragement should be given to Small Scale Units does not mean that the public exchequer should be put in jeopardy. The record of the firm shows that the Department took a very unwise risk and the performance of the firm over the years does not justify the confidence that the Department had placed on them. The Committee would like the Department to take all possible steps to effect recoveries of the amounts due from the firm and also to initiate disciplinary proceedings against those responsible for placing contracts without investigating the performance and achievements of the firm over the years under advice to the Committee.
21	3.33	-do-	The Committee are very much constrained to note that on account of the inordinate delay (if not deliberate) in finalising the contract with M/s Binani Metal Works Ltd. the Government had to incur an expenditure of Rs. 1.80 lakhs, *i.e.* 50 per cent more than what it would have cost had the offer of the firm made in April 1970 been accepted. The circumstances leading to the (avoidable) extra expenditure being incurred on the purchase of ingots required by the Ordnance Factory have been examined in the preceding paragraphs.
22	3.34	-do-	The Committee note that the factory of Binani Metal Works Ltd., on which orders had been placed by the Director General, Supplies and Disposals, on 24th February 1969, for the supply of 90

1	2	3	4
			tonnes of zinc ingots, at the rate of Rs. 3,700 per tonne, by May 1969, was closed because of a strike which began in April. It was not until July 1969 that the Director General, Supplies and Disposals came to know of the closure of the factory, after the receipt of intimation in this regard from the General Manager, Ordnance Factory, Katni. The Committee, however, find that Binani Metal Works Ltd., had also informed the Director General, Supplies and Disposals, in their letter dated the 22nd April 1969, of the strike in their factory since the 15th April 1969. The Department of Supply have also informed the Committee that this letter of the firm had been duly received and had been passed on to the concerned Directorate of the D.G.S.&D. but the actual movement of the letter within the Directorate could not be traced. Evidence of tampering with the diary register has also been found and the vigilance and disciplinary aspects of this case are stated to be under examination. In the absence of this letter, the Directorate took cognizance of the strike in the factory only in July, on being informed by the indentor. In the opinion of the Committee, unless there had been collusion between the firm and the officials of the D.G.S. & D. an important letter from the firm could not have been lost. The Committee, therefore, desire that this should be investigated in detail expeditiously with a view to fixing responsibility and taking appropriate disciplinary aciton.

24	3.35	Supply	Another very surprising feature of the transaction is that while on the 7th June, 1970, the Directorate General of Supplies and Disposals had decided that the original acceptance of tender should be revived and the offer of the firm for supply of ingots at the rate of Rs. 4,000 per tonne should be accepted as the price for fresh purchase would be more than Rs. 4,000 per tonne, a fresh A/T was issued on 10th June 1970, instead of taking action on the basis of the earlier decision of the Director General himself. The reply of the Ministry that the Assistant Director concerned discussed the matter with the Deputy Director General and on the basis of the discussion, a fresh contract was issued with the intention of retailing the claim for general damages does not at all seem convincing. In any case, the approval of the Director General Supplies & Disposals should have been obtained. It is also regrettable that the Department of Supply has no written record to indicate as to why decision for recovery of general damages was taken at that particular juncture. The Committee feel that a deeper probe in this matter is called for.
25	3.36	-do-	As Binani Metal Works Ltd., Calcutta, refused to accept a new acceptance of tender unless the Director General Supplies & Disposals confirmed that the original acceptance of tender had been cancelled without any claim to liquidated damages, the Department of Supply consulted the Ministry of Law to advise if general damages could be claimed from the firm to the extent of additional expenditure which worked out to Rs. 27,000.

1	2	3	4
	3.37		In July 1970 the Ministry of Law advised that general damages could be claimed and recovered to the extent of difference between the market rate and the contract price, and in August 1970 the Ministry of Law had advised that the firm had no right to return the acceptance of tender and it was bound to perform the contractual obligations. But surprisingly enough in December 1970 that same Law Ministry reversed its earlier opinion of August 1970 and advised that the Director General, Supplies and Disposals, had no right to issue a fresh acceptance of tender and the firm was under no obligation to execute the order. This gives rise to serious suspicion or corruption and collusion which calls for a probe with a view to fixing responsibility under advice to the Committee. If within the Law Ministry itself such things can happen it can jeopardise the Governments interest in many spheres involving huge sums of money. In this connection the committee would like to invite attention to the case of Dhada and Pharmaceuticals Ltd., exporters of silver oxide commented upon in paragraphs 2.33 to 2.37 of the 131st Report of the Public Accounts Committee (1973-74) relating to the Ministry of Foreign Trade. The Committee desire that the matter should be brought to the personal notice of the Minister of Law, Justice and Company Affairs if not already done. The explanation furnished by the Ministry of Law "that the opinion of August 1970, proceeding as it does on the assumption that a concluded contract had already come into existence, did not take into account all the

			facts in their true perspective. The matter was reconsidered and the true legal position was stated by the Joint Secretary and Legal Adviser in his opinion of December, 1970" is laboured one and gives rise to suspicion.
26	3.38	Supply / Law	The advice given by the Ministry of Law in December 1970 naturally changed the complexion of the whole case. In February 1971 the firm informed the Director General Supplies and Disposals, that it was treating the contract as cancelled and non-existent. Since the suplies were required urgently by the indentor a fresh tender enquiry had to be issued by the Director General of Supplies and Disposals and an order was placed with the defaulting firm in June 1972 for the supply of ingots at the rate of Rs. 6,000 per tonne (a rise of Rs. 2,000 per tonne) by 31st October, 1972.
27	3.39	Supply / Law	Owing to the protracted negotiations between the D G S & D and the firm on the one hand and the D.G.S. & D. and the Ministry of Law on the other, there has not only been inordinate delay of over three years in the procurement of stores required for Defence Production but Government had to incur additional expenditure of Rs. 1.80 lakhs as pointed out in the Audit Paragraph. The Committee would like that responsibility should be fixed and appropriate disciplinary action should be taken.

1	2	3	4
	3.40		It is obvious that the proper course, having regard to the rising trend in the price of zinc in the internal market, would have been to get the firm to accept the order even on its terms. This, according to the Committee, is not a view based on hindsight, but on a proper interpretation of the zinc price situation of which the Department of Supply appears to have been blissfully ignorant. The amount of recoverable damages would have been negligible. However, even if the alternative course of recovering general damages had been decided upon, the Committee are astonished at the leisurely pace with which it was pursued, without anyone at any stage finding time to ascertain the continual rising price of Zinc.
28	3.41	Supply Law	The Committee have been informed that M|s. Binani Metal Works have since repudiated the claim for general damages of Rs. 49,500 and the matter is under examination in consultation with the Ministry of Law. The Committee would like vigorous action to be taken in this regard.
29	4.28	Defence Supply	The D.G.S. & D. had concluded a rate contract with Acharya Industries, Bombay; Commercial Bureau, Calcutta and OHMIC industries, Calcutta for the supply of insulation tape during January, 1970 December, 1971 for Defence requirements. According to the legal opinion, the date by which stores are required to be supplied

			is indicated in the supply orders placed in pursuance of the rate contract. The date of delivery to be binding is a mutually agreed one, *i.e.* both by the purchaser and the contractor. In the rate contract itself no delivery date is provided. The period of rate contract is not the period within which the supply must be completed but it is only a period within which a series of orders at the rate provided in the contract may be placed for the goods covered by the Rate Contracts.
30	4.29	Supply	The Committee have noted that when an indent for 1,85,200 rolls of insulation tape (25 metres each), *i.e.* 46.30 lakh metres of tape worth Rs. 3.49 lakhs to be supplied by March 1972, was received from an ordnance depot, the DGS&D, who were fully aware at that time of the higher trend of prices of insulation tape, instead of straightaway placing supply orders on any of the three rate contract holders, mad an enquiry from them on 23rd November, 1971, *i.e.* just 38 days before the rate contract was going to expire, if they could intimate guaranteed delivery date for this demand.
31	4.30	-do-	The Committee are amazed at the dilatory procedure followed by the DGS&D official. From the perusal of the record made available to the Committee, it has transpired that an officer of the status of Assistant Director had deliberately ignored the clear and unambiguous orders of the Director of Supplies, *viz.*, "This indent may be covered straightaway" and instead noted on the file, "please ask Acharya for immediate supply. Ask all the three rate contract hold-

1	2	3	4
			ers to intimate guaranteed D/P for this demand". The Committee cannot help concluding that the whole thing was so managed and manipulated as to allow the date mentioned in the rate contract to expire so that the DGS&D would execute a new rate contract with the suppliers for the year 1971—73 and allow higher prices to the suppliers. It is necessary, in the view of the Committee to call for explanation of the officers and to take appropriate disciplinary action thereafter.
32	4.31	Supply	The Committee have noted that while the order of the Director of Supplies was given on the 18th September, 1971, the enquiry from the supplier was actually made on the 23rd November, 1971, i.e. after more than two months. The delay is wholly indefensible. The Committee have been informed by the Secretary, Department of Supply, during evidence that "to make an enquiry after two months is absolutely a redundant course and, in my opinion, this is improper handling of the administrative matter". The Committee would urge a thorough enquiry into the question of not placing the indent against the existing rate contract and into the delays at various stages. The Committee should be kept informed of the progress in the action taken in this regard.
33	4.32	-do-	The Committee have noted the obseravtions made by the Secretary, Department of Supply, that "the indentor could have placed the order with the rate contract holders instead of going to the Director General, Supplies and Disposals." The Committee strong-

			ly feel that there is need for issuing clear instructions in the matter so that delays of this nature do not recur and officials are not able to take advantage of the same.
34	4.33	-Do-	Another unsatisfactory feature of the whole transaction is that although the performance of Commercial Bureau, Calcutta was comparatively better and the performance of Acharya Industries Bombay was wholly unsatisfactory—in fact that the latter firm had failed to tender any supply against a previous supply order—the DGS&D did not consider it necessary to place the order on Commercial Bureau, Calcutta straightaway and negotiate the delivery date afterwards, as required under the terms of the rate contract. The argument of the Department of Supply that adequate precautions were required to be taken before coverage of the indent and guaranteed delivery period of the rate contract holders was to be obtained perior to the placement of order to ensure supplies, is not in accordance with the facts and is therefore wholly unconvincing. The fact remains that, although the supply order to cover the demand of the ordnance depot was placed in February, 1972 against the new rate contract on Commercial Bureau Calcutta, the supply was actually completed in July 1973, after well over a year. The Audit have pointed out that placement of order against the new rate contract of commercial Bureau, Calcutta entailed an extra cost of Rs. 1.46 lakhs. The Committee cannot at all agree with the remarks of the Secretary, Department of Supply that so far as this loss is concerned, it is really no loss because the order cannot be complied with within

1	2	3	4
			that period." Had the order been placed before the expiry of the first rate contract and a delivery period mutually acceptable to the parties been settled, there would not have been the necessity of placement of the new supply order at an enhanced rate. The Committee have noted that the delivery period has since been regularised and liquidated damages amounting to Rs. 42,894 have been imposed on the firm for delay in supply. The Committee would like to be informed whether the liquidated damages have since been realised.

MGIPND—LS II—3843 LS—7-4-75—1200.