

THIRTY-SECOND REPORT
PUBLIC ACCOUNTS COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

**CLAIMS OUTSTANDING AGAINST
A COLLABORATOR**

**MINISTRY OF TRANSPORT
(DEPARTMENT OF RAILWAYS)
(RAILWAY BOARD)**

[Action taken on 223rd Report (Seventh Lok Sabha)]



Presented in Lok Sabha on 20.3.1986
Laid in Rajya Sabha on 20.3.1986

**LOK SABHA SECRETARIAT
NEW DELHI**

March, 1986/Phalguna, 1907 (Saka)

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CORRIGENDA TO THIRTY-SECOND REPORT OF PUBLIC
ACCOUNTS COMMITTEE (EIGHTH LOK SABHA)

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE

(1985-86)

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Shri E. Ayyapu Reddy

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SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer.*
3. Shri Krishnapal Singh—*Senior Financial Committee Officer*

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee do present on their behalf this Thirty-second Report on action taken by Government on the recommendations/observations of the Public Accounts Committee contained in their Two Hundred and Twenty-third Report (Seventh Lok Sabha) relating to Claims outstanding against a collaborator.

2. The Committee in their earlier Report had observed that in July, 1972, the Ministry of Railways had decided that the collaborators' warranty obligation for the failures of the CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. The Chittaranjan Locomotive Works (CLW), however, advised the Ministry of Railways (Railway Board in January 1978, i.e., more than two years after the expiry of the agreement, that the expenditure incurred on repairs/rectification of traction motors/armatures built locally according to the old design was re-imbursable by the Collaborators and proposed to put forward the claim to them through the statement of consultancy fees payable by the CLW under the collaboration agreement. The Committee observed that it was a belated and half hearted attempt, which had not yet been accepted and had desired the Ministry to come to an early decision as to whether any consultancy fees would at all be admissible to the collaborator having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW-built armatures necessitated by the inadequacy in the design supplied by the collaborator. The Ministry of Transport (Department of Railways) have clarified that there was no dispute at any time as to the admissibility of consultancy fees. There was only a doubt as to whether the expenditure on account of repairs/rectification of the indigenously built traction motor armatures should also have been realised from the collaborator. They have further assured that efforts would continue to be made to realise the claim preferred on this account, accepted by the party and reimbursement followed up. The Committee have desired that the Ministry should get the entire issue settled quickly without any financial loss to the Indian Railways.

3. In their earlier Report, the Committee had recommended that failures and delays in the case called for a detailed investigation with a view to fixing responsibility as well as to taking appropriate

remedial measures for the future. The Department of Railways have now stated that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The Ministry have further stated that it is not possible to fix any responsibility on any individual at this stage as all actions were taken collectively. The Committee are unable to accept the view of the Department of Railways. The Committee consider that even in a case of collective action, responsibility must be assigned. A collective decision cannot exonerate all concerned. All concerned must then accept responsibility. It would be justifiable in some cases to place the responsibility on the senior most officer. In a case like the present, of undue delay and consequent financial loss, the Ministries/Departments, in the interest of efficient administration, should at the least have investigated the matter and drawn up a direction on the correct course of conduct in similar circumstances.

4. The Committee considered and adopted this Report at their sitting held on 27 February, 1986. Minutes of the sitting form Part II of the Report.

5. For reference facility and convenience, the recommendations/ observations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

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

NEW DELHI;
March 17, 1986

Phalguna 26, 1907 (Saka)

E. AYYAPU REDDY
Chairman,
Public Accounts Committee.

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations and observations contained in their Two Hundred and Twenty-third Report (Seventh Lok Sabha) on Paragraph 16 of the Advance Report of the Comptroller and Auditor General of India for the year 1981-82, Union Government (Railways) relating to Claims outstanding against a Collaborator.

1.2 The 223rd Report of the Committee was presented to Lok Sabha on 22 August, 1984. The Report contained 10 recommendations and observations. These have been broadly categorised as follows:—

- (i) Recommendations/observations which have been accepted by Government:
Sl. Nos. 1, 2, 6, 7, 8 and 9.
- (ii) Recommendations/observations which the Committee do not desire to pursue in the light of replies received from Government:
Sl. Nos. 3, 4 and 5.
- (iii) Recommendation/observation reply to which has not been accepted by the Committee and which requires reiteration:
Sl. No. 10.
- (iv) Recommendation/observation in respect of which Government have furnished interim reply:
Nil.

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

Delay in Preferring Claims

(Sl. Nos. 6 & 7, Paras 1.65 & 1.66)

1.4 Expressing concern over the delay in preferring claims for re-imbusement of expenditure incurred by Chittaranjan Locomotive Works (CLW) towards repair/rectification of the indigenously built

motors, the Public Accounts Committee in Para 1.65 and 1.66 of their 223rd Report (7th Lok Sabha) had observed as follows: —

“1.65 It was in July, 1972 that the Ministry of Railways had decided that the collaborators' warranty obligation for the failures of the CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. The Chittaranjan Locomotive Works however advised the Ministry of Railways (Railway Board) in January, 1978, i.e., more than two years after the expiry of the agreement, that the expenditure incurred on repairs/rectification of traction motors/armatures built locally according to the old design was re-imbursible by the collaborators and proposed to put forward the claim to them through the statement of consultancy fees payable by the CLW under the collaboration agreement. With the approval of the Ministry of Railways, CLW preferred, in February 1978, a claim on the collaborators for re-imbusement of repair/rectification charges of Rs. 25.63 lakhs incurred till then indicating that the total expenditure on the account would be advised on completion of re-winding/repair of all the 122 armatures built by CLW to the old design. The collaborators, in turn repudiated the claim, stating that the proposal made by their representative in the meeting held in September, 1972 was a package offer which had been accepted by the Ministry of Railways in full settlement of the problem, relating to the failures of traction motors. The Committee have little doubt that with such belated and half hearted attempt on the part of the Railway authorities to enforce their claim the result could not have been otherwise. As the position stands today, claims for re-imbusement of expenditure of Rs. 82.16 lakhs incurred by CLW towards repair/rectification of the locally built traction motors remain without any hope of realisation.

1.66 The Committee are given to understand that the collaborators' dues from CLW on account of consultancy fees amount to Rs. 37.86 lakhs only. Having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW built armatures necessitated by the inadequacy in the design supplied by the collaborators, whether any consultancy fees would at all be admissible to collaborators had not yet been decided by the Ministry of Railways (Railway Board). The Committee would like

the Ministry to come to an early decision in the matter under intimation to the Committee."

1.5 In their action taken replies on the above recommendations, the Ministry of Transport (Department of Railways) (Railway Board) have stated as follows:—

"There was no dispute or any doubt at any time as to the admissibility of the consultancy fees as the requisite information by way of design data drawings for manufacture of the equipments in India to the same standards as in original manufacturer's works had been fully supplied by the collaborator. There was only a doubt as to whether the expenditure on account of repairs/rectification of the indigenously built traction motor armatures should also have been realised from the collaborator. Efforts will continue to be made to get the claim preferred on this account accepted by the party and reimbursement followed up."

1.6 Concern was expressed by the Committee in their earlier Report over the delay in preferring claim for reimbursement of expenditure incurred by CLW towards repair/rectification of traction motors built by them. It was a belated and half hearted attempt, which has not yet been accepted. The Committee had desired the Ministry to come to an early decision as to whether any consultancy fees would at all be admissible to the collaborator having regard to the heavy expenditure incurred by the CLW on repair rehabilitation of CLW-built armatures necessitated by the inadequacy in the design supplied by the collaborator. The Ministry of Transport (Department of Railways) in their reply have stated that there was no dispute at any time as to the admissibility of consultancy fees. There was only a doubt as to whether the expenditure on account of repairs/rectification of the indigenously built traction motor armatures should also have been realised from the collaborator. They have further assured that efforts would continue to be made to get the claim preferred on this account, accepted by the party and reimbursement followed up.

The Committee desire that the Ministry should get the entire issue settled quickly without any financial loss to the Indian Railways.

Failures in implementation of Collaboration Agreement

(Sl. No. 10, Para 1.69)

1.7 Commenting on the failures in the implementation of Collaboration Agreement, the Committee in Para 1.69 of their 223rd Report (Seventh Lok Sabha) had recommended as follows:—

1.69 Cumulatively, the failures in this case such as (i) absence of extensive field trials before entering into collaboration agreement; (ii) execution of defective agreement without covering clearly the warranty obligations of the collaborator; (iii) insufficient care in accepting supplies from the collaborators; (iv) negligent negotiations with the collaborators in not urging upon them their responsibility to make good the losses in the local manufacture; and (v) the delay in preferring and pursuing the claims add up to a situation that becomes intolerable. The Committee, therefore, desire that the case calls for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. They would also like to know whether there were any manufacturing defects in the C.L.W. built traction motors other than those ascribable to the inadequacies in the original design. The Committee would await the results of the investigation and the action taken on the basis thereof."

1.8 In their reply on action taken on the recommendation, the Ministry of Transport (Department of Railways) (Railway Board) have stated as follows:—

'The observations of the Committee have been noted for future guidance. The reasons for the failures mentioned in this para have already been explained to the Committee through written replies as well as in oral evidence. It is reiterated that the decision to go in for this design of traction motors without insisting on field trials from M/s. Alsthom, France on the basis of satisfactory performance of the earlier design of traction motor type MG 1580 (which was in fact more complex) obtained from the same firm was to ensure that the production of electric locomotives at C.L.W. was not interrupted due to delay in the availability of traction motors. Though the production of electric locomotives was affected to some extent due to the failures of these traction motors, this development of failures could not be reason-

ably anticipated at the time of finalising the collaboration on account of satisfactory performance of the earlier version of the traction motors manufactured in collaboration with M/s. Alsthom, France.

The Department of Railways (Railway Board) will ensure that in future limited number of equipment will be subjected to field trials before entering into collaboration agreements and/or undertaking bulk manufacture. This Department will also endeavour to incorporate a warranty clause for locally manufactured products also in case of design defects, in the collaboration agreements duly taking note of additional financial implications, if any, in the event of incorporation of such a clause.

Detailed investigation of the defects of the traction motors both manufactured by C.L.W. and those directly supplied by M/s. Alsthom indicated that the manufacturing process in C.L.W. were in accordance with the technical instructions supplied by the collaborator. However, it was considered that the coil design as given by the collaborator needed higher skills in manufacture. Consequently, the size of the conductor arrangement was modified by the collaborator in order to ensure satisfactory manufacture of coils. No other manufacturing defects or unusual features have been noted in the functioning of these C.L.W. built motors over the years.

This Department considers that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The causes of failures have been pinpointed and remedial measures have also been taken. It is also not possible to fix any responsibility on any individual as all actions were taken collectively and in the context of conditions prevailing at that time. This Department is confident that with the remedial measures already taken, similar situation will not recur in future."

1.9 In their earlier Report, the Committee had recommended that failures and delays in the case called for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. The Department of Railways have now stated that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The Ministry

have further stated that it is not possible to fix any responsibility on any individual at this stage as all actions were taken collectively. The Committee are unable to accept the view of the Department of Railways. The Committee consider that even in a case of collective action, responsibility must be assigned. A collective decision cannot exonerate all concerned. All concerned must then accept responsibility. It would be justifiable in some cases to place the responsibility on the senior most officer. In a case like the present, of undue delay and consequent financial loss, the Ministries/Departments, in the interest of efficient administration, should at the least have investigated the matter and drawn up a direction on the correct course of conduct in similar circumstances.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

1.60 In September, 1967, the Railway Board decided to manufacture AC electric mixed type (ACMT) BG locomotives and for these locomotives it was decided to adopt the traction motors to a design offered by a foreign firm M/s. Alsthom. The selected design of the firm was not in use in any other country. Between February 1968 and January 1972, orders were placed for import of 200 traction motors and 336 armatures from the firm. The Chittaranjan Locomotive Works also commenced production of traction motors and armatures of ACMT locomotives to the design supplied by the firm. After September 1971, i.e. within a short time of the locomotives being brought into use, large scale failures of traction motors and armatures, both manufactured by Chittaranjan Locomotive Works and those supplied by the firm started occurring, rendering inoperative a large number of ACMT locomotives on South Eastern Railway. After a joint investigation of the defects by firm's representatives and Railway Board engineers, a settlement was reached in September 1972, under which the firm agreed that a new design of the armatures would be developed by them, and all the armatures supplied by them would be rehabilitated according to the new design at their cost; also the firm would render assistance to Chittaranjan Locomotive Works establishing manufacture of armatures to the new design. The firm had supplied 297 traction motors and Chittaranjan Locomotives Works had manufactured 122 traction motors to the old design which were to be rehabilitated and changed to the new design. While the collaborators agreed to pay the incidence of transport, insurance charges and repair of armatures built by them in their works in France under warranty obligation, claim for re-imbursment of expenditure incurred by CLW towards repair/rectification of the locally built traction motors had been disowned by them.

1.61 Surprisingly the traction motors in question which were not in use in any country, were not subjected to field trials in India to determine their suitability in Indian conditions before purchase/bulk production. What were carried out were only 'bench' or laboratory test, i.e. 'prototype and routine tests' in the manufactures' works

before acceptance and despatch of traction motors. The main argument given by the Ministry for not conducting field trials of the traction motor was that the production of ACMT locomotives at Chittaranjan Locomotive Works would have to be postponed by about one year. The Committee do not see any force in the argument for, as even otherwise the production of mixed type locomotives could commence at CLW from February 1971, instead of from 1969, as originally planned. Further, as the traction motors started developing defects soon after they were put in use, there was large scale immobilisation of locomotives necessitating use of alternative costlier traction. The Committee observe that even after change in design the traction motors have not given a satisfactory performance. As against 1520 such motors in use on the South Eastern Railway in 1980-81, there were 246 failures; and as against 1776 such motors in use on that Railway in 1981-82 there were 339 failures. In a note furnished to the Committee, the Ministry have now belatedly conceded that "the problem of the magnitude that was finally manifest would not have arisen in the normal course if a limited number of motors had been initially manufactured by M/s. Alsthom and tried out under service conditions before undertaking bulk manufacture." In evidence, the Chairman, Railway Board also conceded, "Certainly it would pin point one thing. Previously (in the case of indigenous manufacture of AC Freight type locomotives) we had done the field trials and then we entered into a collaboration agreement. The same practice should have been followed in the second case (the present case)." The Committee consider it a serious lapse entailing heavy losses which cannot be condoned.

[S. Nos. 1 & 2, Para 1.60 & 1.61 of 223rd Report of P.A.C.—
(1984-85)—VII Lok Sabha].

Action taken

Taking cognizance of the failure of TAO 659 traction motors against this contract, the Ministry has incorporated in all contracts entered into from 1980 a provision for 'field trials' of limited number of prototype equipments before allowing series manufacture and supply. Further, it has also been decided in May 1983 (copy enclosed), based on certain other observations of P.A.C. in regard to traction inverter equipment, that only such equipments which have been fully tried and tested elsewhere should be procured for use in our country.

This has been seen by Audit.

[Ministry of Railways (Railway Board's) O.M. No. 84-BC-
PAC/VII/223 dated 17-5-1985.]

GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS

(Railway Board)

No. 79 Elec. I|144|5

New Delhi, dated May 5, 1983.

The General Managers,
All Indian Railways
C.L.W., D.L.W., I.C.F. & W&AP.

SUBJECT.—*Import of new technology.*

Arising out of the import of certain equipments whose commissioning and full utilisation was severely impaired by teething troubles, the Public Accounts Committee have underlined the need for more caution while importing new technology as also the need to ensure that only such equipment which has been fully tried and tested elsewhere is brought into the country.

The Board desire that these observations of the Public Accounts Committee should be invariably kept in mind while dealing with purchase of materials involving import. These instructions should be brought to the notice of all officers connected with purchase of materials to ensure their strict observance.

Please acknowledge receipt.

Sd/- 8-5-83

(B. C. BALASUBRAMANIAN)
for Joint Director, Finance (Stores),
Railway Board

Copy to:—

1. Metropolitan Transport Project, Calcutta, Madras, New Delhi.
2. D.G. RDSO, Lucknow.
3. DRS|DME|DME (W) |DCE D (Track) |D(S&T) DRE|DW,
Railway Board.

Recommendation

1.65 It was in July, 1972 that the Ministry of Railways had decided that the collaborators' warranty obligation for the failures of the CLW-built traction motors should be gone into by the General Manager, CLW and settled with their (the Board's) concurrence. The Chittaranjan Locomotive Works however advised the Ministry of Railways (Railway Board) in January 1978, *i.e.*, more than two years after the expiry of the agreement, that the expenditure incurred on repairs/rectification of traction motors/armaments built locally according to the old design was re-imbursible by the collaborators and proposed to put forward the claim to them through the statement of consultancy fees payable by the CLW under the collaboration agreement. With the approval of the Ministry of Railways, CLW preferred, in February, 1978, a claim on the collaborators for re-imburement of repair/rectification charges of Rs. 25.63 lakhs incurred till then indicating that the total expenditure on the account would be advised on completion of re-winding/repair of all the 122 armatures built by CLW to the old design. The collaborators, in turn repudiated the claim, stating that the proposal made by their representative in the meeting held in September, 1972 was a package offer which had been accepted by the Ministry of Railways in full settlement of the problem, relating to the failures of traction motors. The Committee have little doubt that with such belated and half hearted attempt on the part of the Railway authorities to enforce their claim the result could not have been otherwise. As the position stands today, claims for re-imburement of expenditure of Rs. 82.16 lakhs incurred by CLW towards repair/rectification of the locally built traction motors remain without any hope of realisation.

1.66 The Committee are given to understand that the collaborators' dues from CLW on account of consultancy fees amount to Rs. 37.86 lakhs only. Having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW built armatures necessitated by the inadequacy in the design supplied by the collaborators, whether any consultancy fees would at all be admissible to collaborators had not yet been decided by the Ministry of Railways (Railway Board). The Committee would like the Ministry to come to an early decision in the matter under intimation to the Committee.

Action taken

There was no dispute or any doubt at any time as to the admissibility of the consultancy fees as the requisite information by way of design data and drawings for manufacture of the equipments in India to the same standards as in original manufacturer's Works had been fully supplied by the collaborator. There was only a doubt as to whether the expenditure on account of repairs/rectification of the indigenously built traction motor armatures should also have been realised from the collaborator. Efforts will continue to be made to get the claim preferred on this account accepted by the party and reimbursement followed up.

This has been seen by Audit.

[Ministry of Transport, Department of Railways (Railway Board's) O.M. No. 84-BC-PAC/VII/223 dated 10-12-1985]

Recommendation

1.67 Clause III(f) of the Collaboration Agreement which relates to manufacture of traction motors and armatures at CLW states that technical information furnished under the agreement would be complete and in strict accordance with that used in Alsthom's own workshop. It also gives an undertaking that the information and assistance given would be such as to enable Government to establish indigenous production of equipment similar in standard and performance to that manufactured by Alsthom, but there is no mention in this clause of warranty against defect/deficiencies found in the designs supplied by the collaborator. As admitted by the Chairman, Railway Board, 'to that extent the initial agreement was defective'. The Ministry have however explained that normally such a provision is not included in technical collaboration agreements for locally-built products. The Committee are not convinced by this explanation. The Committee strongly feel that once design defect is established, the collaborators ought to be bound to recoup losses in the manufacture of defective products even locally. They hope that suitable safeguards would be built into such collaboration agreements in future.

[S. No. 8, Para 1.67 of 223rd Report of P.A.C. (1984-85)
7th Lok Sabha]

Action taken

The recommendation of the Committee is noted. In future Technical Collaboration Agreements, the Ministry of Railways would endeavour to incorporate such clause relating to warranty obligation even in respect of locally built products in case of design

defects/deficiencies which come to light or can be established during the currency of such Agreements.

This has been seen by Audit.

[Ministry of Railways (Railway Board's) O.M. No, 84-BC-PAC|
VII|223 dated 17-5-1985]

Recommendation

1.68 The Committee are unhappy over the manner in which the Ministry of Railways had proceeded in the matter of their claim for overcharged prices. It was discovered by CLW that the collaborators were charging much higher prices for materials supplied during the period 1963 to 1971. The CLW's claim on this account came to Rs. 1.62 crores plus interest charges at 18 per cent upto the date of payment. The overcharge first came to the notice of the CLW in 1971. The CLW preferred their claim for the overcharge on 29-6-1974. Ever since, the matter had been under arbitration/legal action. There are many depressing aspects of the case. The overcharge went on practically from the very beginning, but eight years elapsed before the CLW could notice it and it took three years more to prefer the claim. Thereafter, the matter had been allowed to drag on for nearly seven years. In February 1981, Umpire Justice Sikri concluded that there was a breach of clause VIII(f) of the Agreement of November 1962, as amended by the Supplementary Agreement of February 1968. In July 1981, he suggested mutual settlement, but the CLW took more than a year to report back, requesting the Umpire to resume arbitration following failure of settlement. By this time, the period allowed for arbitration had expired. While an application has since been filed by the CLW in the High Court for extension of time for arbitration, a petition has also been filed by the collaborators in the High Court to declare the arbitration proceedings void *ab initio* and to revoke the authority of the Umpire. Both the petitions are pending in the High Court; and as against the CLW's claim of Rs. 1.62 crores plus interest charges for the materials overcharged 13 to 21 years back, the amount recovered to date is nil. While the Committee would like to watch the outcome of the two petitions pending in the High Court, they cannot help deplore the lackadaisical manner in which the CLW authorities had all along acted in this case. Clearly, there has been a failure on the part of the CLW to safeguard the financial interests of Railways.

[S. No. 9, Para 1.68 of 223rd Report of P.A.C. (1984-85)—7th
Lok Sabha].

Action taken

The observations of the Committee have been noted.

The latest position is that the CLW's application before the High Court for extending the time for arbitration and the erstwhile collaborator's petition before the same High Court to declare the arbitration proceedings void *ab initio* and to revoke the authority of the Umpire are still pending. This case had been posted for hearing on 30th April 1985, but was not taken up; the revised date of hearing is yet to be fixed.

In the meantime in June '84, the collaborator had sent a letter to the Railway Board expressing readiness once again to settle the matter out of court and authorising their lawyers in India to sign a negotiated settlement. Despite CLW's efforts to pursue this line of action also, without prejudice to the Court case, the collaborator's lawyer has not made himself for discussions/negotiations so far.

CLW will, therefore, vigorously pursue the arbitration matter to its logical conclusion.

Audit Observations

"The facts are under verification by Director of Audit, Railway Production Units and Metro Railway and remarks, if any, will follow."

[Ministry of Railway (Rlys. Board's) O.M. No. 84-BC-PAC/
VII/223 dated 22-5-1985.]

CHAPTER III

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

Recommendation

1.62 The Committee find that the traction motors in France were inspected and certified as satisfactory by an engineer of Indian Railways stationed at that time in Paris, designated as Deputy Railway Advisor, Paris. In the opinion of the Committee, the Research, Designs and Standards Organisation (who had already designed traction motors on their own) and Bharat Heavy Electricals (a public sector undertaking) who were already manufacturing traction motors for DC electric locomotives, should have been closely associated in evaluating the performance of the traction motors' armatures. Asked why the representatives of the Bharat Heavy Electricals were not associated with evaluation tests of the traction motors in question, the reply of the Ministry of Railways was that this was not done "as the officers of Research, Designs and Standards Organisation and the Indian Railways were fully competent to discharge such duties." If so, the Committee enquired why the Research, Designs and Standards Organisation were not associated with the evaluation tests of the traction motors. Their reply was "There was no system of associating RDSO at that time in such tests." The Committee are surprised at this explanation. If, as conceded by the Ministry of Railways, the officers of the RDSO were fully competent to carry out evaluation tests, the Committee fail to understand why they were not associated with such tests. Nor are the Committee satisfied with the explanation of the Ministry for not associating the Bharat Heavy Electricals with such tests. As already observed by the Committee in their 224th Report (Fifth Lok Sabha), had there been a meaningful dialogue between these agencies in the public sector and critical evaluation of the traction motors and armatures which were available in the world market, it should have been possible to lay down more suitable specifications and undertake the import/manufacture of the more suitable armature motors for the ACMT locomotive programme from the very inception. The Committee trust that the

Ministry of Railways will bear this in mind while entering into such transactions in future.

[S. No. 3, Para 1.62 of 223rd Report of PAC (1984-85)—7th Lok Sabha].

Action taken

The Ministry of Railways wish to clarify that evaluation of a design and inspection/testing of product at a manufacturer's Works are different in nature.

2. In 1968-69, when the technical collaboration was entered into with M/s 50-Cycles Group, neither BHEL nor RDSO had any prior experience in drawing up detailed specifications or designing/evaluation motors built to such specifications. The technical competence of BHEL at that time in respect of design capabilities was no better because their collaboration with AEI of UK for manufacture of traction motors for diesel locomotives had come into operation from about the same time as CLW's collaboration with M/s 50-Cycles Group for manufacture of traction motors for electric locomotives.

3. Inspection of prototype and other tests of the traction motors in France carried out by the Deputy Railway Adviser were to ensure that the results, measurements of such tests conformed to the specifications relating to operating parameters. The officer who carried out such tests was a very experienced and senior Electrical Engineer. Association of any other technical representative either from RDSO or from BHEL would not have made any difference. These prototype tests are only one of the stages in the total evaluation and, therefore, has necessarily to be followed by stringent and extensive service trials in the field.

4. RDSO have in the course of time, in preparation of the specifications, evaluation of the tenders, scrutiny of the test results at the manufacturers' work and assessment in service of different types of traction motors for locomotives, EMUs and metro stock have acquired enough expertise and it is not considered desirable to involve BHEL in scrutinising the offers of their competitors.

This has been seen by Audit.

[Ministry of Railway (Rlys. Board's) O.M. No. 84-BC-PAC/223 dated 17-5-1985.]

Recommendations

1.63. As regards the question whether the failure of traction motors could be ascribed primarily to defective design, the Ministry of Railways have stated that although the defective design angle is not to be ruled out since some of the traction motors had not been able completely to withstand the special repeated overspeed tests and some changes in design had to be effected later, the firm did not agree that the original design was defective. The very fact that the collaborators had to evolve a new design to ensure the reliability of its operation in service and to improve the safety margin indicates that there were inadequacies in the original design of traction motors supplied by them. Further, similar defects had been noticed in the traction motors built both by them and the CLW. Such similarity could not be explained as due to bad workmanship at both the works but could only be due to inadequacies in the original design. Further, the Technical Committee appointed by the Railway Board in pursuance of an earlier recommendation of the PAC, had also opined that there were inadequacies in the armature coils. The Committee are surprised that in the face of such clear evidence, the Railway Board were not able to tell the collaborators assertively that the failure of the traction motor was primarily due to an inadequacy in their design.

1.64 The Committee note that while the collaborators had agreed to rehabilitate all the armatures built by them in their works in France at their own cost in the case of armatures built at CLW they had agreed only to render technical assistance to help the CLW. It stands to reason that as the rehabilitation of the CLW-built armatures was necessitated by inadequacies in the original design supplied by the collaborators, the cost of rehabilitation of such armatures should have also been borne by them. But, from the minutes of the meeting held on 10-9-1972 between the Indian Railways and M/s. Alsthom, France the Committee find that while the question of failure of CLW built traction motors did crop up at the meeting, there is no indication that the specific question of the collaborators' obligation to compensate the CLW for the failure of CLW built traction motors was raised. The Ministry, who were requested to clearly indicate whether the question was specifically raised at the meeting, have stated that "it is not known at this point of time what was discussed in that said meeting in addition to what is recorded in the minutes of the meeting" and that "it is quite possible that the Board were aware of the weakness of the Railways' position in this regard on

account of the absence of any provision in the collaboration agreement in regard to warranty obligations of the firm for CLW—built armatures in the event of their failure.” The Committee are surprised at this explanation for, the Ministry of Railways had earlier asked the CLW that the collaborators’ warranty obligation for the failures of CLW-built traction motors should be gone into and settled with their concurrence. The Committee are led to the conclusion that at the meeting the representatives of Railways failed to safeguard the financial interest of the Railways.

[S. Nos. 4 and 5, Paras 1.63 & 1.64 of 223rd Report of P.A.C.—
(1984-85)—7th Lok Sabha].

Action taken

The Railway Ministry would like to reiterate that though the design inadequacy was a matter commented upon by the Technical Experts Committee, the same could not be proved conclusively by any design calculations—although it is absolutely essential to pinpoint the design inadequacy as the primary cause precisely in contractual cases so that the same can bear scrutiny of courts/arbitrations, should disputes arise. As clarified in reply against para 1.62, Indian Railways, at that point of time, did not have adequate design expertise in the field of traction motors and that is why Indian Railways went in for technical collaboration.

In the light of the inability to pin-point the causes of failures of traction motors as arising out of design defects primarily, the agreement reached by the Board for repairs of the defective armatures with the supplier was the best negotiated settlement that was possible under the circumstances. The representatives of the Railways had safeguarded the financial interests of the Railways in the best possible manner. In fact, Board was able to persuade the firm to repair even those armatures which had failed beyond the guarantee period as well as those which had not yet failed in service.

This has been seen by Audit.

[Ministry of Railways (Rlys. Board’s) O.M. No. 84-BC-PAC/
VII|223 dated 17 5-1985.]

CHAPTER IV

RECOMMENDATION/OBSERVATION THE REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

1.69 Cumulatively, the failures in this case such as (i) absence of extensive field trials before entering into collaboration agreement; (ii) execution of defective agreement without covering clearly the warranty obligations of the collaborator; (iii) insufficient care in accepting supplies from the collaborators; (iv) negligent negotiations with the collaborators in not urging upon them their responsibility to make good the losses in the local manufacture; and (v) the delay in preferring and pursuing the claims add up to a situation that becomes intolerable. The Committee therefore desire that the case calls for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. They would also like to know whether there were any manufacturing defects in the CLW.-built traction motors other than those ascribable to the inadequacies in the original design. The Committee would await the results of the investigation and the action taken on the basis thereof.

[S. No. 10, Para No. 1.69 of 223rd Report of P.A.C.—(1984-85)—
(7th Lok Sabha)].

Action taken

The observations of the Committee have been noted for future guidance. The reasons for the failures mentioned in this para have already been explained to the Committee through written replies as well as in oral evidence. It is reiterated that the decision to go in for this design of traction motors without insisting on field trials from M/s. Alsthom, France on the basis of satisfactory performance of the earlier design of traction motor type MG 1580 (which was in fact more complex) obtained from the same firm was to ensure that the production of electric locomotives at CLW was not interrupted due to delay in the availability of traction motors. Though the production of electric locomotives was affected to some extent due to

the failures of these traction motors, this development of failures could not be reasonably anticipated at the time of finalising the collaboration on account of satisfactory performance of the earlier version of the traction motors manufactured in collaboration with M/s. Alsthom, France.

The Department of Railways (Railway Board) will ensure that in future limited number of equipment will be subjected to field trials before entering into collaboration agreements and/or undertaking bulk manufacture. This Department will also endeavour to incorporate a warranty clause for locally manufactured products also in case of design defects, in the collaboration agreements duly taking note of additional financial implications, if any, in the event of incorporation of such a clause.

Detailed investigation of the defects of the traction motors both manufactured by CLW and those directly supplied by M/s. Alsthom indicated that the manufacturing process in CLW were in accordance with the technical instructions supplied by the collaborator. However, it was considered that the coil design as given by the collaborator needed higher skills in manufacture. Consequently, the size of the conductor arrangement was modified by the collaborator in order to ensure satisfactory manufacture of coils. No other manufacturing defects or unusual features have been noted in the functioning of these CLW-built motors over the years.

This Department considers that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The causes of failures have been pin-pointed and remedial measures have also been taken. It is also not possible to fix any responsibility on any individual as all actions were taken collectively and in the context of conditions prevailing at that time. This Department is confident that with the remedial measures already taken, similar situation will not recur in future.

This has been seen by Audit.

[Ministry of Transport, Deptt. of Railways (Railway Board)'s
O.M. No. 84-BC-PAC/VII/223 dated 10-12-1985]-

CHAPTER V

**RECOMMENDATION/OBSERVATION IN RESPECT OF WHICH
GOVERNMENT HAVE FURNISHED INTERIM REPLY**

-NIL-

NEW DELHI;
March 17, 1986
Phalguna 26, 1907 (Saka)

E. AYYAPU REDDY,
Chairman,
Public Accounts Committee.

PART II

MINUTES OF THE 47TH SITTING OF THE COMMITTEE ON PUBLIC ACCOUNTS HELD ON 27 FEBRUARY, 1986 (AN)

The Committee sat from 1530 hours to 1645 hours.

PRESENT

Shri E. Ayyapu Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri J. Chokka Rao
3. Shri Amal Datta
4. Shri Ranjit Singh Gaekwad
5. Shri Vilas Muttemwar
6. Shri G. Devaraya Naik
7. Shri Rajmangal Pande
8. Shri H. M. Patel
9. Shrimati Jayanti Patnaik
10. Shri Simon Tigga
11. Shri Girdhari Lal Vyas

Rajya Sabha

12. Shri K. L. N. Prasad

SECRETARIAT

1. Shri K. H. Chhaya—*Chief Financial Committee Officer*
2. Shri Krishnapal Singh—*Senior Financial Committee Officer*
3. Shri Brahmanand—*Senior Financial Committee Officer*
4. Shri O. P. Babal—*Senior Financial Committee Officer*

REPRESENTATIVES OF THE OFFICE OF C&AG

1. Shri T. M. George—*Addl. Dy. C&AG of India*
2. Shri D. K. Chakrabarty—*Director of Audit (Central Revenue)*

3. Shri M. Parthasarathy—Director of Audit (Defence Services)
4. Shri V. Sundaresan—Director of Receipt Audit-I
5. Shri Gopal Singh—Joint Director of Audit
6. Shri B. S. Gill—Joint Director of Audit (Defence Services)
7. Shri P. N. Misra—Joint Director (Railways)

2. The Committee considered the following draft Action Taken Reports and adopted them with certain modifications as shown in Annexure V respectively.

* * * *

- (5) Draft Report on Action Taken on recommendations contained in 223rd Report (7th Lok Sabha) regarding 'Claims outstanding against a Collaborator'.

* * * *

The Committee authorised the Chairman to finalise the Draft Reports in the light of the above modifications and other verbal and consequential changes arising out of factual verification by Audit and present them to the Parliament.

The Committee then adjourned.

ANNEXURE V

(See para 2 of the Minutes)

Modification/amendment made by Public Accounts Committee at their sitting held on 27 February, 1986 in Draft Report on Action Taken on 223rd Report (7th Lok Sabha) re. claims outstanding against a collaborator.

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- (i) In paragraph 1.6. line 8, for "on the matter" read "as to".
- (ii) For the existing paragraph 1.9, substitute—

"1.9 In their earlier Report, the Committee had recommended that failures and delays in the case called for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. The Department of Railways have now stated that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The Ministry have further stated that it is not possible to fix any responsibility on any individual at this stage as all actions were taken collectively. The Committee are unable to accept the view of the Department of Railways. The Committee consider that even in a case of collective action, responsibility must be assigned. A collective decision cannot exonerate all concerned. All concerned must then accept responsibility. It would be justifiable in some cases to place the responsibility on the senior most officer. In a case like the present, when undue delay and consequent financial loss, the Ministries/Departments, in the interest of efficient administration, should at the least have investigated the matter and drawn up a direction on the correct course of conduct in similar circumstances."

APPENDIX

Recommendations/Observations

Sl. Para No. No	Ministry/Deptt concerned	Recommendation
1	2	3
1	1.6 Transport/(Deptt. of Railways) (Railway Board)	<p>Concern was expressed by the Committee in their earlier Report over the delay in preferring claim for reimbursement of expenditure incurred by SLW towards repair rectification of traction motors built by them. It was a belated and half hearted attempt, which has not yet been accepted. The Committee had desired the Ministry to come to an early decision as to whether any consultancy fees would at all be admissible to the collaborator having regard to the heavy expenditure incurred by the CLW on repair/rehabilitation of CLW-built armatures necessitated by the inadequacy in the design supplied by the collaborator. The Ministry of Transport (Department of Railways) in their reply have stated that there was no dispute at any time as to the admissibility of consultancy fees. There was only a doubt as to whether the expenditure on account of repairs/rectification of the indigenously built traction motors armatures should also have been realised from the collaborator. They have further assured that efforts would continue to be made to get the claim preferred on this account. accepted by the party and reimbursement followed up.</p>

The Committee desire that the Ministry should get the entire issue settled quickly without any financial loss to the Indian Railways.

2. 1.9 —do—

In their earlier Report, the Committee had recommended that failures and delays in the case called for a detailed investigation with a view to fixing responsibility as well as to taking appropriate remedial measures for the future. The Department of Railways have now stated that no new facts are likely to emerge at this point of time even if any fresh investigations are undertaken. The Ministry have further stated that it is not possible to fix any responsibility on any individual at this stage as all actions were taken collectively. The Committee are unable to accept the view of the Department of Railways. The Committee consider that even in a case of collective action, responsibility must be assigned. A collective decision cannot exonerate all concerned. All concerned must then accept responsibility. It would be justifiable in some cases to place the responsibility on the senior most officer. In a case like the present, when undue delay and consequent financial loss, the Ministries/Departments, in the interest of efficient administration, should at the least have investigated the matter and drawn up a direction on the correct course of conduct in similar circumstances.

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