

PUBLIC ACCOUNTS COMMITTEE
(1974-75)

(FIFTH LOK SABHA)

HUNDRED AND FORTY-SIXTH REPORT
on the

[Report of the Comptroller and Auditor General of
India for the year 1972-73, Union Government
(Defence Services)]

MINISTRY OF DEFENCE

**DEPARTMENTS OF DEFENCE AND
DEFENCE PRODUCTON**



LOK SABHA SECRETARIAT
NEW DELHI

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Minutes of the sitting of the Public Accounts Committee held on
24-3-1975

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(1974-75)

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SECRETARIAT

Shri B.K. Mukherjee—Chief Legislative 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 Hundred and Forty Sixth Report of the Public Accounts Committee on paragraphs 6,8, 9,12,13 and 19 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services).

2. The Report of the Comptroller and Auditor General of India for the year 1972-73 — Union Government (Defence Services) was laid on the Table of the House on the 25th April, 1974. This Report was considered and finalised by the Committee at their sitting held on the 24th March, 1975. Minutes of the sitting form Part II* of the Report.

3. A statement showing the summary of the main conclusions/recommendations of the Committee is appended to the Report (Appendix IV). For facility of reference these have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the examination of the Audit Report by the Comptroller and Auditor General of India.

5. The Committee would also like to express their thanks to the officers of the Ministry of Defence for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 7, 1975.
Chaitra 17, 1897 (S).

JYOTIRMOY BOSU.
Chairman,
Public Accounts Committee.

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REPORT

Extrusion press in an ordnance factory.

Audit Paragraph:

1.1. In 1951, Government accepted in principle the need for an extrusion press for the ordnance factories. A formal sanction was later issued in February, 1955 for installation of an extrusion press in ordnance factory 'A', for production of aluminium alloys. Meanwhile the extrusion press (cost: Rs. 10.06 lakhs) was received in that factory in July, 1954. It was installed in February, 1961 and actual production started in June 1961.*

The extrusion press was planned to have facilities requiring use of containers of sizes 130mm, 190mm and 230mm. The actual pattern of workload, however, did not conform to the anticipations and there was workload for sizes for 190mm container only. The extrusion press was, therefore, utilised only with 190mm container and the 130mm and 230mm containers were never used. The 130mm container was converted into 190mm container in 1971 at a cost of Rs. 2.648. The Ministry stated (December 1973) that "the plan was to make maximum utilisation of the press by making it versatile over the entire range of extrusion with the 3 containers of sizes 130mm 190mm and 230mm.

Advance provisioning had started since 1953 for forgings for making dies die holders, pressure pads, thrust plates, etc. Factory 'A' placed three orders on Factory 'B' in 1953, 1959 and 1963 and another on Factory 'C' in 1962 for supply of various types of forgings and based on annual anticipated load of the extrusion press by using the containers of all the three sizes of 130mm, 190mm and 230mm. As the press was utilised only with 190mm container and the containers of sizes 130mm and 230mm were never utilised, out of forgings costing Rs. 6.96 lakhs received in Factory 'A' those worth Rs. 5.13 lakhs could not be used. The Ministry stated (December 1973) that "the factory did not have any previous experience of extrusion of aluminium alloy and the assessment of requirements of forgings could not, therefore, be made on the basis of any actual experience".

The unutilised forgings worth Rs. 5.13 lakhs were declared surplus in 1967 and 1969 and are yet to be disposed of (December

*Mention was made in paragraph 14 of the Audit Report, Defence Services, 1963 about the delay in installation of and commissioning of this plant.

1973). The Ministry stated (December 1973) that a study group was being appointed to explore the possibility of alternative use and disposal of the surplus forgings.

As against the annual rated capacity of 840 tonnes, actual production of the extrusion press was as follows:

	Production (tonnes)
1962-63	163
1963-64	302
1964-65	460
1965-66	367
1966-67	365
1967-68	372
1968-69	386
1969-70	447
1970-71	227
1971-72	313

The average annual production (340 tonnes) of the extrusion press during the ten years ending 1971-72 was about 40 per cent of the capacity.

(Paragraph 6 of the Report of the Comptroller and Auditor General of India for the year 1972-73. Union Govt. (Defence Services).

1.2. According to Audit Para advance provisioning had started since 1953 for forgings for making dies, die holders, pressure pads, thrust plates. etc. Factory 'A' had placed three orders on Factory 'B' in 1953, 1959 and 1963 and another on Factory 'C' in 1962 for supply of various types of forgings based on annual anticipated load of the extrusion press by using the containers of all the three sizes of 130mm, 190mm and 230mm.

1.3. The Ministry had informed Audit (December, 1973) that the working papers relating to the placement of inter-factory demands on other factories for the forgings were not traceable at that late stage. It was, however, understood from officers/staff connected with the work that orders were placed after a careful assessment of the forecast requirements by a Committee headed by the then General Manager himself. Subsequently the pattern of workload underwent change. There was adequate workload for the Press for sizes relating to 190mm container against Defence

orders and the requirements for other sizes were small. The factory, therefore, converted container of size 130mm into 190mm. The Press had been fully booked for extrusion of sizes relating to 190mm containers with Defence and Civil Trade orders with the result that there was no possibility of utilisation of the Press with the containers of other size in the foreseeable future.

1.4. The Committee desired to know as to when the pattern of workload for aluminium alloy extrusion underwent change. The Ministry of Defence, in a note, have stated:

“It appears from the records that a survey was made of the overall requirements of the extruded non-ferrous sections to meet the requirements of Ordnance Factories, Railways and Hindustan Aircraft Ltd., before ordering a 3500 ton press. But it has not been possible to trace the survey report. A press of 2,000 ton capacity could meet all the demands of the Defence Services and also 90 per cent of their requirements of the Railways, the Hindustan Aircraft, etc. It was further found that the requirements of larger sections were neither as firm nor invariable as those of small sections.

The container-wise load pattern from 1963 onwards is indicated in the statement below:

Year	Orders Received (Kgs.)				Suitable for 230 mm container above 80 mm
	130 container		190 container		
	below 10 mm	10 mm to 80 mm hard	10 mm to 80 mm soft	Total (10 mm to 80 mm)	
1963	15	83229	971	84200	39
1964	..	525177	1799	526976	2672
1965	..	421801	10	421811	..
1966	..	243210	10437	253647	359
1967	..	162943	200	163143	5950
1968	..	366502	196	366698	945
1969	..	43866	3818	47684	2570
1970	..	703111	..	703111	8117
1971	..	396051	..	396051	3598
1972	..	272851	3000	275851	..
1973

1.5. Asked further as to when the booking for the extrusion of sizes relating to 190mm containers with defence and civil trade orders started, the Ministry in a note have stated: "the factory has records of orders received from 1963 onwards. These records show that most of the orders were suitable for 190mm container."

1.6. The Director General, Ordnance Factories clarified in February, 1974 that 2000 tons was the tonnage of press that could be exerted by the Press and not the production capacity of the press. In the present condition, it had been stated by the Director General, Ordnance Factories, the press was capable of producing 40 tons per month of assorted sizes of rods/sections working two 10 hours shift. Asked whether any review of the orders placed for forgings was made as soon as it was found that the pattern of workload had undergone a change and/or the exact requirements (on the basis of orders received by the factory) were known, the Ministry have stated in a written note: "As stated above there was no change in the pattern of load but maximum amount of load being for 190mm container, quantities for forgings for extrusion tools against other items were reduced accordingly in May, 1963 with a view to getting optimum utilisation of 190mm container."

1.7. Regarding the receipt of forgings from Factory 'B' and Factory 'C', the Ministry of Defence have intimated in a note:

'Almose all forgins from Factory 'B' were received between 9/54 to 6/66 against IFD placed in 1953; etwbeen 3/60 to 11/62 in case of IFD placed in 1959; and during 6/64 against IFD placed in 8/63. As regards Factory 'C' bulk of the supplies were made from 3/64 to 10/64 against IFDs placed in 11/62 and during 7/67 against IFD of 10/62.'

1.8. In regard to disposal/utilisation of surplus forgings, the Ministry informed Audit (December, 1973) as under:—

"It is proposed to find alternative utilisation of the surplus stocks of forgings within the Ordnance Factories failing which the disposal of the same to aluminium units vide M.s. Indalco and Hindalco who are likely to have requirements for the forgings in question, will be considered. A study group is being appointed to explore the possibility of utilisation of the surplus forgings within the Ordnance Factories and if not, to recommend disposal of the items which cannot be so utilised. It may be mentioned in this connection that disposal of the items to other units like

Hindalco and Indalco is likely to fetch much higher prices than the book value."

1.9. As to the reasons for not disposing of surplus forgings so long and the present position of disposal|utilisatin of these forgings, the Ministry ,in a note, have stated:

"The forgings are virtually tool steel items which can be used in normal course of production in the Ordnance Factories and are in fact being so used as would be evident from answer below.

A Technical Team was appointed by the General Manager of Factory 'A' in 1972. The Team recommended that the forgings worth Rs. 2,71,800.78 could be utilised in Factory 'A' itself within next 4 to 5 years. Out of forgings so recommended, forgings worth Rs. 42,865.23 have already been utilised in Factory 'A'.

One man Study Team appointed by the DGOF in January, 1974 examined the remainder forgings and recommended that 3 types of forgings worth Rs. 87,097.20 could be utilised in Factory..... and Factory These forging have since ben sent to these two factories.

Efforts are continuing to be made to utilise the balance forgings worth Rs. 1.53 lakhs in other sister factories."

1.10. The Committee understand that in February, 1966 a Study Team which was reviewing the existing capacity of Aluminium Extrusion in the Defence Ordnance Industries had found that the Extrusion capacity of the extrusion press at Factory 'A' had not been fully harnessed due to lack of matching facilities and had recommended provision of some balancing equipments for the Factory so that the planned capacity could be stepped up to an output of about 70 tonnes of heat treated extrusion per month. On the basis of that recommendation Government issued sanction in March, 1967 for the provision of balancing plant and machinery and extension to the building of the extrusion shop of Factory 'A' at an estimated cost of Rs. 39.86 lakhs. Although this project was sanctioned in March, 1967 it had not been completed upto November,

1973 and as a result, although the extrusion capacity of the extrusion press at Factory 'A' was 70 tonnes of Aluminium Alloy sections per month in 2 X 10 hour shifts, the capacity of the plant was not being fully utilised due to lack of balancing facilities. The production of Aluminium Alloys during 1972-73 was 461 tonnes.

1.11. The Committee enquired why it was not possible to provide the balancing facilities till November, 1973. The Ministry of Defence have in a note (31-10-1974) stated: "Out of 10 balancing equipments sanctioned in March, 1967 one was commissioned in 1968, one in 1969, one in 1970, 4 in 1972 and one in 1973. The proposal for one was dropped and one is yet to be received. In addition, two homogenising furnaces were also sanctioned in August, 1970. These 2 furnaces are now under trial run"

1.12. Asked to state if all the balancing facilities had since been provided, the Ministry have intimated in a note: "Yes, except one item (Degreasing Plant)."

1.13. Giving reasons for not making any study before 1966 to utilise the capacity better, the Ministry have submitted in a note:

"It would not be correct to say that the output was low from the date of commissioning. The output was commensurate with capacity, which in turn depended in a number of factors such as the types of alloy extruded, sizes of the products, product-mix and working hours etc. As the production of the various types of requirements was getting stabilised and the demands for extra hard alloy extrusions and tubes, which necessitated addition of the balancing equipment increased only from 1965, it was not considered necessary to appoint any Study Team before February, 1966".

1.14. The Ministry have further stated that "With the present product-mix containing a large proportion of tubes and extra hard alloy extruded products of DTD 5044 and DTD 5074 and N-7, the capacity of press working in 2 X 10 hours shifts would only be 40 MTs p.m. This is likely to improve after the commission of the homogenising furnaces."

1.15. It has been stated by the Department of Defence Production that there was adequate workload for the press for sizes relating to 190 mm container against Defence orders and the requirements for other sizes were small. Despite this fact, strangely

enough a Factory 'A' had placed three orders on two different factories at three different points of time (1953, 1959 and 1963) for supply of various types of forgings based on annual anticipated load of the extrusion press by using the containers of all the three sizes of 130 mm, 190 mm and 230 mm. The Committee are surprised that the working papers relating to the placement of inter-factory demands on other factories for the forgings were not traceable. The Committee are also surprised that no record is available about the results of the survey said to have been made of the overall requirements of the extruded non-ferrous sections to meet the requirements of ordnance factories, Railways and Hindustan Aircraft Ltd., before ordering a 3500 ton press.

1.16. As most of the orders were suitable for 190 mm container, the press was confronted—as pointed out by Audit—with a large accumulation of forgings of the value of Rs. 5.13 lakhs which could not be utilised. The Committee cannot but deplore the haphazard planning by the Department of Defence Production before the extrusion press was ordered and installed.

1.17. The Committee desire that responsibility for this lapse should be fixed and the action taken intimated to them. The statement given by the Department to the audit that "the factory did not have any previous experience of extrusion of aluminium alloy and the assessment of requirements of forgings could not, therefore, be made on the basis of any actual experience" is not at all acceptable. Government should have conducted a survey of the anticipated load of the extrusion press by using the containers of all the three sizes before placing orders for the forgings on two different factories. And in any case Government should not have any difficulty in procuring competent technical and expert advice before committing themselves to the large monetary expenditure.

1.18. The Committee note that a Technical Team was appointed by the General Manager of the Factory 'A' in 1972 which recommended that forgings worth Rs. 2,71,80.78 could be utilised in the ordnance factory itself within next 4 to 5 years and that out of the forgings so recommended, those worth Rs. 42,865.23 have already been utilised. Forging worth Rs. 0.87 lakh have been sent to other factories. The Committee would urged that expeditious action be taken to utilise the balance forgings worth Rs. 1.54 lakhs which are now available with the Ordnance factory.

1.19. The Committee have been informed that the press was capable of producing 40 tons per month of asserted sizes of rods/sections working two 10 hours' shift and this is likely to improve after the commissioning of the two homogenising furnaces. The Committee regret to observe that the two homogenising furnaces which were sanctioned in August, 1970 are still under trial run and that the capacity of the plant was not being fully utilised due to lack of balancing facilities. In fact, out of 10 balancing equipments sanctioned in March, 1967, one was commissioned in 1968, one in 1969, one in 1970, 4 in 1972 and one in 1973. The Committee would urge that the Ministry should investigate the delays in the provisioning of the balancing facilities and also in the commissioning of the homogenising furnaces.

Purchase of shot blasting plants

Audit Paragraph

1.20. An indent was placed by the Director General, Ordnance Factories, in January 1964 on the Director General, Supplies and Disposals, for procurement of four sand blasting machines for a factory. These were intended to replace four old sand blasting machines in that factory. In response to the tender inquiry by Director General, Supplies and Disposals, only one quotation was received. The firm quoted for shot blasting plants instead of sand blasting machines demanded by the factory. In June, 1964, the Director General, Supplies and Disposals, forwarded the offer to the factory for scrutiny and recommendation.

In August 1964 the factory recommended purchase of the shot blasting plants. The factory further explained in November 1964 that it preferred shot blasting plants to sand blasting machines as sand blasting machines involved health hazards to the men working on the machines. Since the shot blasting plants offered were of larger capacity than the sand blasting machines the Director General, Supplies and Disposals, was advised by the Director General, Ordnance Factories, to procure only two plants.

Accordingly the Director General, Supplies and Disposals, placed an order on the firm in April 1965 for supply of two shot blasting plants. These plants which were procured by the firm from their principals abroad, were received in the factory during July-August 1966; when it was found that some parts were missing. The missing parts were received in June 1968 free of cost. The cost of these two plants (including cost of erection) was Rs. 4.00 lakhs.

At the time of commissioning one of the plants during November 1968, it was found that as against the required air pressure of

80 to 100 pounds per square inch the air pressure at the plant inlet varied from 50 to 65 pounds per square inch. as a number of machines in the same section of the factory were working on a common compressed air supply. Besides, the workload for the plant had also considerably declined in the meantime. The plant could not, therefore, be put to use. The Ministry stated (December 1973) that action was being taken to provide an independent air compressor for the plant so that it could be utilised in the event of increase in workload.

The second plant was installed in May, 1969. As, however, there was not sufficient workload, it was transferred in May 1970 to another factory and installed there in September 1972 but in the latter factory also it remained unutilised (December 1973) for want of adequate supply of compressed air.

[Paragraph 8 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Defence Services)]

1.21. The position of sand blasting machines (as on 19th December, 1974) as indicated by the Ministry is given below:

Sl. No.	Regd. No.	Year of purchase	Source of Purchase
1	1131	2-1-42	E.B. Rly. Workshop, Kanchrapra
2	1191	6-2-42	Do.
3	2946	12-3-21	Tilgh man sand Blasting Co. Ltd., England.
4	2628	12-3-21	Port Engg. Works, Calcutta.

1.22. According to Audit, the Ministry had, *inter-alia* intimated them in December, 1973 that after scrutiny of the offer, Factory 'A' had recommended procurement of Gutman Shot Blasting Machines. While recommending the machine, the factory, had observed that the machines could be suitably equipped with internal cleaning attachment, which would not only save extra time for internal cleaning that would also eliminate requirement of a separate internal cleaning machine. Shot Blasting Machine was also preferred to Sand Blasting Machine since the latter involved health hazard to the workers and the technical results attained were also practically the same.

1.23. The Committee enquired why then the factory initially did not indent for shot blasting machines if these were expected to give better performance and would avoid health hazard to the workers. The Ministry in a note have stated:

“The sand blasting machines were originally indented on like to like replacement basis, to replace the old sand blasting machines, as per the normal replacement procedure. The Shot Blasting Machines indented included accessories like dust extractor and conveyors system, which would have reduced health hazard.”

1.24. Asked whether the factory had any experience of using shot blasting plants, the Ministry in a note have stated: “Yes, but not of the fully automatic type, with electronic control like the plants procured.”

1.25. According to Audit para the two shot blasting machines were received in the factory during July-August, 1966, when it was found that some parts were missing. The missing parts were received in June, 1968 free of cost. The cost of these two plants (including cost of erection) was Rs. 4.00 lakhs.

1.26. The Ministry had informed Audit in December, 1973 that on commissioning one of the plants, it was found that since a large number of machines in the same section were working on a common Compressed Air Supply, the air pressure at the plant inlet varied from 50 to 65 P. S. I. (Pound per Square inch) as against a requirement of 80 to 100 P.S.I. Asked whether it was not known to the factory when it accepted the shot blasting plants that the air pressure required by these machines was more than what was available, the Ministry of Defence, in a note, have informed:

“The requisite air pressure was available in the particular shop, where the plant in question had been installed. The pressure of air maintained at the main reservoir was about 90 lbs. per square inch from where the air required for the whole shop was provided. The other penumatic machines which are installed could work with variation of pressure even when the pressure temporarily dropped by about 10 to 15 lbs. per square inch, as compared to the prescribed presure of about 75 lbs. per square inch. It was, however, observed that in the cases of shot blasting plant if the pressure dropped even a little below 80 lbs. per square inch the plant stopped functioning. The factory became aware of this particular behaviour of the plant

only after the plant was commissioned (November, 1968) and tried out."

1.27. The Ministry had informed Audit (December, 1973) that action was being taken to provide an independent air compressor for the plant so that it could be utilized in the event of increase in work load. Giving reasons for not providing the air compressor earlier and the latest position regarding the procurement and installation the Ministry in a note (31-10-74) have stated:

"(a) The machine was commissioned in November, 1968 by providing air connection from the existing distribution line in shell shop. When difficulty about fluctuating air pressure was faced, a separate line was drawn in 1969 to connect the machine with the main reservoir of the hydraulic house, where the compressors are located. Condition improved but not to the desired extent. A pipe line was subsequently drawn in August 1973 to connect the machine directly with one of the compressors. There was no difficulty of air pressure thereafter.

(b) No separate air compressor was procured for the shot blasting plant in view of what is shown in (a) above.

1.28. The Audit para states that by the time one of the plants was commissioned (November 1968) in Factory 'A' the workload for the plant had also considerably declined and the plant could not, therefore, be put to use. In this regard the Controller of Defence Accounts (Factories) reported to Audit in August 1973: "It has been verified that the machine installed in Factory 'A' is being shown as 'idle' in the monthly Active/Idle statements prepared by the Factory up to May, 1973."

1.29. It has been stated that the second plant was installed in May, 1969. As, however, there was not sufficient workload, it was transferred in May, 1970 to another factory and installed there in September, 1972.

1.30. Asked why it took more than two years to instal the plant in the Metal and Steel Factory, the Ministry in a note, have stated:

"The plant was transferred to MSF in May, 1970 and the installation was completed in September 1972. The factory could not concentrate on this work in the intervening period because of other priority work relating to the erection of plant and machinery for production requirement, namely soaking pits, HEC equipment of phase I and phase II, annealing furnaces, 4000 mm Tropanning

machine, 5 ton pneumatic hammer and their associate 5 Nos. of compressors."

1.31. The DGOF had informed the Audit in December 1973 that the second shot blasting plant commissioned in November, 1972 at Factory 'B' could not be used subsequently for want of adequate supply of compressed air and to meet the demand of the compressed air, the factory had procured nine number of Air Compressors and action was being taken for commissioning those compressors. The Committee desired to know:

- (a) whether the air compressors had been installed; and
- (b) whether the plant had since been put to use and if so, when.

1.32. In a note furnished to the Committee, the Ministry of Defence have stated:

- "(a) Two Air Compressors (out of a total of 9 compressors) required for the area have been installed.
- (b) The plant is expected to be in working order by 8th November, 1974."

1.33. The Ministry of Defence had with them four sand blasting machines, two of which were purchased in 1921 and two in 1942. These were conventional types of sand blasting machines. It has been admitted by the Ministry of Defence that Factory 'A' did not have any experience of using fully automatic type, with electronic control like the shot blasting plants which were procured against indent placed on the DGS&D in January, 1964. The Committee have noted that against the indent for four sand blasting machines placed by Factory 'A' in January, 1964, the DGS&D, on the recommendation of the indenter, had placed an order on a firm in April 1965 for supply of two shot blasting plants. It was stated by the indenter that they preferred shot blasting machines to sand blasting ones as the latter involved health hazard to the men working on the machine. The Committee note with some surprise that although they had no experience of using fully automatic type shot blasting machines, Factory 'A' approved the procurement of two such plants against their original indent of four sand blasting machines. Some parts were missing from the plants which were received in the factory during July-August 1966 and it took another two years to provide the missing parts. The reasons for this particular delay have not been explained. The Committee desire that responsibility for all these lapses should be fixed. The quantity and value of the missing parts should be intimated to the Committee.

1.34. Another unsatisfactory feature is that, on account of the variation in the air pressure, the plants became inoperative and also the workload in the meantime had registered a fall. When the difficulty about the fluctuating air pressure arose, Factory 'A' after some make-shift arrangements took action in 1969, i.e. after about a year of its commissioning to connect the machine directly with one of the compressors. The second machine for which there was no adequate workload was transferred to another factory in May 1970 and there also it could be installed only in September 1972, i.e. after a lapse of two years. The explanation of the Ministry that the installation of the plant could not be completed due to other priority works is unconvincing. The Committee note that out of 9 compressors procured for this factory, only two compressors could be installed for supply of compressed air to the second shot blasting plant. They deplore the lack of advance planning in the matter of procurement of machines and their utilisation by providing air compressors. They would like that the reasons for the delay in providing compressed air supply to the shot blasting plants should be fully probed and responsibility fixed.

Purchase of filling machines

Audit Paragraph

1.35. In January, 1964, the Director General, Ordnance Factories Calcutta, placed an operational indent on the Director General, Supplies and Disposals for supply of four single spindle circular groove and slot milling machines to factories 'A' and 'B'. The tenders received by the latter were sent to the Director General, Ordnance Factories, in April 1964, who selected the machines offered by firm 'X' and sent the tenders to factory 'A' (July 1964) for scrutiny and comments regarding suitability of the machines offered. Factory 'B' was not consulted about suitability of the machines at that stage as according to the Director General, Ordnance Factories, only the question of selecting the acceptable offer was involved and any of the two factories was technically competent to do this. According to factory 'A' the machines offered were suitable. On receipt of tender documents in January 1965 for selecting accessories, Factory 'B' informed the Director-General, Ordnance Factories on 3rd February 1965 that it required general purpose machines and the special purpose machines offered by firm 'X' would not be useful as it was not executing jobs requiring such machines. Meanwhile, the Director General, Ordnance Factories, had instructed the Director General, Supplies and Disposals, on 15th January, 1965 to purchase all the four machines from firm 'X'.

Firm 'X' supplied two machines costing Rs. 2.62 lakhs to factory 'B' in February 1966. The machines were commissioned in November 1966. As workload in the factory was not enough for two machines, one of them was declared surplus in February 1972. This machine was transferred to factory 'C' in February 1972 and was put to use there from August 1973. As the other machine in Factory 'B' was also being used only intermittently, in April 1969 the Director General, Ordnance Factories ordered its transfer to factory 'D'. Factory 'B', however, offered the machine to factory 'D' only in April, 1972, but the latter did not take the machine. The machine was thereafter offered to factory 'E' in January 1973, which also did not take it as it was too big for its works. In April 1973, the Director General, Ordnance Factories, instructed Factory 'B' to inform other ordnance factories about availability of this machine but none of the factories showed interest in it. The Ministry stated (December 1973) that possibility of transferring this machine to factory 'F' was being explored. The Ministry also stated that these machines were purchased as the Director General, Ordnance Factories, thought that, being very versatile and modern, the machines would be valuable assets for future utilisation.

[Paragraph 9 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Defence Services)]

1.36. The Committee desired to know why Factory 'B' was not consulted to find out whether it needed the machines for the jobs it was executing when the tenders were sent to Factory 'A' for scrutiny and comments regarding suitability of four single spindle circular groove and slot milling machines offered by Orient Engineering & Commercial Co. Ltd., Calcutta and selected by the Director General Ordnance Factories. The Ministry, in a note, have stated:

"The demand of Factory 'B' for two HMT M3V Vertical Milling Machines was received at about the time when the demand of two Single Spindle Circular Groove and Shot Milling Machine was received from factory 'A'. The latter machine was more modern and capable of undertaking the type of intricate jobs encountered by factory 'B'. DGOF intended to procure modern equipment for various factories, it was, therefore, decided to combine the demands of Factory 'A' and Factory 'B' and to procure four single Spindle Circular Milling Machines

The copies of indent dated 22nd January, 1964 placed on DGS&D for these machines and DGS&D tender enquiry dated 5th March, 1964 were also endorsed to Factory 'A' and Factory 'B'. Factory 'B' sent several reminders between March, '64 to November, '64 for the procurement of Single Spindle Circular Groove Machines indented. It apparently confirmed that the factory was not averse to the procurement of these machines.

The scrutiny and comments on the machines offered against the tender opened in April, 64 could be finalised by Factory 'A' only by 21st December, 1964. As the DGS&D was expediting for comments DGOF sent the comments on the tenders to DGS&D on 6th January, 1965 without reference to Factory 'B'.

1.37. The Ministry had informed Audit (December 1973) that the machines were accepted on the basis that they were very versatile and modern machines with wide application and that it had been the policy to modernise the plant and machinery in the ordnance factories as far as possible. The particular operation in Factory 'B' for which the procurement of the machines was originally initiated, was being carried on one of the existing machines and this position was known to the Director General Ordnance Factories while accepting the machines offered by Orient Engineering & Commercial Co. Ltd., Calcutta.

1.38. According to Audit paragraph, Factory 'B' had informed the DGOF on 3rd February, 1965 on receipt of tender documents in January 1965 for selecting accessories, that it required general purpose machines and the special purpose machines offered by the supplier firm would not be useful as it was not executing jobs requiring such machines. In a note, the Ministry have also confirmed that the Factory 'B' did indicate that it required only general purpose machine and not special purpose one when it intimated its requirement to DGOF before the latter placed the indent on the Director General Supplies and Disposals.

1.39. Asked to state whether on receipt of information from Factory 'B' in February 1965 regarding the type of machine required by them, the DGOF had made any attempt to reduce the number

of machines ordered before DGS&D had concluded the contract on 6th April, 1965, the Ministry, in a note, have clarified:

"No. As explained above, the machines ordered were modern and capable of executing the type of intricate jobs encountered by Factory 'B' and would thereby, reduce the floor to floor timing for milling of components."

1.40. Factory 'B' received two machines costing Rs. 2.62 lakhs in February 1966. Asked about the due date of delivery of the machines, the Ministry have furnished the following details:

"Delivery in 5/6 months Ex. works Germany from the date of receipt of order and import licence guaranteed subject to DGS&D Force Majeure clause to be completed by 31st December, 1965. The acceptance of tender dated 6th April, 1965 was amended by DGS&D on 26th June, 1965 to include certain accessories and again on 30th August, 1965 allotting two machines, each to Factory 'B' and Factory 'A' at the request of DGO. Delivery date was extended by DGS&D from 31st December, 1965 to 15th February, 1966 then again to 31st March, 1966. Supplies were rendered (23rd February, 1966) within the extended delivery date."

1.41. Asked why the opportunity of extended delivery date was not availed of to cancel the contract or reduce the number of machines ordered, the Ministry have stated: "The machines were required."

1.42. The Audit para states that the two machines received in Factory 'B' in February 1966 were commissioned in November 1966. The Committee desired to know why it took about 9 months to commission the machines. The Ministry, in a note, have stated:

"A decision regarding the section in which the machines were to be installed was taken in March 66 (18th March, 1966). One machine was erected by 25th July, 1966 (in Ma Annex) and the other by 31st July, 1966 (in Tool Room). The firm, M/s. Orient Engineering and Commercial Co. Ltd., Calcutta, were requested by Factory 'B' on 5th August, 1966 to depute their representative for commissioning the machines. After repeated reminders the firm's representative arrived in Factory 'B' in November 1966 (25th November, 1966). The machines were commissioned in November 1966/(30th November 1966)

The inspection (mechanical portion) was completed on 19th November, 1966. In the mean time the machines were tried out and trickle production was also achieved."

1.43. Asked to state the extent of utilisation of the machines in Factory 'B' till January, 1972, and the reasons for declaring one machine surplus in February, 1972, more than 5 years after commissioning when the work load in the Factory was not enough for two machines, the Ministry have stated in a written note:

"One machine (Reg. No. 5426) was working in one shift all along since installation, during the period the machine was in Factory 'B' except for short period at a time for lack of sufficient load. The other machine (Reg. No. 5424) was active in one shift only from December 1966 to March 1967, active in one shift throughout and sometime in two shifts between April 1967 to March 1970, active in both the shifts during April 1970 to December 1971 and sparingly used thereafter on account of lack of load till the machine was transferred to Factory 'C' in February 1973."

1.44. In regard to whether Factory 'C' had placed any demand on DGOF for this type of machine, the Committee were informed:

"Covering demand bearing No. 5 and 6 NC VFJ/73-74 in respect of certain machines including slot milling machine (GCF Regd. No. 5424) was placed by Factory 'C' on DGOF on 22/23.8.73."

1.45. According to the Audit paragraph, in April 1969, the Director General Ordnance Factories had ordered transfer of the other machine from Factory 'B' where it was being used intermittently to Factory 'D' but the offer was made by the former only in April 1972 and the latter had refused to accept it. Asked about the justification of delay of 3 years in making an offer, the Ministry intimated the following in a written note: "The machine was not transferred to Factory 'D' as it was under utilisation due to exigencies of production requirements till April, 1972."

1.46. The Committee then enquired (i) why it took more than 8 months to offer the machine to Factory 'E' in January 1973; and (ii) whether the requirement of Factory 'F' was ascertained in April 1973 when information about availability of this machine with Factory 'B' was circulated to other ordnance factories.

The Ministry, in a note, have stated "Factory 'E' had earlier declined to accept the machine on the ground that it would not meet

their requirement. On 27-12-72 an officer from the DGOF Hqrs. visited Factory 'E' and requested the General Manager, Factory 'E' to inspect the machine personally, which the G.M. did and confirmed that machine could not be used by the Factory 'E'. The machine was again circulated to all Ordnance Factories in September 1973. DGOF finally issued instructions in November, 1973 for transferring the machine to Factory 'F' for use by them against their requirement of one Kopp Rotary Milling Machine."

1.47. The Ministry have further stated that the machine has since been transferred to Factory 'F' and has been put to use.

1.48. From the material made available before them, the Committee think that the concerned officers in the Directorate-General of Ordnance Factories are answerable for the purchase of two machines (single spindle circular groove and slot milling) costing Rs. 2.62 lakhs for Factory 'B' when the letter had demanded two HMT M3V Vertical Milling Machines. Not only was the purchase effected in haste for which no satisfactory explanation has been advanced but it was thrust upon Factory 'B' who could not put it to any effective use. The result has been that there was a frantic search for a possible user of an unwanted machine among the various Ordnance Factories until it found a berth in Factory 'F' in 1973, i.e. about six years after its purchase. The Committee recommend that responsibility for various acts of omission and commission should be fixed and a report of the action taken intimated to them.

1.49. The Committee are not at all convinced by the argument advanced by the Ministry that single spindle circular groove and slot milling machines "were modern and capable of executing the type of intricate jobs encountered by Factory 'B'" The scrutiny and comments on the machines offered against the tender opened in April, 1964 could be finalised by Factory 'A' only by 21st December, 1964. As the DGS&D was expediting for comments, the DGOF sent the comments on the tenders to DGS&D on 6th January, 1965 without reference to Factory 'B'. There should have been proper assessment of the requirements followed by consultations with the user as to the possible utilisation of the machines indented for. This was not done. There was no justification whatsoever for not consulting Factory 'B' about the suitability or otherwise by DGOF, when the comments of Factory 'A', one of the indenters had specifically been sought. This gives rise to serious suspicion of corruption. The explanation of the Ministry that the fact that Factory 'B' "sent several reminders for the procurement of single spindle circular groove machine indented apparently confirmed that the factory was not averse to the procurement of these

machines" is plausible but not convincing. The Ministry themselves have confirmed that Factory 'B' wanted general purpose machine and not special purpose one. The Committee would like to express their displeasure at the manner in which the deal was rushed through and desire that responsibility for the lapses should be fixed.

1.50. The Committee fail to understand why the concerned officials of the DGOF took no action to reduce the number of machines on order when they became aware in February, 1965 that Factory 'B' required a general type machine. They also fail to understand why no action was taken to reduce the number of machines when the delivery date was extended. The assertions of the Ministry that the machines were required have not been proved by the total evidence produced. One machine worked in one shift only since installation and the other machine worked sporadically in one or two shifts from December, 1966 to December, 1967 and thereafter was declared surplus on account of lack of load. It was transferred to another ordnance factory in February, 1973 and put to use there. The other machine was in use till April, 1972. Thereafter it was offered to Factory 'E' who had earlier declined to accept the machine on the ground that it would not meet their requirements. After the General Manager of the Ordnance Factory had confirmed that the machine could not be used by Factory 'E' it was again circulated to all the Ordnance Factories in September, 1973. Finally in November, 1973, the machine was ordered to be transferred to Factory 'E' for use by them against the requirement of one Kopp Rotary Milling Machine.

1.51. The Committee consider that the DGOF had failed to ensure the full utilisation of the two machines which had been purchased at considerable cost. Apart from this, the DGOF was totally ignorant of the actual requirements of the various Ordnance Factories and this is evident from the fact that circular letters had been issued to various Ordnance Factories enquiring whether they would accept one of the machines declared surplus by Factory 'B'. The Committee desire that individual responsibility for indenting the unwanted machines should be fixed and the action taken in this regard intimated to them. A report about the utilisation of the machines by Factory 'C' and Factory 'F' should also be furnished to the Committee for their information.

Purchase of rustless stud protector

Audit Paragraph

1.52. In February, 1967, the Director General, Supplies and Disposals, placed a running contract on firm 'A' for supply of rustless

stud protector (for re-inforcing shoe soles) during February, 1967 to January, 1968 at the rate of Rs. 4.29 per kg. for the first 13,000 kgs. and Rs. 4.60 per k.g. for the balance 99,680 kgs. of the total quantity, 84,510 kgs. were to be supplied to the Defence Department after inspection by the Defence inspectorate.

Only 65,561 kgs. were offered for inspection during July, 1967 to July, 1969, of which only 14,461 kgs. were accepted by the Defence Department during August, 1967 to January, 1969. The time taken in inspection of stores was 19 days for one lot, 25 to 27 days for 13, 113 days for another and 278—283 days for two more lots. The Ministry of Defence stated (February, 1973) that the delay in inspection was due to the poor quality of the studs supplied, which necessitated re-tests in some case and references to the indentors.

The firm made repeated representations against rejection of 40,600 kgs. by the Defence inspectorate and pointed out in July, 1969 that instead of testing the stores by spray with seawater, as provided in the contract, these were tested with petrol. The firm also stated in January, 1970 that the balance 10,000 kgs. lying with it would be disposed of at the risk and cost of Government. The Ministry of Law, to whom the case was referred, held in January, 1970 that, if the allegations made by the firm were correct, it would not be possible to say that the firm had committed a breach of contract. The Ministry of Defence stated (February, 1973) that actually salt spray test provided in the contract was carried out, but since the studs were failing in this test a few samples were washed with petrol to see whether the firm had carried out the phosphating process properly. The Ministry added (January, 1974) that the firm had agreed in August, 1967 for use of any solvent for this purpose.

In a meeting held in May, 1970 the representative of the firm contended that, because of extraordinary delay on the part of Defence inspectorate, the firm had not been able to complete the supplies and, in the meanwhile, market rates of the raw Materials had risen and the firm was not in a position to supply any stores. The Ministry of Law held in July, 1970 that the reasonable time for clearance of samples could at most be 15 to 20 days and actual time taken could not be considered reasonable and that the firm would be within its rights to treat this as a breach of contract on the part of Government.

The balance 70,049 Kgs. outstanding against the contract was cancelled on 11th December, 1970 by the Director General, Supplies and Disposals, (without financial repercussions on either side) with the concurrence of the firm.

Thereafter, a fresh tender enquiry was floated and tenders were opened on 31st March, 1971. Six quotations (including one from the defaulting firm) were received. The National Small Industries Corporation did not issue competency certificate in favour of the first and second lowest tenderers as the former was booked with other orders and the later did not possess requisite facilities to manufacture the studs. The third lowest offer was from the defaulting firm. Of the three higher offers, two did not conform to specification and the other was subject to issue of import licence. A fresh contract was, therefore, executed with the defaulting firm in June, 1971 for supply of 54,549 kgs. by 31st December, 1971 (the indenter had withdrawn demand for 15,500 kgs.) at the rate of Rs. 6.48 per Kg. The method of inspection of stores according to the fresh contract was the same as in the original contract.

Actually, upto the end of December, 1971, the firm tendered for inspection only 7,850 Kgs. of the studs against the latter contract out of which 7,645 Kgs. were accepted. This quantity included 3,752 Kgs. which were accepted with 3 per cent price reduction as the thickness of plating was less than that specified in the contract. During June, 1972 to 1st October, 1973, 75,850 Kgs. more were tendered for inspection of which 15,835 Kgs. were accepted and that two with 5 per cent reduction in price due to defects of design, workmanship and finish which were considered to be of a minor nature, not affecting the usefulness efficiency of the studs. The Deptt. has not yet (October, 1973) got 31,069 Kgs. of studs ordered in February, 1967. Apart from this as compared to the earlier price it had to pay Rs. 0.37 lakh more for 23,480 Kgs. of studs already accepted against the second contract (after taking into account the reduction in price for sub-standard quantities supplied) and would have to pay Rs. 0.58 lakh extra for the balance, when received.

[Paragraph 12 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Defence Services)]

1.53. The Committee desired to know whether the firm M/s. Kohli Industrial Corporation (Pvt.) Ltd., Kanpur on which the order for supply of rustless stud protector was placed, had supplied the item previously and how was their performance then. Ministry, in a note have stated:

“Yes, orders were placed on the firm in June, 1963 and October, 1965 for supply of 44,800 Kgs. and 12,500 Kgs. respectively. The quantity on order of October, 1965 was

comparatively small and was tendered in 2 lots (one of 10,000 Kgs. and other of 2,500 Kgs.) The firm did not supply the store with zinc plating or phosphatising, but by chemical blackening with oil sealing. The store tendered was found to have certain other defects as well, but was accepted in view of the operational urgency of the store. The records to indicate the performance against the order of June, 1963 is not available, because these have been destroyed in accordance with the standing instructions relating to retention of old records.'

1.54. Asked further whether advance samples were taken from the firm in 1967 and approved, the Ministry have furnished the following information:—

"In the tender enquiry, the tenders had been requested to submit the advance sample to the CIGS, Kanpur for test and approval. M/s. Kohli Industrial Corporation Kanpur in their tender intimated that they were past suppliers of stores, hence the advance samples from the firm was not insisted upon. The A/T stipulated that the contractors should carry out a through pre-inspection of each quota to minimise chances of rejection in inspection. The firm submitted (on 21st March, 1967) advance sample for own guidance which was not entirely acceptable on account of defective, protective treatment. The defect persisted in the revised advance sample (submitted on 12th April, 1967). It was not obligatory to get the advance sample accepted before bulk supply.

1.55. It has been stated in the Audit Para that the time taken in inspection of stores (65,561 kgs.) offered by the firm for the purpose upto July, 1969; was 19 days for the lot, 25 to 57 days for 13,113 days for another and 278 to 283 days for two more lots. The Ministry had stated (February, 1973) that the delay in inspection was due to the poor quality of the studs supplied, which necessitated re-tests in some cases and reference to the indentors.

* 1.56. Explaining the normal time required for inspection of stores of this type and the reasons why inspection took so much time in this case, the Ministry in a note have stated:—

"The normal inspection time for such a store may be taken to be four to six weeks for a lot. However, in the earlier stages in the A/T in question, longer time was taken because basic studs of imported origin were not of uniform quality and in the earlier stages every aspect of the

stud, e.g. proper formation of head, eccentricity of shanks, formation of ribs and fitness of the point, as well as the preservation treatment had to be examined.

Out of a total of 18 deliveries, relatively long time was taken in the case of the first delivery for which reasons have been stated in the previous Paragraph. Thereafter, deliveries were cleared within reasonable time in each case, except in the case, of delivery Nos. 12 and 13.

The process of inspection in the case of the above two deliveries was initially started at the normal speed. In the case of the first delivery, for example, the samples were drawn within a day of the receipt and were forwarded to the...for test again within a day. The test report was also received within 4 weeks. However, when the delivery was about to be cleared, the inspector learnt that the consignee i.e.....had rejected the entire acceptance against all the previous deliveries on block and only a quantity of some 13,000 Kgs. had been accepted out of some 45,000 Kgs. offered. With this development an impasse had been created in the face of which the Inspection could not proceed further. This impasse was referred to higher inspection authorities. Since, however, a number of parties were involved, viz. the bulk inspector, inspection authority, the consignee, DGS&D and the Army & Inspection Headquarters, in resolving this issue, it took them about twenty weeks. After an understanding was reached with the consignee, it became necessary to subject the two deliveries to reinspection which took about twelve weeks."

1.57. According to Audit Paragraph only 14,461 Kgs. were accepted by the Defence Department during August, 1967 to January, 1969 out of a total of 65,561 Kgs. supplied by the firm and the rest were rejected. The firm made repeated representations against bulk rejection by the Defence Inspectorate and had also alleged in July, 1969 that a different mode of test than what was specified in the contract had been used for testing the stores. The Ministry clarified this point in January, 1974 in a note to Audit as under:

"(a) The specification relating to the A/T.....It is not correct that any test other than that provided for in this specification was used to inspect the supplies made by the firm or the rejection was made on the basis of any test other than that provided for in this specification. It was only when it was found that the stores were failing

in the prescribed test that the inspectors, with a view to ascertaining reasons for the failure took to washing the studs in petrol to find out whether the surface was free from rust before phosphating process. It may be mentioned in this connection that the firm itself had agreed for use of any solvent for this purpose.

The purpose of using petrol wash was to locate the cause of rejection so that the firm could be suitably advised to improve their mode of manufacture. It may be mentioned that Defence Inspection has a responsibility for helping indigenous production with Technical advice as and when necessary so that the indigenous sources develop capability to produce stores required by the Services of good quality."

1.58. Asked whether it was explained to the supplier why washing with petrol was done, the Ministry have stated:

"No. The firm had suggested in August, 1967 to remove the rust preventive oil by any solvent to satisfy that the studs were not rusted prior to phosphating, a copy of the firm letter No. 260 KIC dated 29th August, 1967 is enclosed (Appendix I). Petrol was used for this purpose as it was considered most effective."

1.59. As regards action on the representations of the firm against large rejection of stores, the Ministry in a note have stated:

"The matter was taken up with the Ministry of Law on the firm's representation that the inspectorate had changed the method of accepting the materials during the currency of the contract and rejected the stores without any valid reasons. The Ministry of Law suggested the convening of a meeting to sort out the differences and ascertain the truth in the allegation made by the firm. Ministry of Law's opinion was conveyed to CIGS, Kanpur. The meeting was held on 28th May, 1970. The firm's representative did not agree to supply the balance quantity of stores against the running contract due to the alleged inordinate delay in inspection and the increase in the raw material prices. It may be added that the high rate of rejection on the stud protectors was mainly on account of unsatisfactory protective treatment. The firm had itself suggested in August, 1967 to remove the rust preventive oil by any solvent to find out that the studs were not rusty prior to phosphating."

1.60. The Committee enquired whether it was explained to the Ministry of Law when the case was first referred to them, why the allegations made by the firm that a different mode of test than was specified in the A/T was used, were incorrect. In their reply, the Ministry of Defence have stated:

"The firm's letter dated 12th October, 1969 alleging that the specifications had been changed and their letter dated 17th January, 1970 alleging change in the "method of accepting the material' were duly brought to the notice of the Law Ministry by the DGS&D.

The firm in their letter No. 1417/KIC/LO/D/69 dated 12th October, 1969 alleged that they could not be held responsible for any change of "India in specification" on the part of the Inspector as in their tender enquiry they had mentioned that they will supply the stores as per their earlier two contracts. While making a reference to the Ministry of Law, the DGS&D commented that the firm's allegations were not correct as the firm in the tender had confirmed the specifications without any conditions. They had only intimated that they did not submit the tender sample, as they had supplied identical stores against earlier contracts. So far as the inspection of stores was concerned, the DGS&D pointed out that this was within the competence of the Inspectorate, who had intimated that there was no case for recommendation for acceptance of the rejected stores.

The Ministry of Law advised that Inspectors' rejection would, no doubt, be final and conclusive if the stores are rejected on account of non-conformity with specifications. But from the letter of the firm dated 25th July, 1969, it would appear that there had been inordinate delay in testing. Consequently, straightway cancellation of the outstanding quantities would not be advisable. The advisable course would appear to be to give a *notice-cum-extension* to the firm stipulating reasonable time for supply of the stores.

Subsequently, on Ministry of Law's advice, a meeting was held on 28th May, 1970 with the representative of IGS, but the firm refused to give any further supplies.

In view of this stalemate, further reference to the Ministry of Law was made who advised that regarding rejection

of stores by consignee on the grounds of earlier supplies by the consignee, the inspection/acceptance was to be governed by specification governing the store. Regarding time taken for inspection, the Ministry of Law advised that there were abnormal delays in the inspection of stores and Government case did not appear to be on sound footing and the cancellation of the contract at the risk and expenses of the firm, therefore, would not appear to be legally tenable."

1.61. The Audit have stated that the balance 70,049 Kgs. outstanding against the contract was cancelled on 11th December, 1970 by the Director General, Supplies and Disposals (without financial repercussions on either side) with the concurrence of the firm. A fresh contract was executed with the defaulting firm in June, 1971 after floating a fresh tender enquiry for supply of 54,549 figs. by 31st December, 1971 at the rate of Rs. 6.48 per Kg. The method of inspection of stores according to the new contract was the same as in the original contract. Clarifying the position in this regard, the Ministry of Defence had informed Audit in January, 1974: "It is correct that no change in the specification was made in the second contract dated 7th July, 1971 placed on M/s. Kohli Industries Corporation, Kanpur. The specification governing supply against both A/Ts. provided for alternative protective coatings as follows:—

- (i) Zinc plated which is achieved by electro-galvanising by coating with Zinc by means of Electrolytic process.
- (ii) Phosphatising and thereafter sealing with any of the specified sealing solutions.

The stores supplied against the second A/T of July, 1971 were provided with protective coating as given in as alternative (i) above namely by Electro Galvanising. In this case the question of using petrol wash to check up whether rust had set prior to the process did not arise since Electro Galvanising does not take place on rusted surface."

1.62. Out of 7,850 Kgs. of the studs offered for inspection upto December, 1971 under the fresh contract, 7,645 Kgs. were accepted and this quantity included 3,752 Kgs. which were accepted with 3 per cent price reduction. Another lot 75,850 Kgs. was tendered for inspection upto October, 1973 of which 15,835 Kgs. were accepted and that too with 5 per cent reduction in price (The figures were later on changed by the Ministry of Defence in February, 1974 to read as 75,160 Kgs. and 20,500 Kgs. respectively).

1.63. Asked to state why there were such large rejections in respect of the second A/T also and on what basis the price reduction of 3 per cent and 5 per cent was worked out, the Ministry have informed the Committee in a written note:

"The supplies during second A/T were still not quite satisfactory and the standard of the store was not as required."

"The studs tendered by the firm suffered from certain dimensional discrepancies, such as the wall of the cavity was not uniform around the periphery, the head was not circular in shape, etc. It was, however, felt that the serviceability of the store was not materially affected by these discrepancies. Consequently, reduction of 5 per cent was considered reasonable for lack of due care on the part of the firm in the execution of the contract.

It may be added that the decision regarding the price reduction was judiciously taken at the level of the CIGS himself and not left to the inspecting officer. Further, the MGO had expressed urgency for the supply of this store in November, 1972 and had himself suggested acceptance of even slightly below specification stores under price reduction."

1.64. According to Audit paragraph, till October, 1973 the Department had not got 31,069 kgs. of studs ordered in February, 1967. In this regard the Ministry of Defence had furnished to Audit on January, 1974 an extract of comments of the Director of Ordnance Services, which is reproduced below:

"Our demands are based on an IP (Interim Period) of 33 months. At any given point, therefore our assets constitute the stocks plus the dues-in. At the time the subject Running Contract was placed assets which included reserves, were available and were being consumed gradually as time passed by. Simultaneously, our wastages were also gradually declining. Some quantities which materialised against the orders of M/s. Kohli Industries Corporation added to our assets. Thus on 1 February, 1972 we still had a stock of 35,639 Kgs. in.....alone. After that date due to the inherent system of rationing when stocks are insufficient, the dues-out started mounting. The dues-out at present is in the order of 25,000 Kgs. A demand for 50,000 Kgs. had recently been placed on the D.G.S. & D.

1.65. The Committee enquired what was the present position of supply, whether any action had been taken against the supplier for

delay in supply and whether Government had made any 'risk' purchases, the Ministry have stated in a note:

"(a) The balance quantity against the order has since been supplied.

(b) The case is not yet finalised. The delay in supply will be taken into account while deciding the release of the balance of 5 per cent payments to the firm."

1.66. In view of the difficult situation regarding procurement of stud protectors for Defence Services brought out in the Audit paragraph the Committee enquired about the annual requirement of studs and their sources of supply. In a written note furnished to the Committee the Ministry have stated as under:

"The requirements of the studs are dependent on the wastages in the user units. The average annual requirement is of the order of about 50,000 kgs.

The said protectors were imported from U.K. till May 1963 and thereafter procured through DGS&D from indigenous stockists of imported studs. The traders imported the stud protectors against their commercial quota in ungalvanised condition and then supplied after galvanising against DGS & D contracts.

According to the available records, the studs were first procured indigenously in June 1963.

None of the suppliers can yet be called an established source, as the supplies, so far have mostly been made from imported stocks only giving rust preventive treatment (galvanising or other treatment) in the country. The rate of supplies has also been erratic. M/s. Universal Industries, Rajkot did make an attempt to establish the manufacture within the country. Two A/Ts were placed in May 1966 and August 1968 on the firm for the supply of 15000 kgs. and 20000 kgs. of stud protectors respectively. The supplies did not strictly conform to Defence specifications and the studs supplied by them had to be accepted under deviation with price reduction.

The firm was not quite successful in supplying studs of required standard and did not execute any further orders. The names of the past suppliers of studs made from imported studs are given below:

- (i) M|s. Indo National Traders, Kanpur.
- (ii) M|s. Delhi Hardware Traders, Delhi.
- (iii) M|s. Kohli Industries Corporation, Kanpur.
- (iv) M|s. Industrial and General Trade Corporation, Agra.
- (v) M|s. Universal Industries, Udyog Nagar, Rajkot.
- (vi) M|s. Ramdas Barkat Ram, Delhi.

1.67. To a question whether it had been possible to find out any alternative source of supply, the Ministry have stated that there is no dependable indigenous source of supply. The efforts to establish the indigenous manufacture of the store continue to be made.

1.68. The average annual requirement of studs for the Defence Department is of the order of 50,000 kgs. Till May 1963, stud protectors were imported from U.K. and thereafter the DGS&D obtained supplies from indigenous stockists of imported studs. The traders imported the stud protectors against their commercial quota in ungalvanised condition and then supplied after galvanising against DGS&D contracts. According to the information furnished to the Committee, none of the suppliers can yet be called an established source, as the supplies so far have mostly been made from imported stocks only giving rust preventive treatment in the country. The supplies made by a firm in Rajkot did not strictly conform to Defence specifications and the studs supplied by them had to be accepted under deviation with price reduction.

1.69. The Committee are surprised that although the requirement of Defence Department was known, the DGS&D has not been able to locate any dependable indigenous supplier nor any positive steps have been taken by the Government for the setting up of suitable units for the production of studs indigenously. All that the Ministry could say is that "efforts to establish the indigenous manufacture of the store continue to be made." The Committee desire that the Government should intensify their efforts to locate one or more dependable manufacturers of this item so that the Defence supplies may not be hampered.

1.70. The Committee have noted with great concern that M/s. Kohli Industrial Corporation (Pvt.) Ltd., Kanpur were required to supply 84510 kgs. of rustless stud protectors after inspection by the

Defence Inspectorate but only 65,561 kgs. could be offered for inspection and out of this quantity only 14,461 kgs. could be accepted by the Defence Inspectorate. The time taken for the inspection of studs varied from 19 days for one lot, 25 to 27 days for 13 lots, 113 days for one lot and 278—283 days for two lots, although the normal inspection time for such stores is stated to be 4 to 6 weeks for a lot. The Committee are surprised to be told that "when the delivery was about to be cleared the inspector learnt that the consignee, . . . had rejected the entire acceptances against all the previous deliveries en block and only a quantity of some 13,000 kgs. had been accepted out of some 45,000 kgs. offered. With this development an impasse had been created in the face of which the inspection could not proceed further." The Committee would like the Defence Ministry to investigate and ascertain how the Defence Inspectors had, in the first instance, cleared the consignments which were, at a later stage, rejected by the consignee. The Committee apprehend that there may well have been collusion between the supplier and the Defence inspectors, as otherwise large quantities of doubtful quality could not have been accepted in the first instance. It is regrettable that it took 20 weeks in resolving this issue, leading ultimately to reinspection of the goods which also took another 12 weeks. The Defence Inspectorate is answerable not only for the acceptance of goods of doubtful quality in the first instance but also for the delays at all stages in accepting the consignments offered by the firm, thereby putting the indenter to considerable disadvantage.

171. The Committee have been informed that the question of representation of the firm against large rejection of stores, on account of following a different mode of testing than the specified in the acceptance tender, was taken up with the Ministry of Law, who had suggested that a meeting should be convened with the firm to sort out the differences. At the meeting held on the 28th May, 1970, the firm's representative did not agree to supply the balance quantity of stores against the running contract due to the alleged inordinate delay in inspection and the increase in the raw material prices. The Committee have also noted in this connection that the Ministry of Law to whom the matter was referred had observed that "there had been inordinate delay in testing. Consequently, straightaway cancellation of the outstanding quantities would not be advisable . . . Government case did not appear to be on sound footing and the cancellation of the contract at the risk and expenses of the firm, therefore, would not appear to be legally tenable." As stated in the Audit para the DGS&D had to cancel the balance 70,049 kgs. outstanding against the contract with the concurrence of the firm without financial repercussion on either side.

1.72. It is all the more surprising that, when the firm had defaulted in the matter of supplies against the first contract, it was offered a new contract on the same terms of inspection as laid down in the first contract. The firm did not come out any better in the matter of supplies against second new contract. 3,752 Kgs. had to be accepted with 3 per cent price reduction and 15,835 kgs. were accepted with 5 per cent price reduction. Apart from compromising the quality of the studs required by the Defence Department, the DGS&D had shown undue leniency to the firm who did not tender supplies strictly according to specifications laid down, and the studs had been accepted because "the MGO had expressed urgency for the supply of this store in November 1972 and had himself suggested acceptance of even slightly below specification stores under price reduction." The Committee are surprised that no action has so far been taken against the supplier or the officials for these lapses.

1.73. The Committee desire that the DGS&D before placing a contract should ensure that the terms and conditions are not so framed as to suit the supplier and that the firm on which the A/T is going to be placed has got the necessary expertise and capability for the production of the item in question. The Defence Inspectorate should issue instructions to the field staff in the matter of inspection of stores strictly according to specifications laid down and within the time-schedules fixed for the purpose.

Purchase of shoes

Audit Paragraph

1.74 Seven local purchase orders were placed on a firm by the Naval Stores Officer at station 'A' during January 1970 to October 1970 for supply of 2,025 pairs of shoes (non-slip) of various sizes at a cost of Rs. 0.67 lakh. Instead of indicating the prescribed specification in these orders, the firm was asked to supply the shoes according to the sample available in stock. While placing one of these orders in February 1970, the firm was informed that acceptance of supply would be subject to good finish of the shoes and proper fitting of rubber sole and heel in respect of which the trade samples supplied by it were deficient. The firm completed supply of the shoes against these orders during May 1970 to January 1971. Before acceptance, the shoes were inspected by the Surveyor of Stores of the Navy.

Eighty pairs of these shoes were sent to a submarine in November, 1970, of which 50 pairs were issued to sailors. The Commanding Officer of the submarine base reported to the Naval Command concerned in December 1970 that within one week of use the upper

leather portion of the shoes got separated from the rubber sole as stitches gave way, and the wear and tear of rubber sole were also rapid. According to him the sole was also not of required special design to afford sufficient grip and these shoes would not last more than a month as against the normal fair life of one year. The Commanding Officer also reported that the shoes were heavy and not comfortable to wear. The remaining 30 pairs were not issued to the sailors. A Board of Officers set up by the Naval Command inspected these shoes in January 1971 and observed that the shoes were of poor quality and were deficient in workmanship and material. The Naval Command reported these defects to the Naval Headquarters in February 1971. The Naval Headquarters thereafter ordered in May 1971 that samples of these shoes should be tested by Chief Inspector of Textiles and Clothing. The latter stated in September 1971 that the shoes were of incorrect shape, design and dimension and some of the material used was of cheap quality. According to him, the shoes were substandard and far inferior to prescribed specification.

Although the findings of the Board of Officers were intimated to Naval Stores Officer at Station 'A' in February 1971, further orders for 2,418 pairs of shoes of the same type costing about Rs. 0.79 lakh were placed by him on the same firm during March 1971 and September 1971. After inspection by the Surveyor of Stores of the Navy, these were received during July 1971 to December 1971 and issued to user establishments between July 1971 and September 1972. In March 1972, another ship which had received 100 pairs of these shoes reported that the shoes were not non-slip and oil-resistant, were heavy and inconvenient to wear, the leather was stiff and rough and the rubber soles opened out at joints after some use. In September 1972 the Naval Headquarters directed the Naval Command to investigate the matter and take appropriate action. The results of investigation are awaited (December 1973).

The Ministry stated (December 1973) that visual inspection of the shoes before acceptance did not disclose any defect and no complaint was received except in respect of 150 pairs mentioned above.

[Paragraph 13 of the Report of the Comptroller & Auditor General of India for the year 1972-73, Union Government (Defence Services)].

1.75. The Committee were informed that "Shoe non-slip, oil resistant" is a derby shoe of Good-year welted construction made from the printed grain tanned leather upper and fitted with oil resistant synthetic rubber soles and heels. These shoes are intended for use of Naval crews working in the engine rooms and also on board the ships.

The present annual requirement of the "Non-Slip Oil Resistant Shoes" for the Navy was stated to be 2,500 pairs and the source of supply of this item earlier to the orders placed on the firm M/s. Pioneer Leather Works, Bombay, was M/s. Bata India Ltd., Calcutta.

1.76. According to Audit Para, seven local purchase orders were placed with M/s. Pioneer Leather Works, Bombay, during January 1970 to October 1970. In this regard, the Ministry explained (December 1973) that local purchase had to be resorted to as purchase through Director General, Supplies and Disposals was not forthcoming and ships establishments were in need of shoes to meet their immediate and inescapable requirements. The Ministry added that the Director General, Supplies and Disposals intimated the Chief of Naval Staff, (Naval Headquarters), in January 1971 that there were difficulties in locating sources of supply of these shoes strictly according to laid down standards.

1.77. In a written note submitted to the Committee, the Ministry of Defence have enumerated the following difficulties faced in locating a source of supply for this type of shoes:—

"The item was obtained from the BATAS through DGS&D till 1967-68. Subsequently, when the demand was projected to DGS&D, Naval Headquarters were informed that the BATAS were not interested in manufacturing this item owing to the smallness of the orders. Later, during discussion with the firm it transpired that the BATAS were finding it difficult to obtain being an imported material from the U.S.A. This led the Navy to go in for local purchase."

1.78. The Committee desired to know how the firm M/s. Pioneer Leather Works, Bombay, was selected and whether tenders were invited and if so, which were the other tenderers and what were their rates. The Ministry have stated:—

"Tender enquiries were sent to the following firms:—

1. M/s. Pioneer Leather Works, Bombay.
2. M/s. Bombay Footwear, Bombay.
3. M/s. BATAS Shoes, Co. Bombay.
4. M/s. Maula Baksh & Co. Kanpur.
5. M/s. Carona Sahu, Bombay.
6. M/s. Dawood & Co. Bombay.
7. M/s. Eastern Leather Works, Bombay.
8. M/s. B.I.C. Kanpur.

9. M/s. Agra Boot Co. Agra.
10. M/s. Army & Police Equipment, Bombay.
11. M/s. Bata Shoe Co. Calcutta.
12. M/s. Usha Leather Industries, Bombay.

The Tender enquiry was for supply as per 'Stock Sample'. The firms to whom the tender enquiries were sent were requested to forward their own samples alongwith their tenders. Only two firms, viz. M/s. Bombay Footwear and M/s. Pioneer Leather Works furnished samples. Sample of M/s. Bombay Footwear was rejected and hence the selection of M/s. Pioneer Leather Works for placement of orders to supply the item.

Besides, the tenders of M/s. Pioneer Leather Works, quotations were received only from the following three firms out of which the firm at Serial No. 1 only furnished a sample with their tender:—

Name of Firm	Rate	Remarks
M/s. Bombay Footwear Pvt. Ltd., Bombay	Rs. 23.52 per pair S.T. @ Rs. 10%	Their sample was rejected by the surveyor of stores.
M/s. Maula Baksh Sons & Co., Kanpur	Rs. 25.50 per pair for Bombay - CST @ 3%	The firm did not send their sample with the tender. Also this was a late tender.
3. M/s. Usha Leather Industries, Bombay	Rs. 33.50 per pair ST	No sample was forwarded by the firm. Moreover the rate quoted was only an 'estimated rate' and not a firm quotation.

1.79. Asked why specification was not indicated in the tender enquiry and how the stock sample was selected, the Ministry, in a note, have stated:

"In any case the specification for the item in question had not been finalised and promulgated when the local purchases were made. Inspection of locally purchased stores is normally done relating the same to the stock sample, as the local authorities do not have the facilities to carry out a detailed technical inspection as laid down in the specifications. The stock sample was selected by the stock holders from the earlier supply received from the BATAS."

1.80. The Committee were further informed that "the specification was finalised in August 1971".

1.81. According to Audit para, the shoes were inspected by the Surveyor of Stores of the Navy before acceptance and the supply

against all the orders was completed by January 1971. To a question whether control samples were sent to the Chief Inspector, Textiles and Clothing, Kanpur, the Ministry, in a note, have stated:—

“No. In the cases of local purchases, the supplies are finally inspected and accepted by the Surveyor of Stores, Naval Dockyard, Bombay and no control samples are required to be sent to the Chief Inspector Textiles and Clothing Kanpur.”

1.82. Asked whether any ‘Warranty’ clause was provided in the local purchase order, the Ministry have stated: “No”.

1.83. The Ministry stated (December 1973) that visual inspection of the shoes before acceptance did not disclose any defects. Asked whether any test was prescribed for the shoes before acceptance, the Ministry have informed:

“No laboratory tests are prescribed in respect of locally purchased stores nor are any test facilities available with the local authorities. Supplies are accepted by the Surveyor of Stores on the basis of stock sample approved trade sample.”

1.84 The Audit Para stated that out of 80 pairs of shoes received by INS... 50 pairs were issued to the sailors but all were reported to be defective. Asked about the utilisation of the remaining 30 pairs out of this lot the Ministry in a note have stated:

“They were issued to Ships/Establishments against their demands and the Ships Establishments in their turn issued them out to entitled personnel.”

1.85 On the basis of the findings of a Board of Officers set up by the Naval Command in January 1971 the samples of these shoes were got tested by the Chief Inspector of Textiles and Clothing, Kanpur, who *inter alia*, had observed that “the shoes were substandard and far inferior to prescribed specification.” Asked whether responsibility was fixed for acceptance of the substandard shoes, the Ministry have stated: No, responsibility has been fixed, as there is no case for any *malafides* against any individual”.

1.86. The Audit Para further states that although the findings of the Board of Officers were intimated Naval Stores Officer... in February 1971, two more orders for shoes of the same type were placed by him on the same firm (M/s. Pioneer Leather Works, Bombay) during March and September 1971. The supplies were accepted after inspection by the Surveyor of Stores of the Navy.

Justifying the action of the Naval Stores Officer in placing further orders on the same firm, the Ministry, in a note, have stated:

“Orders for Local Purchase of another 2418 pairs costing Rs. 0.79 lakhs were placed by the Controller of Procurement Bombay on the same firm namely Messrs Pioneer Leather Works, Bombay having regard to the following:—

- (a) Though the shoes had been issued to a number of ships, only one complaint had been received on a limited number.
- (b) Technical report from CIT&C on the shoes complained against was received only in October 1971, whereas the second series of LPOs was placed commencing March 1971. Pending receipt of report from CIT&C, it was not considered necessary to suspend the purchase of shoes from an established source of supply just because there had been one adverse report.
- (c) The item was not readily available as there is no demand for the same in the outside market. Except for M/s. Pioneer Leather Works, Bombay, no other firm was willing to undertake manufacture. The Controller of Procurement Bombay, therefore, had no choice but to place the LPOs on the same firm as otherwise urgent requirements of ships could not have been met.

It may be emphasized here that local purchase is normally resorted to when supplies through Central Procurement Agencies fail to materialise and urgent operational requirements exist for the store. Between March/September 1971 when subsequent local purchase orders were placed, tensions were building up in the country which culminated in a short war in December 1971. The Naval Store Department in Bombay at that time had two options, namely, either to inform the ships that shoes non-slip were not available or to make further local purchases, under the prevailing circumstances. In this perspective there was no choice with the local authorities but to obtain the best possible supplies as was done from the only source available.”

1.87. It stated that INS..... which had received 100 pairs of shoes in March 1972 out of the subsequent supplies, had reported defects of the kind noticed by INS..... in November 1970 viz. 'the shoes were not non-slip and resistant, were heavy and inconvenient to wear, the leather was stiff and rough and rubber sole opened out at joints after sometime.' Asked to state whether any enquiry was made about these and other defects pointed out earlier by the Commanding Officer of a..... base....., from other units to which the remaining pairs were issued, the Ministry have stated:

"No. After inspection and acceptance of locally purchased stores by the Surveyor of Stores, the stores were absorbed in stock and were issued to ships/Establishments against demands. The user units themselves come up with complaints if they observe any shortcomings in supplies."

1.88. An enquiry into the matter was stated to have been ordered by the Naval Headquarters in September 1972. The Committee desired to know why the Naval Headquarters took six months to order the investigation and what action was taken on the basis of those findings. The Ministry of Defence, in a note, have stated:

"Naval Headquarters had initiated an investigation soon after the receipt of the complaint from the Flag Officer Commanding-in-Chief..... in March 1971. The first step in this direction was to send samples to the Chief Inspector, Chief Inspectorate of Textiles and Clothing, Kanpur and obtain a technical report. The report of the Chief Inspector was received in October 1971. Subsequently the local authorities were requested to investigate in the matter. The conclusions of the local authorities may be summed up as follows:—

- (a) The normal procedure, which is to be followed in making local purchases was followed in respect of the local purchase orders in question.
- (b) There was only one source of supply and as stated in reply to question 18, there was no option but to obtain these supplies from the source available.
- (c) There were no *mala fides* on the part of any individual connected with the placement of the local purchase orders or the inspection of the shoes.

It may be added here that even today the country does not have a satisfactory process for manufacture of non-slip soles and heels with indigenous material and what was obtained during the vital period (March 1971 onwards) was the best available."

1.89. The Committee have been informed that the annual requirement of the navy for 'non-slip, oil resistant' is of the order of 2500 pairs and the source of supply of this item till 1967-68 was M/s. Bata India Ltd., Calcutta. The Committee have also been informed that the Batas were not interested in manufacturing this item owing to the smallness of the orders and owing to the difficulties in obtaining certain components of non-slip sole and heel, the same being an imported material from the U.S.A. The Navy had, therefore, no alternative but to go in for local purchase.

1.90. The Committee are surprised that, although the requirement of Navy was known, no firm arrangement had been made either by the Defence Department or the DGS&D for locating indigenous sources of supply of this item strictly according to laid down standards.

1.91. The Committee are unable to understand why no specifications for the shoes ment for the Navy were laid down till August 1971. Orders placed on M/s. Pioneer Leather Works, Bombay, during January 1970 to October 1970 were according to stock sample selected by the stock holders from the earlier supply received from the BATAS. It was surprising that the Surveyor of Stores, Naval Dockyard, Bombay accepted the shoes supplied by Ms. Pioneer Leather Works, Bombay, on visual inspection only and no samples were sent to the Chief Inspector, Textiles and Clothing, Kanpur, because "no control samples are required to be sent to the Chief Inspector, Textiles and Clothing, Kanpur" in the case of local purchases.

1.92. Keeping in view the special nature of the shoes which were intended for use of Naval crews working in the engine rooms and also on board the ships, the Navy should have taken precautions to see that the shoes locally purchased conformed in all respects to the approved sample. Control samples should have been sent to the Chief Inspector of Textiles and Clothing, Kanpur to obviate rejections. The Committee are unable to accept the views expressed by the Ministry that no responsibility has been fixed, as there is no case for any malafides against any individual although the Chief Inspector of Textiles and Clothing, Kanpur, had observed that "the shoes were substandard and far inferior to prescribed specification." The Committee stress that responsibility for accept-

ing sub-standard shoes should be fixed for taking appropriate action.

1.93. The Committee are surprised to note that two more orders for shoes of the same type were placed on the same firm, namely, M/s. Pioneer Leather Works, Bombay during March and September, 1971 and the supplies were accepted after inspection by the Surveyor of Stores of the Navy. When a ship which had received 100 pairs of shoes in March 1972 reported that "the shoes were not non-slip and oil resistant, were heavy and inconvenient to wear, the leather was stiff and rough and the rubber sole opened out at joints after some use," the Naval Headquarters asked the local authorities to investigate in the matter and the conclusions of the local authorities were the same as before, viz., "there were no malafides on the part of any individual connected with the placement of the local purchase orders or the inspection of the shoes." This is a matter which should be further probed.

1.94. The Committee are not convinced with the argument advanced that there was only one source of supply and hence there was no option but to obtain the supplies from the source available.

1.95. The Committee would like the Ministry of Defence to thoroughly examine the existing procedures for local purchases and also lay down a definite procedure for the inspection of items to be purchased locally. Every care should be taken to see that the items purchased locally conform as closely as possible to the commodities which are included in the Schedule of items.

Running of a Cinema at an Air Force Station

Audit Paragraph

1.96. Prior to 1956, the cinema buildings belonging to the Defence Department at various stations in the country used to be let out by auction or by invitation of tenders. With a view to arranging adequate means of relaxation to the Defence personnel, Government decided in 1956 that Defence cinema buildings were to be taken over by the Canteen Stores Department (India) whose profits are used to a large extent for welfare and amenities of the troops. In June 1966, Air Headquarters issued a circular letter conveying the following policy decisions about running of Air Force cinemas:—

- (a) no cinema was to be given to a private contractor under any circumstances;
- (b) on completion/vacation of any Air Force cinema building, it was to be offered to the Canteen Stores Department (India) for running the same; and

(c) in case, for some reasons, that department was unable to take over the cinema, it was to be run by the unit only after Government sanction for the same had been obtained.

The units were also informed by Air Headquarters that they should not grant any licence to or execute any contract with a private party in respect of any Regimental/Service Institute property constructed on Government land.

An Air Force unit at a station informed its Command Headquarters in July 1966 that there was no cinema building at that station and enquired whether a private contractor could be permitted to run a cinema at the station on a purely temporary basis. While declining to agree to this proposal the Command authorities drew the attention of the Unit (August 1966) to the letter issued by Air Headquarters in June 1966 conveying Government's decision not to give cinemas to private contractors under any circumstances. The Air Headquarters considered the question of providing a cinema-cum-lecture hall at the station but decided in February 1968 not to provide it for reasons of economy.

The Air Force Commander at the station, however, entered into an agreement on 3rd October 1968 with a private contractor to run a cinema at the station for a period of three years from 15th October, 1968 on payment of Rs. 800 per month. The contract provided *inter alia* that the contractor was to indicate after six months from the commencement of the contract as to when and on what terms he would take up construction of pucca cinema hall. This contract was subsequently cancelled and a revised contract for a period of five years from 1st April, 1969 was concluded on 15th March, 1969 permitting the contractor to construct a semi-permanent cinema building on Defence land at his cost and reducing the amount payable by him to Rs. 500 per month. Both the contracts of October, 1968 and March 1969 stipulated that, if required, the contractor would pay rent for the land provided to him for running the cinema. Later, a fresh agreement was executed on 16th July, 1969 for 10 years by the President of the Service Institute of the Air Force station allowing the contractor to convert the semi-permanent cinema building into a permanent one. The contractor was also authorised to run a cycle stand, a restaurant and a refreshment centre in the premises of the cinema building. The contract also provided that in the event of termination of the agreement at any time before the expiry of 10 years for any reason, the contractor was to be compensated to the extent of the market value of the cinema building, machinery, furniture and all other fittings as pre-

vailing at that time and also for other losses. The rate of monthly payment by the contractor, however, remained Rs. 500. The contract did not, however, provide for recovery of any rent for land on which the cinema building was constructed. The entire amount recovered from the contractor since 15th October, 1968 was credited to the Institute's fund (non-Government).

In June 1970, it was pointed out by audit that contract with a private party was contrary to Government's decision conveyed by Air Headquarters in June 1966 and crediting of the amount realised from the contractor to Institute's fund instead of to Government was irregular. Thereafter, in December 1971, the Command Headquarters directed the unit to keep apart the amount collected from the contractor from the date of commencement of the current contract (Rs. 14,258 for the period from 16th July, 1969 to 30th November, 1971) and also the amounts that would be recovered from him subsequently till a final decision was taken in the matter. In March 1973 the Command Headquarters asked the unit to examine the question of terminating the contract. In May 1973, the contractor demanded Rs. 3.75 lakhs in the event of termination of the contract. Final decision has not been taken in the matter (December 1973).

In June 1970, it was pointed out in audit that rent for Government land and other allied charges were not being recovered from the contractor. A sum of Rs. 5,290 was then credited to Government in April 1972 and November 1972 as rent of land, and water and conservancy charges for the period from 15th October, 1968 to 30th November, 1972 out of the amount collected by the Institute from the contractor at the rate of Rs. 500 per month. The contractor himself did not pay any rent for the land.

The Ministry stated as follows (October 1973):—

- (i) There was no cinema house in the vicinity except at a distance of five miles from the Air Force Camp. There was thus a persistent demand from all personnel for a cinema within the camp. The Station authorities, therefore, entered into a contract with a private party to run an open-air cinema.
- (ii) The Station authorities, being oblivious of the rules in force, went further and authorised construction of a semi-permanent building and ancillaries on Government land at contractor's cost; this action was unintentional and was prompted by their zeal to provide the minimum welfare amenity.

- (iii) The provision permitting the contractor to run the cinema for ten years was included in the agreement so as to allow him reasonable time to recover the anticipated heavy investment for providing the building, projection machinery, furniture, etc.
- (iv) Action was being taken to regularise construction of the cinema building on Government land and running of the cinema by a private contractor.

[Paragraph 19 of the Report of the Comptroller and Auditor General of India for the year 1972-73, Union Government (Defence Services)]-

1.97. The Committee learnt from Audit that in July 1956 it was decided by the Government that cinema buildings belonging to the Defence Department at various stations in the country which hitherto used to be let out by auction or by invitation of tenders, would be taken over by the Canteen Stores Department (India) whose profits were used to a large extent for welfare and amenities of the troops on payment of full assessed rent. It was also decided that cinema buildings including electrical and machinical services taken over by the CSD(I) would be brought to the standard required under the appropriate Cinematograph Act by executing works subject to certain financial limits.

1.98. According to Audit para the Air Headquarters issued a circular letter in June 1960 conveying the policy decision about running of Air Force cinemas. The letter *inter alia* stipulated that 'no cinema was to be given to a private contractor under any circumstances'. The Committee were given to understand that the Air Headquarters also indicated in its letter of June 1966 that units might run their own open-air cinema provided it did not involve construction on Government land and that prior permission sanction of Government would have to be obtained in any case if construction was required on Government land.

1.99. The Audit para further states that in July 1966 an Air Force Unit... sought permission of the Headquarters... Air Command for running a cinema by a private contractor on purely temporary basis. The Headquarters... Air Command declined to agree to this proposal on the plea that Government had decided (June 1966) not to give cinemas to private contractors under any circumstances. However, the Air Headquarters considered the question of providing a cinema-cum-lecture hall at the station but decided in February 1968 not to provide it for reasons of economy. Asked what would have been the estimated cost of

construction of a cinema-cum-lecture hall at the Air Force Station in February 1968, the Ministry of Defence, in a written note, have stated: "As per the MES rates for 1968 the construction of a permanent cinema with seating capacity of 500 would have cost approximately Rs. 4.5 lakhs. The basis of cost assessment is enclosed as annexure (Appendix II)."

1.100. The Air Force Commander entered into an agreement on 3rd October, 1968 with a private contractor to run a cinema for a period of three years from 15th October, 1968 on payment of Rs. 800 per month. In this regard the Ministry of Defence intimated Audit (March 1974) that there was no cinema building at the Air Force Station. Since station authorities were keen to provide this much needed welfare facility, it was decided to run an open air cinema. Shri, a cinema contractor, was prepared to run an open air cinema on suitable terms. Tenders were not invited.

1.101. In a written note furnished to the Committee, the Ministry of Defence have given the following reasons why tenders were not called for and how this particular contractor (Shri) was selected. To begin with, there was no cinema on the station to be run. However, when efforts were made to find out parties to arrange a cinema at the station, Shri was the only person who was prepared to construct and run the cinema for the Station. Shri P. P. was also known to be running a cinema for the Defence units at. Therefore, he was considered to be reliable and experienced for the purpose."

1.102. Asked how the quantum of rebate to be paid by the contractor was fixed, the Ministry of Defence have stated:

"The rates quantum of rebate were mutually agreed upon the basis of the estimated profits. However, the overriding consideration was the overall investments of the contractor and welfare of the service personnel. The rebate given by the contractor is credited to the non-public fund. Ultimately the non-public fund money is used for the welfare of Service Personnel."

1.103. According to Audit para the first contract (of October 1968) was subsequently cancelled and a revised contract for a period of five years from 1st April, 1969 was concluded on 15th March, 1969 with the same contractor permitting him to construct a semi-permanent cinema building on Defence land at his own cost and reduced the amount of rebate payable by him to Rs. 500 per month. The Ministry of Defence informed Audit in March 1974 that the cinema

was run as an open air cinema w.e.f. 1-11-1968 (contract signed on 15-10-1968), with projection equipment and seating provided by the contractor. No tentage was provided by the contractor. The contractor agreed to put up a temporary structure w.e.f. 1-4-1968. Construction work commenced and continued for converting it into a pucca hall. Certificate to the effect that the hall was safe for use was rendered in May 1970. Meanwhile the third contract was executed on 16-7-1969.

1.104. The Committee enquired why the new contract (of April 1969) was executed permitting the contractor to put up semi-permanent structure without obtaining prior approval of the Government as required under the Air Headquarters instructions issued in June 1966. The Ministry of Defence, in a note, furnished to the Committee, have stated:

“In the larger interests of welfare of Service Personnel of the Air Force Station and ban on the construction of amenity-building from Govt. funds due to financial stringency, the unit allowed the contractor to construct the cinema. Action taken by the unit was irregular. The disciplinary aspect of the case is being looked into.”

1.105. The Audit para further states that on 16th July, 1939 the President of the Service Institute of the Air Force Station executed yet another agreement for ten years allowing the contractor to convert the semi-permanent cinema building into a permanent one. In this regard the Ministry of Defence clarified the position to Audit in March 1974 as under:

“The second contract, which was for a period of 5 years, stipulated the construction of a temporary structure by the contractor. Subsequently, when it was decided to have a pucca hall, the second contract was replaced by a new one valid for ten years so as to allow sufficiently reasonable period to the contractor to cover the heavy investment made by him.....” The contract was executed by the Station Commander on his own. It has been intimated (January 1974) by the Headquarters..... Air Command that the seating capacity of the cinema hall (class wise) and rates charged for each class is as follows:—

Class	Rate charged	Seating capacity
1st	Rs. 1.50	200
2nd	Rs. 1.00	250

1.106. The Committee desired to know why the fresh agreement (of July 1969) was allowed to be signed by the President of the Service Institute of the Air Force Station and whether he was competent to sign an agreement permitting a pucca structure to be constructed on Government land, the Ministry, in note, have stated:

“Under Rule 52 of the Regulations for the Air Force (1964 Edition) the Commanding Officer may delegate his responsibilities to a suitable officer according to discretion. We feel that the President of the Service Institute can sign the agreement in his delegated capacity. PSI is responsible for management of Station Institutes as per rule 1586 of the Regulations for the Air Force quoted above. He is also responsible for organising entertainment and amusements under Rule 1592. Management would include signing of agreements in performance of his duties regarding Service Institutes among other acts on his part.”

1.107. To a question whether advice of financial legal authorities was obtained before finalising the terms and conditions of the agreement with the contractor, the Ministry in a note furnished to the Committee have admitted that ‘no financial legal advice was taken’.

1.106. It is stated in the Audit para that both the contracts of October 1968 and March 1969 stipulated that, if required, the contractor would pay rent for the land provided to him for running the cinema. However, the third contract of July 1969 did not provide for recovery of any rent for land on which the cinema building was constructed. Giving reasons for not making such provision in the latest contract, the Ministry of Defence have stated: “The Station PSI was under the impression that being an amenity and a non-public fund venture no charges would be payable to the Government.” According to Audit para on being pointed out in audit in June 1970 that rent for Government land and other allied charges were not being recovered from the contractor, a sum of Rs. 5290.- was credited to Government as rent of land and water and conservancy charges for the period 15th October, 1968 to 30th November, 1972 out of the amount collected by the Institute from the contractor. The contractor himself did not pay any rent for the land. In a written note furnished to Audit in March 1974, the Ministry of Defence have explained the position in this regard as under:

“The contract does not stipulate the payment of land rent, water and conservancy charges by the contractor, hence the payments in this regard have been made by the Insti-

tute from the rebate realised from the contractor. The amount involved upto 30-11-1972 is Rs. 5,290.56 and has already been credited to Government. Subsequently further payments of Rs. 427.52 and Rs. 641.28 have been made upto the period August 1973. (Last payment vide M.R.O. No. C 194777 dated 13th August, 1973). The contract stipulates payment of electricity charges by the contractor. Electricity charges for the period 15-10-1968 to 31-1-1972 amount to Rs. 2626.75 and part payment for the period upto July 1972 amounts to Rs. 399.00 (Total Rs. 3025.75) have been paid by the contractor. There is a dispute in respect of bills for the period beyond 1-8-1972. Efforts are under way to settle the disputes and realise the amount on account of electricity charges for the period beyond 1-8-1972."

1.109. Asked why provision was not made in the contract for payment of charges for water and conservancy and what was the point at dispute in regard to payment of charges for electricity, the Ministry have stated:

"No provision was made in the contract agreement for payment of water and conservancy charges because when PSI runs such amenity, no such charges are levied. Para 19 of Quarters & Rent also does not stipulate such charges. However, provision for recovery of charges for water and conservancy could have been made in the contract as the cinema in this case run not entirely by the PSI, but by a private contractor in a structure built by him.

The dispute is in relation to the rates of electricity, power and lighting. The question is whether the payment is to be effected as per rates prevalent currently. The matter is under negotiation between the Station authorities and the contractor. The amount pending recovery from the contractor in respect of electricity bill is Rs. 3116.63."

1.110. The Audit para states that the entire amount recovered from the contractor since 15th October, 1968 was credited to the Institute's fund (Non-Government). But on being pointed out in audit in June 1970 that contract with a private party was contrary to Government's decision conveyed by Air Headquarters in June 1966 and crediting of the amount realised from the contractor to Institute's fund instead of to Government was irregular, the amounts recovered from the contractor from 16th July, 1969 (the date of commencement of the current contract) onwards were kept apart.

The Ministry of Defence intimated Audit (March 1974) that the rebates due from the contractor had been and were being realised and deposited in a frozen account of PSI (President, Service Institute). The details are as follows:—

	Rs.
1-11-1968 to 31-3-1969 (5 months @ revised rates of Rs. 400/- per month on appeal by the contractor in view of low rate money)	2,000.00
1-4-69 to 31-10-73 (55 months @ Rs. 500/- per month excepting 5 months at 1/2 rate)	26,250.00
TOTAL	<u>28,250.00*</u>

* Out of this amount Rs. 6359.36 had been credited to Government on account of ground rent, water and conservancy.

1.111. The Committee enquired why the contractor was given further concessions in the form of reduction in the amount of rebate to be paid by him during some months. The Committee also desired to know whether the accounts of the contractor were verified to see whether he actually realised low gate money in those months and whether the reasons therefor were looked into. The Ministry, in a note, have stated: "On representation from the contractor the unit administration decided to reduce the rebate. As regards verification of the contractor's accounts, no records are available."

1.112. When asked how much did the contractor earn from cinema, cycle stand, sales in restaurant, refreshment centres etc. each year from 1969-70 onwards, the Ministry have stated that "The contractor has declined to disclose the actual earnings from the various items. However, it is informally learnt that his current profits are Rs. 3000/- approximately per month."

1.113. With regard to the question of termination of the contract, the Headquarters Air Command intimated Audit in November 1973 that "The proposal to terminate the contract agreement is un-economical and financially unsound as the contractor has asked for compensation amounting to Rs. 3,75,000/-". Subsequently, the Ministry of Defence intimated Audit in March 1974 as under:

"The question of terminating the contract has been considered. It has been found that under Clause 12 of the present agreement, termination of the contract before 1979 would involve a payment of compensation amounting to Rs. 3,75,000 (valid upto 31-7-1973) as demanded by the contractor. The amount of compensation demanded is

considered to be excessive and forbiddings. The break down of the amount is as under:—

	Rs.
Compensation against cinema building	4,00,000·00
" " " machinery	60,000·00
" " " furniture, Fans Electrical and other fittings	25,000·00
Compensation for losses	90,000·00
TOTAL	<u>3,75,000·00</u>

1.114. Asked whether any decision had since been taken regarding termination of the contract, the Ministry in a written note furnished to the Committee, have stated: "Necessary action to take over the cinema building is under consideration of the Government, the Government having agreed to the take over of the cinema by Air Force."

1.115. Regarding regularisation of construction of the cinema building on Government land it was further stated by the Ministry that "the case is under consideration of the Government."

1.116. The Committee enquired (i) whether there were still any Defence cinema buildings which were yet to be taken over by the Canteen Stores Department (India), (ii) by whom cinemas were being run in those buildings and (iii) why they had not been handed over to the CSD(I). The Ministry, in a note, have stated: "The current policy is to hand over the CSD(I) run cinemas to units. In case units are not willing to take over, then these would be handed over to the Directorate General of Resettlement. Army Headquarters letter No. B 33040 II Q Can dated 21st February, 1974 refers (Appendix. III)."

1.117. The Committee consider that the agreements concluded on 3rd October, 1968 and 15th March, 1969 by the Station Commander of the concerned wing of I.A.F., with a private contractor for setting up a cinema in the Air Force premises, despite the unambiguous instructions of the Government that 'no cinema was to be given to a private contractor under any circumstances,' were wholly irregular. It is surprising that the Air Force Commander should have ignored the clear instructions issued by the Air Headquarters in June 1966 that "units might run their own open-air cinema provided it did not involve construction on Government land and that prior permission/sanction of Government would have to be obtained in any case if construction was required on Government land."

1.118. On the 3rd October, 1968 the Station Commander entered into an agreement with a private contractor, who was "known to be running a cinema for the Defence units at" for running a cinema at the Air Force Station on payment of Rs. 800 per month. Strangely enough tenders were not invited as the Air Force Commander could find that "Shri . . . was the only person who was prepared to construct and run the cinema for the station."

1.119. Another disquieting feature of the contract was that the rebate given by the contractor was to be credited not to the Government but to the non-public fund which was operated for the welfare of services personnel by the President of the Service Institute. Before the first contract could run for the full period of three years, the Station Commander cancelled the same and concluded a revised contract on 15th March, 1969, with the same contractor for a period of five years from 1st April, 1969, permitting him to construct a semi-permanent cinema building on Defence land at his own cost. The amount of rebate payable by the contractor was reduced by a sum as large as Rs. 300 - per month.

1.120. Within a period of three months a third contract for a period of 10 years was concluded in July 1969 with the same contractor by the President of the Service Institute of the Air Force Station permitting him to construct a pucca cinema-hall on Government land. The Ministry of Defence have admitted that the action of the Unit to permit construction of semi-permanent structure on Government land without obtaining prior approval of the Government as required under the Air Headquarters instructions issued in June 1966 was irregular and that "the disciplinary aspect of the case is being looked into." It has been stated that in all the cases the Station Commander acted on his own, without obtaining any financial or legal advice.

1.121. To make matters worse, the third contract of July 1969 did not provide for recovery of any rent for land, water and conservancy etc. It is only after Audit had pointed out the lapse that the Unit (and not the contractor) started crediting the amounts to Government from the rebates collected from the contractor. The Ministry of Defence are of the view that "provision for recovery of charges for water and conservancy could have been made in the contract as the cinema in this case was run not entirely by the President, Service Institute but by a private contractor in a structure built by him."

1.122. From the facts disclosed, the Committee are of the firm view that the Air Force Commander and the President of the Service Institute of the Air Force Station in total disregard of the Government orders extended pecuniary benefits to a private contractor and failed in their duty to safeguard Government's interest. The Committee are unable to accept the plea advanced by the Ministry that the action of the Station authority to authorise construction of a semi-permanent building and ancillaries on Government land was "unilateral and was prompted by their zeal to provide the minimum welfare amenity."

1.123. The Committee desire that the Ministry should investigate this case in detail with a view to ensuring that no malafides are involved. The Government should also examine whether any action can be taken against the contractor for non-payment of electricity dues beyond 1-8-1972.

1.124. The Committee have noted that under Clause 12 of the present agreement, termination of the contract before 1979 would involve a payment of compensation amounting to Rs. 3,75,000 (valid upto 31-7-1973) as demanded by the contractor and that the question of take-over of the cinema building is under consideration of the Government. The Committee would like that a decision in this regard should be taken at an early date.

JYOTIRMOY BOSU,

Chairman,

Public Accounts Committee.

NEW DELHI:

April 7, 1975

Chaitra 17, 1897 (S).

APPENDIX I

(Vide Paragraph 1.58 of the Report)

Copy of *M/s. Kohli Industrial Corporation (Pvt.) Ltd., Kanpur Letter*
No. 260/KIC, dated 29th August, 1967, addressed to CIGS Kanpur.

Ref.—A/T No. TWL-5/RGC-Stud/Protector/133/PAOD dated 24-2-1967
for Stud Protector.

We are in receipt of the Rejection Note No. GS XXX/3/1 dated
23-8-67 for 2800 kg. studs.

Our submission is that without challenging your rejection re-
marks, we request you to please remove the rust preventive oil by
any solvent and you would find that the studs are not rusty prior
to phosphatising. We hope you would get this verified from the lab
or even in your inspectorate.

It is possible that even after phosphatising the studs are not stand-
ing the salt spray test which is a very rigorous test. If the rust for-
mation is very nominal after salt spray test then the same may be
accepted with or without price reduction as some rust formation is
permitted in the specification itself.

As regards dimensional defects pointed out, we submit that these
are imported studs and have always higher to been accepted.

Under these circumstances kindly consider this lot—for acceptance
without price reduction or nominal price reduction.

Yours faithfully,

Sd/-

Managing Director.

Copy to:—

The Inspectorate of General Stores
Kanpur for information.

APPENDIX II

(Vide Paragraph 1.99 of the Report)

Statement showing Approximate Estimate—Part I and II on the project Cinema-Cum-Lecture Hall

Approximate Estimate Part —I

Name of Project —Cinema Cum Lecture Hall

Sl. No.	Item of work	Cost
		Rs.
1.	Site Clearance & Cost of land	1,000.00
2.	Building (including water supply)	3,32,640.00
3.	Furniture	16,680.00
4.	External Services—	
	(a) Roads	
	(b) Water	
	(c) Electric supply	73,400.00
	(d) Area drainage	
		3,23,720.00
5.	Contingencies & Establishment charges	21,190.00
		4,44,910.00

Say Rs. 4 5 Lakhs

Approximate Estimate Part II

Name of Project:—Cinema Cum lecture hall I

Sl. No.	Description of work	Authority	Brief Specification	Qty	Unit	Rate	Amount
1	Site clearance	Post war scales	Foundations:—PCC Plinth:—BB in CM				1,0000·00
2	Cinema cum lecture hall for 500 seats	DI letters No. 0220/58/Q3/WIII dt. 7-3-1947.	DPC :—PCM with water proofing compound Joinary-First class II wood with security bass on external windows Roof :—RCC Finishing . Plastering on walls internally & pointing externally	15,120	FS	22,00	3,32,640·00
							3,33,640·00
3	Furniture		Add : 5%				16,680·00
4	External Services— Water & Supply Electric Supply		Add : 25%				73,400·00
							4,23,720·00

APPENDIX III

(Vide Paragraph 1.116 of the Report)

Copy of Letter dated 21st February, 1974 from Army Headquarters,
Q.M.G.'s Branch, New Delhi.

TELE. 376208

ARMY HEADQUARTERS
Quartermaster General's Br.
DHQ PO NEW DELHI—II

21 Feb. 1974.

No. B/33040 II/Q/CAN

To

Headquarters
Southern Command
Eastern Command
Western Command
Central Command
Northern Command

Taking over of CSD(I) run Cinemas by Units Formations

It has been decided by the Board of Control, Canteen Services that CSD(I) run cinemas that are not taken over by the units will be handed over to the Dte. General of Resettlement.

2. The Commands and Services who had shown interest in taking over a few cinemas have already been requested to nominate the units and detail the Boards for taking over such cinemas. It however, appears that it is taking rather a long time to detail boards to assess the value and take these cinemas over.

3. As the Cinema Organisation of the CSD(I) has to be wound up, you are requested to confirm by 10th March, 1974 that the Boards for taking over the cinemas which you desire to take over, have been detailed. The Boards must complete the taking over by 15th April, 1974.

4. After the replies are received regarding detailing of Boards by 10th March, 1974, the cinemas which the units are not prepared to take over will be offered to DGR. Any cinemas not taken over by 15th April, 1974 will also be offered to DGR.

5. Raksha Mantri has directed that Units or the DGR will not operate any cinema through an agent or a private contractor.

Sd/- (Ram Chandra),

Lt. Col.

GCO

QUARTERMASTER GENERAL

Naval Headquarters

PS Dte (Services Condition)

Canteen Stores Deptt. (India)

Bombay—20 BR.

Copy to: *Air Headquarters*

Dte of Qr.

APPENDIX IV

Summary of main Conclusions/Recommendations

S. No.	Para No.	Ministry/Deptt. concerned	Conclusion/Recommendation
1	2	3	4
1	I. 15	Ministry of Defence/Department of Defence Production.	It has been stated by the Department of Defence Production that there was adequate workload for the press for sizes relating to 190 mm container against Defence orders and the requirements for other sizes were small. Despite this fact, strangely enough a Factory 'A' had placed three orders on two different factories at three different points of time (1953, 1959 and 1963) for supply of various types of forgings based on annual anticipated load of the extrusion press by using the containers of all the three sizes of 130 mm, 190 mm and 230 mm. The Committee are surprised that the working papers relating to the placement of inter-factory demands on other factories for the forgings were not traceable. The Committee are also surprised that no record is available about the results of the survey said to have been made of the overall requirements of the extruded non-ferrous sections to meet the requirements of ordnance factories, Railways and Hindustan Aircraft Ltd. before ordering a 3500 ton press.
2	I. 16	Do.	As most of the orders were suitable for 190 mm container, the press was confronted—as pointed out by Audit—with a large accumulation of forgings of the value of Rs. 5.13 lakhs which could not

be utilised. The Committee cannot but deplore the haphazard planning by the Department of Defence Production before the extrusion press was ordered and installed.

3 1-17 Ministry of Defence/ Department of Defence Production.

The Committee desire that responsibility for this lapse should be fixed and the action taken intimated to them. The statement given by the Department to the audit that "the factory did not have any previous experience of extrusion of aluminium alloy and the assessment of requirements of forgings could not, therefore, be made on the basis of any actual experience" is not at all acceptable. Government should have conducted a survey of the anticipated load of the extrusion press by using the containers of all the three sizes before placing orders for the forgings on two different factories. And in any case Government should not have any difficulty in procuring competent technical and expert advice before committing themselves to the large monetary expenditure.

4 1-18 Do.

The Committee note that a Technical Team was appointed by the General Manager of the Factory 'A' in 1972 which recommended that forgings worth Rs. 2,71,800.78 could be utilised in the ordnance factory itself within next 4 to 5 years and that out of the forgings so recommended, those worth Rs. 42,865.23 have already been utilised. Forgings worth Rs. 0.87 lakh have been sent to other factories. The Committee would urge that expeditious action be taken to utilise the balance forgings worth Rs. 1.54 lakhs which are now available with the ordnance factory.

5 1-19 Do.

The Committee have been informed that the press was capable of producing 40 tons per month of assorted sizes of rods/sections

working two 10 hours' shift and this is likely to improve after the commissioning of the two homogenising furnaces. The Committee regret to observe that the two homogenising furnaces which were sanctioned in August 1970 are still under trial run and that the capacity of the plant was not being fully utilised due to lack of balancing facilities. In fact, out of 10 balancing equipments sanctioned in March, 1967, one was commissioned in 1968, one in 1969, one in 1970, 4 in 1972 and one in 1973. The Committee would urge that the Ministry should investigate the delays in the provisioning of the balancing facilities and also in the commissioning of the homogenising furnaces.

6 1-133 Ministry of Defence/Department of Defence Production

The Ministry of Defence had with them four sand blasting machines, two of which were purchased in 1921 and two in 1942. These were conventional types of sand blasting machines. It has been admitted by the Ministry of Defence that Factory 'A' did not have any experience of using fully automatic type, with electronic control like the shot blasting plants which were procured against indent placed on the DGS&D in January, 1964. The Committee have noted that against the indent for four sand blasting machines placed by Factory 'A' in January, 1964, the DGS&D, on the recommendation of the indenter, had placed an order on a firm in April 1965 for supply of two shot blasting plants. It was stated by the indenter that they preferred shot blasting machines to sand blasting ones as the latter involved health hazard to the men working on the machine. The Committee note with some surprise that

although they had no experience of using fully automatic type shot blasting machines, Factory 'A' approved the procurement of two such plants against their original indent of four sand blasting machines. Some parts were missing from the plants which were received in the factory during July-August 1966 and it took another two years to provide the missing parts. The reasons for this particular delay have not been explained. The Committee desire that responsibility for all these lapses should be fixed. The quantity and value of the missing parts should be intimated to the Committee.

7

1-34

Do.

Another unsatisfactory feature is that, on account of the variation in the air pressure, the plants became inoperative and also the workload in the meantime had registered a fall. When the difficulty about the fluctuating air pressure arose, Factory 'A' after some make shift arrangements took action in 1969, i.e., after about a year of its commissioning to connect the machine directly with one of the compressors. The second machine for which there was no adequate workload was transferred to another factory in May 1970 and there also it could be installed only in September 1972, i.e. after a lapse of two years. The explanation of the Ministry that the installation of the plant could not be completed due to other priority works is unconvincing. The Committee note that out of 9 compressors procured for this factory, only two compressors could be installed for supply of compressed air to the second shot blasting plant. They deplore the lack of advance planning in the matter of procurement of machines and their utilisation by providing air compressors. They would like that the reasons for the delay in provid-

59

ing compressed air supply to the shot blasting plants should be fully probed and responsibility fixed.

8 1-48 Ministry of Defence Department of Defence Production.

From the material made available before them, the Committee think that the concerned officers in the Directorate-General of Ordnance Factories are answerable for the purchase of two machines (single spindle circular groove and slot milling) costing Rs. 2.62 lakhs for Factory 'B' when the latter had demanded two HMT M3V Vertical Milling Machines. Not only was the purchase effected in haste for which no satisfactory explanation has been advanced but it was thrust upon Factory 'B' who could not put it to any effective use. The result has been that there was a frantic search for a possible user of an unwanted machine among the various Ordnance Factories until it found a berth in Factory 'F' in 1973, i.e., about six years after its purchase. The Committee recommend that responsibility for various acts of omission and commission should be fixed and a report of the action taken intimated to them.

9

1-49

Do.

The Committee are not at all convinced by the argument advanced by the Ministry that single spindle circular groove and slot milling machines "were modern and capable of executing the type of intricate jobs encountered by Factory 'B'". . . . The scrutiny and comments on the machines offered against the tender opened in April 1964 could be finalised by Factory 'A' only by 21st December, 1964. As the DGS&D was expediting for comments, the DGOF sent

the comments on the tenders to DGS&D on 6-1-65 without referenc to Factory 'B'. There should have been proper assessment of the requirements followed by consultations with the user as to the possible utilisation of the machines indented for. This was not done. There was no justification whatsoever for not consulting Factory 'B' about the suitability or otherwise by DGOF, when the comments of Factory 'A', one of the indentors had specifically been sought. This gives rise to serious suspicion of corruption. The explanation of the Ministry thrat the fact that Factory 'B' "sent several reminders for the procurement of single spindle circular groove machine indented apparently confirmed that the factory was not averse to the procurement of these machines" is plausible but not convincing. The Ministry themselves have confirmed that Factory 'B' wanted general purpose machine and not special purpose one. The Committee would like to express their displeasure at the manner in which the deal was rushed through and desire that responsibility for the lapses should be fixed.

61

10

1:50

Do.

The Committee fail to understand why the concerned officials of the DGOF took no action to reduce the number of machines on order when they became aware in February 1965 that Factory 'B' required a general type machine. They also fail to understand why no action was taken to reduce the number of machines when the delivery date was extended. The assertion of the Ministry that the machines were required have not been proved by the total evidence produced. One machine worked in one shift only since installation and the other machine worked sporadically in one or two shifts

from December 1966 to December 1967 and thereafter was declared surplus on account of lack of load. It was transferred to another ordnance factory in February 1973 and put to use there. The other machine was in use till April 1972. Thereafter it was offered to Factory 'E' who had earlier declined to accept the machine on the ground that it would not meet their requirements. After the General Manager of the Ordnance Factory had confirmed that the machine could not be used by Factory 'E' it was again circulated to all the Ordnance Factories in September 1973. Finally in November 1973, the machine was ordered to be transferred to Factory 'E' for use by them against the requirement of one Kopp Rotary Milling Machine. 3

11 1.51 Ministry of Defence/Department of Defence Production.

The Committee consider that the DGOF had failed to ensure the full utilisation of the two machines which had been purchased at considerable cost. Apart from this, the DGOF was totally ignorant of the actual requirements of the various Ordnance Factories and this is evident from the fact that circular letters had been issued to various Ordnance Factories enquiring whether they would accept one of the machines declared surplus by Factory 'B'. The Committee desire that individual responsibility for indenting the unwanted machines should be fixed and the action taken in this regard intimated to them. A report about the utilisation of the machines by Factory 'C' and Factory 'F' should also be furnished to the Committee for their information.

12 1-68 Do. The average annual requirement of studs for the Defence Department is of the order of 50,000 kgs. Till May 1963, stud protectors were imported from U.K. and thereafter the DGS&D obtained supplies from indigenous stockists of imported studs. The traders imported the stud protectors against their commercial quota in ungalvanised condition and then supplied after galvanising against DGS&D contracts. According to the information furnished to the Committee, none of the suppliers can yet be called an established source, as the supplies so far have mostly been made from imported stocks only giving rust preventive treatment in the country. The supplies made by a firm in Rajkot did not strictly conform to Defence specifications and the studs supplied by them had to be accepted under deviation with price reduction.

13 1-69 Do. The Committee are surprised that although the requirement of Defence Department was known, the DGS&D has not been able to locate any dependable indigenous supplier nor any positive steps have been taken by the Government for the setting up of suitable units for the production of studs indigenously. All that the Ministry could say is that "efforts to establish the indigenous manufacture of the store continue to be made." The Committee desire that the Government should intensify their efforts to locate one or more dependable manufacturers of this item so that the Defence Supplies may not be hampered. 63

14 1-70 Do. The Committee have noted with great concern that M/s. Kohli Industrial Corporation (Pvt.) Ltd., Kanpur were required to supply 84,510 kgs. of rustless stud protectors after inspection by the Defence

Inspectorate but only 65,561 kgs. could be offered for inspection and out of this quantity only 14,461 kgs. could be accepted by the Defence Inspectorate. The time taken for the inspection of studs varied from 19 days for one lot, 25 to 27 days for 13 lots, 113 days for one lot and 278-283 days for two lots, although the normal inspection time for such stores is stated to be 4 to 6 weeks for a lot. The Committee are surprised to be told that "when the delivery was about to be cleared, the inspector learnt that the consignee, had rejected the entire acceptances against all the previous deliveries en block and only a quantity of some 13,000 kgs. had been accepted out of some 45,000 kgs. offered. With this development an impasse had been created in the face of which the inspection could not proceed further." The Committee would like the Defence Ministry to investigate and ascertain how the Defence Inspectors had, in the first instance, cleared the consignments which were, at a later stage, rejected by the consignee. The Committee apprehend that there may well have been collusion between the supplier and the Defence inspectors, as otherwise large quantities of doubtful quality could not have been accepted in the first instance. It is regrettable that it took 20 weeks in resolving this issue, leading ultimately to re-inspection of the goods which also took another 12 weeks. The Defence Inspectorate is answerable not only for the acceptance of goods of doubtful quality in the first instance but also for the delays at all stages in accepting the consignments offered by the firm, thereby putting the indenter to considerable disadvantage.

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1-71 Ministry of Defence Department of Defence Production.

The Committee have been informed that the question of representation of the firm against large rejection of stores, on account of following a different mode of testing than the specified in the acceptance tender, was taken up with the Ministry of Law, who had suggested that a meeting should be convened with the firm to sort out the differences. At the meeting held on the 28th May, 1970, the firm's representative did not agree to supply the balance quantity of stores against the running contract due to the alleged inordinate delay in inspection and the increase in the raw material prices. The Committee have also noted in this connection that the Ministry of Law to whom the matter was referred had observed that "there had been inordinate delay in testing. Consequently, straightaway cancellation of the outstanding quantities would not be advisable. . . . Government case did not appear to be on sound footing and the cancellation of the contract at the risk and expenses of the firm, therefore, would not appear to be legally tenable." As stated in the Audit para the DGS&D had to cancel the balance 70,049 kgs. outstanding against the contract with the concurrence of the firm without financial repercussion on either side.

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1-72

Do.

It is all the more surprising that, when the firm had defaulted in the matter of supplies against the first contract, it was offered a new contract on the same terms of inspection as laid down in the first contract. The firm did not come out any better in the matter of supplies against second new contract. 2,752 kgs. had to be accepted with 3 per cent price reduction and 15,835 kgs. were accepted with 5 per cent price reduction. Apart from compromising the quality

of the studs required by the Defence Department, the DGS&D had **shown** undue leniency to the firm who did not tender supplies strictly according to specifications laid down, and the studs had been accepted because "the MGC had expressed urgency for the supply of this store in November 1972 and had himself suggested acceptance of even slightly below specification stores under price reduction." The Committee are surprised that no action has so far been taken against the supplier or the officials for these lapses.

- 17 1-73 Ministry of Defence/Department of Defence Production The Committee desire that the OGS&D before placing a contract should ensure that the terms and conditions are not so framed as to suit the supplier and that the firm on which the A/T is going to be placed has got the necessary expertise and capability for the production of the item in question. The Defence Inspectorate should issue instructions to the field staff in the matter of inspection of stores strictly according to specifications laid down and within the time-schedules fixed for the purpose.
- 18 1-89 Ministry of Defence - The Committee have been informed that the annual requirement of the navy for 'non-slip, oil resistant' is of the order of 2500 pairs and the source of supply of this item till 1967-68 was M/s. Bata India Ltd., Calcutta. The Committee have also been informed that the Batas were not interested in manufacturing this item owing to the smallness of the orders and owing to the difficulties in obtaining certain components of non-slip sole and heel, the same being an

imported material from the U.S.A. The Navy had, therefore, no alternative but to go in for local purchase.

19 1-90 Do.

The Committee are surprised that, although the requirement of Navy was known, no firm arrangement had been made either by the Defence Department or the DCS&D for locating indigenous sources of supply of this item strictly according to laid-down standards.

20 1-91 Do.

The Committee are unable to understand why no specifications for the shoes meant for the Navy were laid down till August 1971. Orders placed on M. s. Pioneer Leather Works, Bombay, during January 1970 to October 1970 were according to stock sample selected by the stock holders from the earlier supply received from the BATAS. It was surprising that the Surveyor of Stores, Naval Dockyard, Bombay accepted the shoes supplied by M/s. Pioneer Leather Works, Bombay, on visual inspection only and no samples were sent to the Chief Inspector, Textiles and Clothing, Kanpur, because "no control samples are required to be sent to the Chief Inspector, Textiles and Clothing, Kanpur" in the case of local purchases.

21 1-92 Do.

Keeping in view the special nature of the shoes which were intended for use of Naval crews working in the engine rooms and also on board the ships, the Navy should have taken precautions to see that the shoes locally purchased conformed in all respects to the approved sample. Control samples should have been sent to the Chief Inspector of Textiles and Clothing, Kanpur to obviate rejections. The Committee are unable to accept the views expressed by the Ministry that "no responsibility has been fixed, as there is no

case for any *malafides* against any individual although the Chief Inspector of Textiles and Clothing, Kanpur, had observed that "the shoes were substandard and far inferior to prescribed specification." The Committee stress that responsibility for accepting sub-standard shoes should be fixed for taking appropriate action.

22 1-93 Ministry of Defence

The Committee are surprised to note that two more orders for shoes of the same type were placed on the same firm, namely, M/s. Pioneer Leather Works, Bombay during March and September, 1971 and the supplies were accepted after inspection by the Surveyor of Stores of the Navy. When a ship which had received 100 pairs of shoes in March 1972 reported that "the shoes were not non-slip and oil resistant, were heavy and inconvenient to wear, the leather was stiff and rough and the rubber sole opened out at joints after some use," the Naval Headquarters asked the local authorities to investigate in the matter and the conclusions of the local authorities were the same as before, viz., "there were no *malafides* on the part of any individual connected with the placement of the local purchase orders or the inspection of the shoes." This is a matter which should be further probed.

23 1-94 Do.

The Committee are not convinced with the argument advanced that there was only one source of supply and hence there was no option but to obtain the supplies from the source available.

24 1-95 Do.

The Committee would like the Ministry of Defence to thoroughly examine the existing procedures for local purchases and also lay down

a definite procedure for the inspection of items to be purchased locally. Every care should be taken to see that the items purchased locally conform as closely as possible to the commodities which are included in the Schedule of items.

25 I-117 Do. The Committee consider that the agreements concluded on 3rd October, 1968 and 15th March, 1969 by the Station Commander of the concerned wing of I.A.F. with a private contractor for setting up a cinema in the Air Force premises, despite the unambiguous instructions of the Government that 'no cinema was to be given to a private contractor under any circumstances' were wholly irregular. It is surprising that the Air Force Commander should have ignored the clear instructions issued by the Air Headquarters in June 1966 that "units might run their own open-air cinema provided it did not involve construction on Government land and that prior permission/sanction of Government would have to be obtained in any case if construction was required on Government land."

26 I-118 Do. On the 3rd October, 1968 the Station Commander entered into an agreement with a private contractor, who was "known to be running cinema for the Defence units at" for running a cinema at the Air Force Station on payment of Rs. 800 per month. Strangely enough tenders were not invited as the Air Force Commander could find that "Shri. was the only person who was prepared to construct and run the cinema for the Station."

27 I-119 D. Another disquieting feature of the contract was that the rebate given by the contractor was to be credited not to the Government

but to the non-public fund which was operated for the welfare of services personnel by the President of the Service Institute. Before the first contract could run for the full period of three years, the Station Commander cancelled the same and concluded a revised contract on 15th March, 1969, with the same contractor for a period of five years from 1st April, 1969, permitting him to construct a semi-permanent cinema building on Defence land at his own cost. The amount of rebate payable by the contractor was reduced by a sum as large as Rs. 300 per month.

28 1 120 Ministry of Defence

Within a period of three months a third contract for a period of 10 years was concluded in July 1969 with the same contractor by the President of the Service Institute of the Air Force Station, permitting him to construct a pucca cinema-hall on Government land. The Ministry of Defence have admitted that the action of the unit to permit construction of semi-permanent structure on Government land without obtaining prior approval of the Government as required under the Air Headquarters instructions issued in June 1966 was irregular and that "the disciplinary aspect of the case is being looked into." It has been stated, that in all the cases the Station Commander acted on his own, without obtaining any financial or legal advice.

29 1 121

Do.

To make matters worse, the third contract of July 1969 did not provide for recovery of any rent for land, water and conservancy etc. It is only after Audit had pointed out the lapse that the Unit (and

not the contractor) started crediting the amounts to Government from the rebates collected from the contractor. The Ministry of Defence are of the view that "provision for recovery of charges for water and conservancy could have been made in the contract as the cinema in this case was run not entirely by the President' Service Institute but by a private contractor in a structure built by him."

30 1·122

Do.

From the facts disclosed, the Committee are of the firm view that the Air Force Commander and the President of the Service Institute of the Air Force Station in total disregard of the Government orders extended pecuniary benefits to a private contractor and failed in their duty to safeguard Government's interest. The Committee are unable to accept the plea advanced by the Ministry that the action of the Station authority to authorise construction of a semi-permanent building and ancillaries on Government land was "unilateral and was prompted by their zeal to provide the minimum welfare amenity."

31 1·123

Do.

The Committee desire that the Ministry should investigate this case in detail with a view to ensuring that no malafides are involved. The Government should also examine whether any action can be taken against the contractor for non-payment of electricity dues beyond 1-8-1972.

32 1·124

Do.

The Committee have noted that under Clause 12 of the present agreement, termination of the contract before 1979 would involve a payment of compensation amounting to Rs. 3,75,000 (valid upto

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31-7-1973) as demanded by the contractor and that the question of take-over of the cinema building is under consideration of the Government. The Committee would like that a decision in this regard should be taken at an early date.
