

**PUBLIC ACCOUNTS COMMITTEE
(1975-76)**

(FIFTH LOK SABHA)

TWO HUNDRED AND SECOND REPORT

DEPARTMENT OF SUPPLY

[Action taken by Government on the recommendations contained in the 144th Report (Fifth Lok Sabha) on paragraphs 44 to 47 of the Report of the Comptroller & Auditor General of India for the Year 1972-73, Union Government (Civil)]



सत्यमेव जयते

**LOK SABHA SECRETARIAT
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CORRIGENDA TO TWO HUNDRED AND SECOND REPORT
OF THE PUBLIC ACCOUNTS COMMITTEE (1975-76)-
PRESENTED TO LOK SABHA ON 26TH MARCH, 1976.

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(1975-76)

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SECRETARIAT

Shri H. G. Paranjpe—*Chief Financial Committee Officer*
Shri N. Sunder Rajan—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Two Hundred and Second Report on the action taken by Government on the recommendations of the Public Accounts Committee contained in their Hundred and Forty-Fourth Report (5th Lok Sabha) on paragraphs 44 to 47 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil) relating to the Department of Supply.

2. On the 3rd June, 1975 an 'Action Taken Sub-Committee', consisting of the following Members, was appointed to scrutinise the replies from Government in pursuance of the recommendations made by the Committee in their earlier Reports:

Shri H. N. Mukerjee—*Chairman*

Shri V. B. Raju—*Convener*

Shri Priya Ranjan Das Munshi

Shri Darbara Singh

Shri N. K. Sanghi

Shri Rabi Ray

Shri Raja Kulkarni

Dr. K. Mathew Kurian

} *Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1975-76) considered and adopted the Report at their sitting held on the 27th February, 1976. The Report was finally adopted by the Public Accounts Committee on the 8th March, 1976.

4. For facility of reference the conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. For the sake of convenience, conclusions/recommendations of the Committee have also been appended to the Report in a consolidated form.

(vi)

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

NEW DELHI;

March 9, 1976.

Phalguna 19, 1897 (S).



H. N. MUKHERJEE,

Chairman,

Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations/observations contained in their 144th Report (Fifth Lok Sabha) on paragraphs 44 to 47 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Civil) relating to the Department of Supply, which was presented to the Lok Sabha on 8 April, 1975.

1.2. Out of 36* recommendations/observations contained in the Report, Government have indicated the action taken or proposed to be taken by them in respect of 33 recommendations/observations.** In respect of the observations/recommendations contained in paragraphs 2.59, 2.60 and 2.62, the Committee were informed by the Department of Supply on 23rd August, 1975 that comments on these paragraphs would be 'sent shortly'. However, no further communication had been received in this regard till the finalisation of this Report.

1.3. The Action Taken Notes received from Government have been broadly categorised as follows:

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

Paragraphs: 1.57, 1.60, 1.62, 1.66, 2.54; 2.55; 2.56; 2.57; 3.33, 3.41, 4.28, 4.32 and 4.33.

- (ii) Recommendations/observations which the committee do not desire to pursue in the light of the replies received from Government:

Paragraphs: 1.64, 1.65, 2.58, 3.36 and 3.37.

*On account of certain printing errors that had crept in, certain paragraphs reproduced in Appendix X to the 144th Report (Fifth Lok Sabha) were omitted to be numbered serially. As a consequence, as against 36 recommendations/observations contained therein only 33 had been numbered. The omission has been rectified in this Report. To avoid confusion, the recommendations/observations have been referred in this Report according to the actual paragraph numbers and not serially.

**Action taken Notes on recommendations/observations contained in paragraphs 1.57, 1.60, 2.54, 2.58, 3.36, 3.37, 4.28 and 4.33 have not been vetted in Audit.

- (iii) Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration:

Paragraphs 1.63 and 1.68.

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

Paragraphs 1.58, 1.59, 1.61, 1.67, 2.61, 3.34, 3.35, 3.38, 3.39, 3.40, 4.29, 4.30 and 4.31.

- (v) Recommendations/observations in respect of which replies are still awaited:

Paragraphs 2.59, 2.60 and 2.62.

1.4. The Committee take a serious view of the failure of the Department of Supply to indicate the action taken or proposed to be taken on their recommendations/observations contained in paragraphs 2.59, 2.60 and 2.62 of the Report. Apart from just intimating, in August, 1975, that comments on these paragraphs would be 'sent shortly', the Department have chosen neither to advise the Committee of their promised 'comments' nor to adduce reasons for the non-submission of the Action Taken Notes. In the Committee's view, this is an entirely impermissible proceeding. The long outstanding replies, therefore, should be furnished forthwith. The reasons for this extraordinary lapse should also be investigated and responsibility fixed under advice to the Committee.

1.5. Even where Action Taken Notes on the Committee's recommendations have been furnished, though only after the stipulated due date in many cases, the Committee find that final action on their recommendations is still to be initiated in a purposeful manner. In respect of as many as 13 out of the 36 recommendations/observations contained in the Report, only interim replies have been furnished and consequently the Committee have been unable to satisfy themselves of the adequacy of the action taken on their recommendations. Often the Department have remained content with stating that the points raised by the Committee were 'under examination'. This is a thoroughly unsatisfactory state of affairs. The Committee call for a principled and purposeful approach to their recommendations and would urge Government to ensure that they are processed with a greater sense of earnestness and urgency.

1.6. In a number of cases in their earlier Report, (of paragraphs 1.59, 1.67, 2.58, 2.59, 2.61, 2.62, 3.34, 3.39 and 4.30); the Committee had recommended investigation into the lapses of various officers and

fixation of responsibility therefor. From a scrutiny of the replies received in this regard from the Department of Supply, the Committee are disturbed to find that there has yet been no finality in these cases. In the meantime, an officer, examining one of the cases to determine whether there had actually been any lapse, has also retired from Service. Since such delay in initiating disciplinary action against delinquent officials detracts from whatever action that is subsequently taken, the Committee would urge Government to finalise these cases promptly. In this connection, the Committee would also invite attention to their observations contained in paragraphs 1.4 and 1.5 of their 151th Report (Fifth Lok Sabha).

1.7. The Committee will now deal with the action taken by Government on some of their recommendations/observations.

Purchase of padlocks through negotiations instead of on the basis of tenders received. (Paragraphs 1.58 and 1.59)

1.8. Examining a purchase of padlocks to meet the demands of the Director of Ordnance Services, the Committee, in paragraphs 1.58 and 1.59 of the 144th Report, had, *inter alia*, observed:

"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 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'."

"1.59. 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 negotiation 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 tender submitted. The Committee would like that responsibility for this lapse should be fixed under advice to them."

1.9. In their Action Taken Note dated 11 November 1975, the Department of Supply have stated:

“The points raised herein are being further examined and a reply will be sent as soon as possible when the examination is finalised.”

1.10. The Committee are dissatisfied with the response of the Department of Supply to their earlier recommendation that responsibility should be fixed for resorting to negotiations with the firms of Aligarh for the supply of 40,800 padlocks (40 mm) instead of placing orders on the basis of the tenders received. It should not be difficult for the Department of Supply to act on this simple issue. If, however, the Department feel that there has been no lapse in the present case, the correct course would be to place such facts before the Committee to enable them to arrive at a reasoned conclusion. The Committee would, therefore, seek a more specific clarification in this regard.

**On-the-spot inspection of premises before acceptance of tenders
(Paragraph 1.61)**

1.11. Reviewing the performance of a State Government factory on whom orders for the supply of the 40 mm padlocks had been finally placed without any detailed scrutiny of its capacity or ensuring that the orders would materialise, the Committee, in paragraph 1.61 of the Report, had recommended:

“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.”

1.12. In their Action Taken Note dated 11 November 1975, the Department of Supply have replied:

“The Government Lock Factory, West Bengal in their letter dated 15th January, 1969 had informed the DGS & D that

their Unit was the only member of the Indian Standards Institution and they were manufacturing all types of padlocks strictly as per ISI specifications. Further, in accordance with the existing instructions, no Capacity Report is called for in respect of firms/units which quote for ISI Mark goods and furnish proof that they are authorised to mark their products with ISI markings. Offers of such firms, if otherwise technically suitable, are accepted in the normal way. It may be added here that it has since been verified from the 'Buyer's Guide' issued by the ISI in 1973 that the Government Lock Factory, West Bengal was licensed by them.

The suggestion of the Committee that the Department of Supply must make it obligatory for the DGS & D to do on-the-spot inspection of premises before issue of acceptance of tenders involving urgent defence supplies is under examination. Final outcome would be conveyed to the Committee."

1.13. This is one more instance of procrastination in taking action on a well-thought out suggestion of the Committee that an on-the-spot inspection of the premises of suppliers should be made obligatory before the issue of acceptance of tenders involving urgent defence supplies. It is unfortunate that the Department of Supply does not share the Committee's anxiety even where defence requirements are concerned. A mere intimation that the Committee's suggestion is 'under examination' neither helps the Administration nor the purpose of the Committee's enquiry. What is required is a determined gearing up of the administrative machinery and a careful scrutiny of the Committee's suggestions. The Committee would like to hope that the Department would reciprocate the Committee's concern and process their recommendations with at least reasonable promptitude.

**Need for comprehensive cost studies in respect of important items
(Paragraph 1.63 and 1.68)**

1.14. Referring to the placement of orders for the supply of padlocks without adequate cost analysis and without even ascertaining the prevailing prices of padlocks, the Committee, in paragraphs 1.63 and 1.68, had observed:

"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 ascertain 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 tenders or by negotiation."

"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."

1.15. The Action Taken Note dated 11 November, 1975 furnished by the Department of Supply with reference to these recommendations is reproduced below:

"DGS & D normally do not arrange for costing of each and every item, as the basic approach is to place orders on competitive basis after inviting tenders. The reasonableness or otherwise of the prices quoted by the various firms is judged on the basis of last purchase price. the trend in the price and availability of raw materials and increase in wages etc. since the placement of the last contract. Where adequate competition is lacking or the price demanded appears to be abnormally high, the tenderers are asked to furnish the break-up of the cost and to disclose their margin of profit. Cost verification is arranged, after taking the firm's consent where the Department considers that the price demanded by a firm is unreasonable. In such cases, prices are fixed on a provisional basis. The Book Examination Clause can be included in a contract only if the tenderer specifically agrees to it. However, the question of vesting the Government with the power to examine the Books of any firm, if Government so desire, is being examined in consultation with the Ministry of Law. Further developments in the matter will be communicated to the Public Accounts Committee."

1.16. If, as claimed by the Department of Supply, the trend in the prices is one of the factors taken into account to determine the reasonableness or otherwise of the prices quoted by the various firms, it is not clear to the Committee why, in the present case of purchase of padlocks, the Directorate General of Supplies and Disposals had not ascertained the prevailing price of padlocks. This needs to be explained. The Committee concede that it may not be possible to arrange for detailed costing of each and every item of the value of Rs. 1 lakh and more procured by the Directorate. But they, however, feel that it should be possible to undertake a cost analysis at least in the case of certain important, specified items ordered more or less on a regular basis, and in the case of sophisticated items in respect of which not many competitive offers may be received. The Committee, therefore, desire that this aspect should be re-examined and necessary steps taken. In any case, it should not be too difficult to ensure that all purchases are preceded by adequate market intelligence surveys.

1.17. The Committee note that the question of vesting the Government with powers to examine the books of any firm, if Government so desire, is being examined in consultation with the Ministry of Law. This examination should be completed quickly and the necessary legislation brought on to the Statute Book soon.

1.18. The reply now furnished is silent on another recommendation of the Committee that Government should take concrete steps to prevent monopolistic trends even in the small scale sector. The Committee would like to know Government's reaction and the steps taken or proposed to be taken in this regard.

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Review of inspection procedures. (Paragraph 2.61)

1.19. Dealing with a case of purchase of lathes from a firms in the small scale sector without paying due regard to the performance of the firm over the years and to the financial interests of Government, the Committee, in paragraph 2.61 of the Report, had, *inter alia*, observed:

“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 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."

1.20. In their Action Taken Note dated 22 October 1975, the Department of Supply have stated:

"The inspection procedure is being examined *inter alia* by the High Power Committee set up under the Chairmanship of the Minister of Supply.

As far as the disciplinary aspect is concerned, this is being examined. The final outcome will be intimated to the Committee."

1.21. The Committee note that the existing procedure for inspection is being examined by a high power body set up under the Chairmanship of the Minister of Supply, and would urge Government to complete this examination expeditiously and take concrete steps to plug all loopholes in inspection. The Committee would also like to be apprised of the remedial measures taken.

1.22. The Committee are unhappy that the disciplinary aspect of the present case of purchase of defective lathes, which had resulted in a monetary loss of Rs. 3.25 lakhs (including the cost of 11 lathes supplied to the Defence Departments, where it is not possible to recover legally any damages as the defects were not pointed out within the warranty period), is only 'being examined' even after the lapse of more than six months since the Committee presented their Report. That this should be so in spite of the Committee's repeated emphasis on the importance of speedy finalisation of disciplinary proceedings is disconcerting. The Committee wish that the 'examination' of the disciplinary aspect of this case should be completed forthwith and action initiated without delay.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

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 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 of Aligarh for supply of 40,800 padlocks of 40 mm size. Suspecting that the Aligarh firms had formed a ring 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.

[Sl. No. 1 (Para 1.57) of Appendix X to 144th Report
(Fifth Lok Sabha)].

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III-22(2)/75 dated 22-10-1975]

Recommendation

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).

Sl. No. 3 (Para 1.60) of Appendix X to 144th Report (Fifth Lok Sabha).

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III-22(2)/75 dated 22-10-1975]

Recommendation

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."

[Department of Supply O.M. No. P. III-22(7)/75 dated 11-11-1975]
Lok Sabha).

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III-22(2)/75 dated 22-10-1975]

Recommendation

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 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 so that the necessity for local purchases at higher rates is obviated.

[S. No. 9 (Para 1.66) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

To maintain effective and proper coordination with the DGS&D in regard to the placement of contracts and for progressing the supplies, there is a Defence Services Liaison Cell in the DGS&D. Further, periodical review meetings are held in the DGS&D/Department of Supply to watch supply of critical Defence items and to suggest remedial measures to remove bottlenecks in Supply. Steps will be taken to make the functioning of these more effective.

[Department of Supply O.M. No. P. III-22(7)/75 dated 11-11-1975]

Recommendation

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"/6 1/2" Centre Lathes after 8 machines had been inspected. Subsequent rate contracts were placed on the basis that they were holding the earlier rate contract and the performance against that contract was said to be satisfactory.

[Sl. No. 12 (Para 2.54) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III-22(2)/75 dated 22-10-1975]

Recommendation

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 (Fifth 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 Disposal’s inspectors before despatch. The Committee desire that the matter should be investigated with a view to fixing responsibility.”

[Sl. No. 13 (Para 2.55) of Appendix X to 144th Report (Fifth Lok Sabha)]

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.

[Sl. No. 14 (Para 2.56) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

The inspection in the case of Lathes supplied to Defence was carried out by S/Sr. G. N. Sahai and S. S. Puri both Assistance Inspecting Officers. Out of them Shri Sahai had retired with effect

from 17-6-68 (in the evidence before the PAC it had been incorrectly stated that one officer had resigned). Disciplinary proceedings were initiated against the other officer viz. Shri S. S. Puri. As a result thereof the penalty of withholding one increment of pay with cumulative effect was inflicted on him.

2. The delay in finalisation of the Departmental Proceedings in this case has been examined. Much of the time was taken by Shri P. C. Kapoor, D.D.G. (I) examining whether there had actually been any lapse. Shri Kapoor retired from service on 28th Feb., 1975. Being the Head of the Inspection Wing his advice had to be taken before initiating Disciplinary proceedings against Shri S. S. Puri.

[Department of Supply O.M. No. P. III—22 (2) /75 dated 23-8-1975]

Recommendation

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 (Fifth 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 D.G.S.& D inspectors before despatch.

[Sl. No. 15 (Para 2.57) of Appendix X to 144th Report (5th Lok Sabha)]

Action Taken

D.G.S.&D. is only concerned with the inspection part of these lathes. Action has been taken against the Inspecting Officer as indicated in our reply to paras 2.55 and 2.56.

[Department of Supply O.M. No. P. III—22 (8) /75 dated 23-8-1975]

Recommendation

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 expen-

diture being incurred on the purchase of ingots required by the Ordnance Factory have been examined in the preceeding paragraphs.

[Sl. No. 21 (Para 3.33 of Appendix X to (44th Report Lok Sabha)]

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III—22(2)/75 dated 22-10-1975]

Recommendation

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.

[Sl. No. 28 (Para 3.41) to Appendix X to 144th Report (5th Lok Sabha)]

Action Taken

A suit has been filed in the court for recovery of Government's claim and the Committee would be apprised of the outcome.

[Department of Supply O.M. No. P. III-22(9)/75 dated 16-9-1975]

Recommendation

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.

[Sl. No. 29 (Para 4.28) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

No action by Government is called for on these observations of the Public Accounts Committee.

[Department of Supply O.M. No. P. III—22(2)/75 dated 22-10-1975]

Recommendation

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.

[Sl. No. 33 (Para 4.32) of Appendix X to 144th Report (5th Lok Sabha)]

Action Taken

Suitable departmental instructions have since been issued. A copy of Office Order No. 111 (A) dt. 11-8-75 is attached for reference (see Annexure).

[Department of Supply O.M. No. P. III—22(10)/75 dated 24-10-1975]

ANNEXURE

**DIRECTORATE GENERAL OF SUPPLIES & DISPOSALS
COORDINATION SECTION-3)**

Office Order No. 111(A)

Dated 11-8-1975

SUBJECT.—Rate Contracts—Covering of indents by placement of supply orders at lower rates.

Instructions exist *vide* Office Order No. 128, dated 4-11-68, reproduced in para A-18 of Office Order No. 12 dated 1-1-73 that special clauses prescribed therein have to be incorporated in the tender enquiries for Rate Contracts and the resultant Rate Contracts, if agreed to by the tenderers in their tenders, in order to provide firm and agreed delivery period in Supply Orders. Those clauses envisages that the Direct Demanding Officer while placing a Supply Order should unilaterally stipulate a date of delivery in the Supply Order. The delivery date initially stipulated in the Supply Order need not necessarily fall within the currency of the Rate contract but it may

go beyond it depending upon the terms of delivery stipulated in the Rate Contract and/or any specifically agreed condition of delivery in respect of the particular Supply Order. If the rate contract holder does not accept the delivery date stipulated by the DDO/DGS&D, it is for the former to come up within week suggesting alternative date of delivery. The matter has to be thereafter settled by mutual consent. When a mutually agreed delivery date is settled, intimation of the date so fixed should be given to the Pay and Accounts Officer, Inspecting Officer etc. by means of amendment to the Supply Order. After placement of Supply Order the Contractor will either confirm that the delivery period stipulated in the Supply Order will be complied with or that it can be compiled within a date to be given by the Contractor and to be accepted by the indentor. In case no reply is received within a period of 7 days, the Contractor shall be deemed to have agreed to supply the store within the delivery period stipulated in the Supply Order.

A case has come to notice, where an indent was received in August 1971 for a Rate Contract item specifying delivery requirement by 31-3-72. Although the Director of Supplies had ordered placement of Supply order against the rate contract straightaway, the base purchase officer, made a reference after nearly three months of receipt of indent to the Rate Contract holders to indicate the guaranteed delivery period. The rate contracts were due to expire on 31-12-71. Since the Rate Contract period was coming to a close, the firms requested to place the Supply Orders against the subsequent Rate Contracts to be concluded. At the time of making the reference to firms, the tenders for next rate contract had already been opened and the prices received were substantially higher than the existing rate contract prices. It may be stated that according to the terms of the Rate Contract, the demand could have been covered by placement of Supply Order directly by the indentor. Ultimately the indent was covered by a Supply Order placed on 10-2-72 against the next Rate Contract at higher prices.

This abnormal delay in dealing with the case, and not following the existing instructions for placement of Supply Orders against R/Cs, came in for sharp criticism by the Public Accounts Committee.

Purchase Officers are advised that all actions, regarding placement of Supply Orders against rate contracts should be taken immediately after receipt of indents, and within the framework of existing instructions, in order to avoid situations as described above. Where it is felt that the indentor should operate the rate contract directly being a

Direct Demanding Officer, he should be advised to do so quickly. References to firms, asking for guaranteed delivery before placement of orders, at the fag end of the rate contract, should be avoided.

Sd/-

(DEVI DAYAL)

Deputy Director (Coordination)

Recommendation

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 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 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 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.

[S. No. 34 (Para 4.33) of Appendix X to 144th Report
(5th Lok Sabha)]

Action Taken

Full amount of Liquidated Damages amount to Rs. 42,894/- imposed on M/s. Commercial Bureau, Calcutta has since been recovered by the Pay & Accounts Officer, Department of Supply, Calcutta.

[Department of Supply O.M. No. P.III-22 (10) /75,
dated 14-8-1975]

CHAPTER III

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

Recommendation

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 for 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.

[S. No. 7 (Para 1.64) of Appendix X to 144th Report (5th Lok Sabha)]

Action Taken

It would not be correct to attribute ring formation to the procedure of negotiation and the attempt to bring down the prices of higher tenderers to the lowest acceptable rate, as effective ring formation would really take place only in the context of limited sources of supply with reference to demand. Similarly, the normal period for rate contract is 2 years not only for this items but for a number of other items. It is quite open to the firms to ask for either limitation in period of Rate Contract or provision for some escalation in prices of the principal raw materials. Further, rate contracts are standing offers, which could be terminated at their option by the suppliers at any time. We, therefore, feel that ring formation by the padlock

units could not reasonably be attributed to the procedures followed by DGS&D as assumed by the Director of Small Industries Service Institute. Instructions already exist that negotiations should be resorted to only as an exception and reasons should also be clearly recorded.

[Department of Supply O.M. No. P.III-22 (7) /75,
dated 11-11-1975]

Recommendation

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 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.

[S. No. 8 (Para 1.65) of Appendix X to 144th Report
(5th Lok Sabha)].

Action Taken

The question of utilising the services of All India Radio in broadcasting the advertised tender notices of the DGS&D has been considered in consultation with the Directorate General, All India Radio. According to them there is no provision of issuing advertisements either at concessional rates or free of charge over the Commercial Broadcasting Service. The Ministries/Departments of the Central Government are required to pay the prescribed rates for advertisements without any discrimination between the Government Departments and private advertisers.

Considering that the Directorate General of Supplies and Disposals is mainly a service organisation and levies only nominal departmental charges of 1 per cent and taking into view the number of tender notices to be advertised, it is not possible to utilise the services of the All India Radio on Commercial basis.

The recommendation of the Committee for a close liaison between the DGS&D and the State Directors of Industries has been noted for compliance.

[Department of Supply O.M. No. P.III-22 (7) /75,
dated 11-11-1975].

Recommendation

In January, 1968 an indent was placed on this firm for the supply of 11 Grade I Master Capstan Lathes 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 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.

[S. No. 16 (Para 2.58) of Appendix X to 144th Report (5th Lok Sabha)].

Action Taken

This relates to 11 Nos. Grade I Master Capstan Lathes 1" capacity for DG, Employment and Training, New Delhi. The matter has been examined and the technical opinion is that the defects pointed out in these machines relating to the machines not taking load, the motor getting overheated, the lighting switches and plugs being not in working position and the machines being rusty cannot be attributed to design defects. The design of this size and type of the machines was the same as that of 28 machines supplied to the same indenter against A/T No. 215|12|233|30-12-66|3326 dated 12-5-67 (21 Nos.) and A/T No. 215|12|066|2-8-67|3348 dated 5-8-67 (7 Nos.) and the performance of all these machines was found satisfactory by the various consignees. Even against A/T under reference (216|12|078|3398 dated 12-1-68 for 11 machines) 8 machines were rectified to the satisfaction of Consignee.

The defects reported may have been caused as a result of adjustments getting disturbed and dislocation of components during tran-

sit, as otherwise rectification would not have been possible, if there were basic design defects.

[Department of Supply O.M. No. P. III-22(8)/75,
dated 28-8-1975].

Recommendation

When 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.

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 & 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 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. 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.

[S. No. 25 (Paras 3.36 and 3.37) of Appendix X to 144th Report
(5th Lok Sabha)].

Action Taken*Department of Supply*

This concerns the Ministry of Law. They have been requested to send an Action Taken Note direct to the Committee.

[Department of Supply O.M. No. P. III-22(9)/75, dated 16-9-1975]

Ministry of Law

3.37. The Note recorded by the Hon'ble Minister of Law, Justice and Company Affairs is reproduced below:—

“I have carefully gone through the relevant file of the DGS&D concerning the purchase of zinc base alloy ingots from M/s. Binani Metal Works Ltd., Calcutta. The material facts of the case are that the DGS&D received an indent from the General Manager, Ordinance Factory, Katni, on 2-12-1968, for supply of 90 tonnes of ingots and pursuant to the same a contract was placed on the firm on 24-2-1969. On the firm's failure to supply the stores within the stipulated time, the contract was cancelled on 1-11-1969 but no risk purchase could be effected within a period of six months from the date of breach. The matter was negotiated with the same firm who agreed to supply the stores at an enhanced rate and on condition that the original contract should be revived without imposition of any penalty. However, instead of reviving the old contract the DGS&D placed a fresh contract on 10-6-1970 on the firm which was not in conformity with the firm's conditional offer. On receipt of the contract document, the firm returned the same, contending that it was not in accordance with their offer. The stand taken by the firm was legally correct as a concluded contract could have emerged only if the offer of the firm had been accepted in its entirety by the Government. The opinion recorded by the Deputy Legal Adviser on 12-8-1970 that the firm was bound to perform this contract is, therefore, legally unsustainable. On a subsequent reference from the DGS&D, the Joint Secretary & Legal Adviser gave the correct opinion on 30-12-1970 that the fresh contract dated 10-6-1970 was not valid.

It is thus clear that the incorrect advice given by the Deputy Legal Adviser was rightly reversed subsequently

by the Joint Secretary and Legal Adviser, and there is no room for any suspicion that it was motivated."

This note has been vetted by Audit.

[Ministry of Law, Justice & Company Affairs (Department of Legal Affairs) O.M. No. G-25015 (9)/75 C&A dated 27-9-1975]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendations

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 pad-locks 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.

The Department narrated the steps taken by them in diffusing the manufacture of pad-locks 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.

[S. Nos. 6 and 11 (Paras 1.63 & 1.68) of Appendix X to 144th Report (Fifth Lok Sabha).]

Action taken

DGS&D normally do not arrange for costing of each and every item, as the basic approach is to place orders on competitive basis after inviting tenders. The reasonableness or otherwise of the prices quoted by the various firms is judged on the basis of last purchase price, the trend in the price and availability of raw materials and increase in wages etc., since the placement of the last contract. Where adequate competition is lacking or the price demanded appears to be abnormally high, the tenderers are asked to furnish the break-up of the cost and to disclose their margin of

profit. Cost verification is arranged, after taking the firm's consent where the Department considers that the price demanded by a firm is unreasonable. In such cases, prices are fixed on a provisional basis. The Book Examination Clause can be included in a contract only if the tenderer specifically agrees to it. However the question of vesting the Government with the power to examine the Books of any firm if Government so desires, is being examined in consultation with the Ministry of Law. Further developments in the matter will be communicated to the Public Accounts Committee.

[Department of Supply O.M. No. P.III-22(7)/75, dated 11-11-1975].

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

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 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 hold 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.

[S. No. 2 (Paras 1.58 and 1.59) of Appendix X to 144th Report
(5th Lok Sabha)].

Action taken

The points raised herein are being further examined, and a reply will be sent as soon as possible when the examination is finalised.

[Department of Supply O.M. No. P.III-22(7)/75, dated 11-11-1975].

Recommendation

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.

[S. No. 4 (Para 1.61) of Appendix X to 144th Report (5th Lok Sabha)].

Action taken

The Government Lock Factory, West Bengal in their letter dated 15th January, 1969 had informed the DGS&D that their Unit was the only member of the Indian Standards Institution and they were manufacturing all types of pad-locks strictly as per ISI Specifications. Further, in accordance with the existing instructions, no Capacity Report is called for in respect of firms/units which quote for ISI Mark goods and furnish proof that they are authorised to mark their products with ISI markings. Offers of such firms, if otherwise technically suitable, are accepted in the normal way. It may be added here that it has since been verified from the 'Buyer's Guide' issued by the ISI in 1973 that the Government Lock Factory, West Bengal was licensed by them.

The suggestion of the Committee that the Department of Supply must make it obligatory for the DGS&D to do on-the-spot inspection of premises before issue of acceptance of tenders involving urgent defence supplies is under examination. Final outcome would be conveyed to the Committee.

[Department of Supply O.M. No. P.III-22(7)/75, dated 11-11-1975].

Recommendation

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 40mm size and 50mm 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.

[S. No. 10 (Para 1.67) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

As far as the disciplinary proceedings in the matter are concerned, explanation has been called for from the delinquent officer and further developments will be intimated to the Committee.

[Department of Supply O.M. No. P.III-22 (7) /75 dated 2-1-1976].

Recommendation

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 way after a lapse of four years the Director of Inspection caused an enquiry into the affairs of this firm. The delay is completely indewensible. The Committee hope that, as assured by the Secretary, Department of Supply, during the course of evidence before the Committee, a 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.

[S. No. 19 (Para 2.61) of Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

The inspection procedure is being examined *inter alia* by the High Power Committee set up under the Chairmanship of the Minister of Supply.

As far as the disciplinary aspect is concerned, this is being examined. The final outcome will be intimated to the Committee.

[Department of Supply O.M. No. P.III-22 (8) /75, dated 22-10-1975].

Recommendation

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 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 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 indenter. 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.

Another very surprising feature of the transaction is that while on the 7th June, 1970, the Directorate 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 tonnes 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 and 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.

[S. Nos. 22 and 24 (Paras 3.34 and 3.35) of the Appendix X to 144th Report (Fifth Lok Sabha)]

Action Taken

So far as the disciplinary proceedings against the DGS&D officials are concerned, the matter is under examination in consultation with the Central Vigilance Commission. The final outcome of the proceedings will be intimated to the Committee.

[Department of Supply O.M. No. P. III-22 (9) /75 dated 16-9-1975]

Recommendation

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.

[S. No. 26 (Para 3.38) of Appendix X to 144th Report (5th Lok Sabha)]

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 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.

[S. No. 27 (Para 3.39) of Appendix X to 144th Report (5th Lok Sabha)]

Action Taken

The relevant files are presently under reference to Central Vigilance Commission in connection with the recommendations at S. Nos. 22 and 24. The matter shall be examined further in consultation with the Ministry of Law on receipt back of the files and the Committee apprised of our findings.

[Department of Supply O.M. No. P. III-22 (9) /75 dated 16-9-1975]

Recommendation

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.

[S. No. 27 (Para 3.40) of Appendix X to 144th Report
(5th Lok Sabha)].

Action Taken

The question whether the Directorate General of Supplies and Disposals were aware or not of the rising trend in the price of zinc will be examined after the relevant purchase files have been received back from the Central Vigilance Commission who are examining the disciplinary aspects of the case. A further Action Taken Note will follow.

[Department of Supply O.M. No. P. III-22(9)/75 dated 16-9-1975]

Recommendation

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 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.

[S. N. 30 (Para 4.29) of Appendix X to 144th Report (Fifth Lok Sabha)]

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 of noted on the file, 'please ask Acharya for immediate 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 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.

[S. No. 31 (Para 4.30) of Appendix X to 144th Report (Fifth Lok Sabha)]

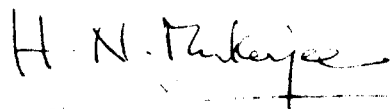
The Committee have noted that while the order of the Director of Supplies was given on the 18th September, 1971, the enquiry from the supplier was actually made on the 23rd November, 1971 i.e., after more than two months. The delay is wholly indefensible. The Committee have been informed by the Secretary, 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.

[S. No. 32 (Para 4.31) of Appendix X to 144th Report (5th Lok Sabha)].

Action Taken

The disciplinary aspects are under examination of the Vigilance Wing of the DGS&D. The concerned Assistant Director has been administered a recordable warning and enquiry for imposition of major penalty on the dealing Assistant is under process. The outcome of the vigilance probe would be intimated to the Committee.

[Department of Supply O.M. No. P.III-22(10)/75, dated 24-10-1975]



H. N. MUKERJEE,

Chairman,

Public Accounts Committee.

NEW DELHI;

March 9, 1976.

Phalguna 19, 1897 (S).

APPENDIX

Consolidated Statement of Conclusions/Recommendations

S.I. No.	Para No. of the Report	Ministry/Concerned	Conclusions/ Recommendations
1	2	3	4
1.	1.4	Deptt. of Supply	The Committee take a serious view of the failure of the Department of Supply to indicate the action taken or proposed to be taken on their recommendations/observations contained in paragraphs 2.59, 2.60 and 2.62 of the Report. Apart from just intimating, in August 1975, that comments on these paragraphs would be 'sent shortly', the Department have chosen neither to advise the Committee of their promised 'comments' nor to adduce reasons for the non-submission of the Action Taken Notes. In the Committee's view, this is an entirely impermissible proceeding. The long outstanding replies, therefore, should be furnished forthwith. The reasons for this extraordinary lapse should also be investigated and responsibility fixed under advice to the Committee.
2.	1.5	—do—	Even where Action Taken Notes on the Committee's recommendations have been furnished, though only after the stipulated due date in many cases, the Committee find that final action on their recommendations is still to be initiated in a purposeful manner. In respect

of as many as 13 out of the 36 recommendations/observations contained in the Report, only interim replies have been furnished and consequently the Committee have been unable to satisfy themselves of the adequacy of the action taken on their recommendations. Often the Department have remained content with stating that the points raised by the Committee were 'under examination'. This is a thoroughly unsatisfactory state of Affairs. The Committee call for a principled and purposeful approach to their recommendations and would urge Government to ensure that they are processed with a greater sense of earnestness and urgency.

3. 1.6

—do—

In a number of cases in their earlier Report, (cf. paragraphs 1.59, 1.67, 2.56, 2.59, 2.61, 2.62, 3.34, 3.39 and 4.30), the Committee had recommended investigation into the lapses of various officers and fixation of responsibility therefor. From a scrutiny of the replies received in this regard from the Department of Supply, the Committee are disturbed to find that there has yet been no finality in these cases. In the meantime, an officer, examining one of the cases to determine whether there had actually been any lapse, has also retired from service. Since such delay in initiating disciplinary action against delinquent officials detracts from whatever action that is subsequently taken; the Committee would urge Government to finalise these cases promptly. In this connection, the Committee would also invite attention to their observations contained in paragraph 1.4 and 1.5 of their 151st Report (Fifth Lok Sabha).

4. 1.10 Department of Supply The Committee are dissatisfied with the response of the Department of Supply to their earlier recommendation that responsibility should be fixed for resorting to negotiations with the firms of Aligarh for the supply of 40,800 padlocks (40 mm) instead of placing orders on the basis of the tenders received. It should not be difficult for the Department of Supply to act on this simple issue. If, however, the Department feel that there has been no lapse in the present case, the correct course would be to place such facts before the Committee to enable them to arrive at a reasoned conclusion. The Committee would, therefore, seek a more specific clarification in this regard.

5. 1.13 —do— This is one more instance of procrastination in taking action on a well-thought out suggestion of the Committee that an on-the-spot inspection of the premises of suppliers should be made obligatory before the issue of acceptance of tenders involving urgent defence supplies. It is unfortunate that the Department of Supply does not share the Committee's anxiety even where defence requirements are concerned. A mere intimation that the Committee's suggestion is 'under examination' neither helps the Administration nor the purpose of the Committee's enquiry. What is required is a determined gearing up of the administrative machinery and a careful scrutiny of the Committee's suggestions. The Committee would like to hope that the Department would reciprocate the Committee's concern and process their recommendations with at least reasonable promptitude,

6. I.16

--do--

If, as claimed by the Department of Supply, the trend in the prices is one of the factors taken into account to determine the reasonableness or otherwise of the prices quoted by the various firms, it is not clear to the Committee why, in the present case of purchase of padlocks, the Directorate General of Supplies & Disposals had not ascertained the prevailing price of padlocks. This needs to be explained. The Committee concede that it may not be possible to arrange for detailed costing of each and every item of the value of Rs. 1 lakh and more procured by the Directorate. But they however, feel that it should be possible to undertake a cost analysis at least in the case of certain important, specified items ordered more or less on a regular basis, and in the case of sophisticated items in respect of which not many competitive offers may be received. The Committee, therefore, desire that this aspect should be re-examined and necessary steps taken. In any case, it should not be too difficult to ensure that all purchases are preceded by adequate market intelligence surveys.

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7. I.17

--do--

The Committee note that the question of vesting the Government with powers to examine the books of any firm, if Government so desires, is being examined in consultation with the Ministry of Law. This examination should be completed quickly and the necessary legislation brought on to the Statute Book soon.

8. I.18

--do--

The reply now furnished is silent on another recommendation of the Committee that Government should take concrete steps to prevent monopolistic trends even in the small scale sector. The Com-

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mittee would like to know Government's reaction and the steps taken or proposed to be taken in this regard.

9. 1.21 Department of Supply

The Committee note that the existing procedure for inspection is being examined by a high power body set up under the Chairmanship of the Minister of Supply, and would urge Government to complete this examination expeditiously and take concrete steps to plug all loopholes in inspection. The Committee would also like to be apprised of the remedial measures taken.

10. 1.22 —do—

The Committee are unhappy that the disciplinary aspect of the present case of purchase of defective lathes, which had resulted in a monetary loss of Rs. 3.25 lakhs (including the cost of 11 lathes supplier to the Defence Departments, where it is not possible to recover legally any damages as the defects were not pointed out within the warranty period), is only 'being examined' even after the lapse of more than six months since the Committee presented their Report. That this should be so in spite of the Committee's repeated emphasis on the importance of speedy finalisation of disciplinary proceedings is disconcerting. The Committee wish that The 'examination' of the disciplinary aspect of this case should be completed forthwith and action initiated without delay.

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