

FORTY-FOURTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

**REVIEW ON THE WORKING OF THE
DEPARTMENT OF DEFENCE SUPPLIES**

**MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION
AND SUPPLIES)**

Presented in Lok Sabha on 29-4-1986

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**LOK SABHA SECRETARIAT
NEW DELHI**

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CORRIGENDA AND FOOTNOTES - FOURTH REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (8TH LOK SABHA)

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9	1.22	2	enquired	enquired whether
21	1.64	3	Production Supplies	Production and Supplies
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52	1.172	4	indentory	indentors
54	1.174	2	items only	items
54	1.174	last line	indent	indents
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59	1.191	11	vie	view
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59	1.193	10	on attempt	no attempt
60	1.197	3-4	Delete "...firm 'AD' submitted the samples in time"	
60	1.198	2	1.34	134
61	1.200	6	Rs.12.15 lakhs	12.15 lakhs
62	1.200	8-9	source supply	source of supply
62	1.201	8-9	purchasing	phasing
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91		7	strech	stretch
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91		27	revise	revised
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PART II*

Minutes of the sittings of the Committee held on—

27-6-1985

16-9-1985

13-4-1986

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

PUBLIC ACCOUNTS COMMITTEE

(1985-86)

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1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri O. P. Bahal—*Senior Financial Committee Officer*

INTRODUCTION

1. I, the Chairman of the Public Accounts Committee, do present on their behalf this Forty-Fourth Report on Paragraph 5 of the Report of the Comptroller & Auditor General of India for the year 1982-83, Union Government (Defence Services) relating to Review on the working of the Department of Defence Supplies.

2. The Report of the Comptroller and Auditor General of India for the year 1982-83, Union Government (Defence Services) was laid on the Table of the House on 23 March, 1984.

3. The Committee's examination has revealed that out of items numbering 88,984 projected for development and procurement through indigenous sources, upto 31 March 1981 supply orders for 47,363 items only were placed by the Department on indigenous suppliers. The Committee have expressed their unhappiness over the fact that the percentage of the number of items remaining uncovered for want of proper particulars or samples in respect of three Technical Committees, viz., TC (Aeronautics), TC (Vehicles) and TC (Engineering Stores) was as high as 53.4 per cent, 39 per cent and 18.1 per cent respectively. The Committee have recommended that the Government should identify the bottlenecks responsible for such a high shortfall in the placement of supply orders, particularly in respect of the items pertaining to the aforesaid three Technical Committees.

4. The Committee have expressed their deep concern over the fact that in as many as 193 out of 467 supply orders, the delay in finalisation of the supply orders ranged from over 12 months to over 36 months. In spite of the fact that the Department of Defence Supplies has now been in existence for more than 20 years, no worthwhile steps appear to have been taken to shorten the time taken in finalisation of indents. The Committee have recommended that procedures should be evolved in consultation with all concerned to finalise indents within the shortest possible time.

5. Lack of effective monitoring of supply orders was another disquieting feature of the working of the Department of Defence Supplies noticed by the Committee. In as many as 36 supply orders of the value of Rs. 8.97 crores placed upto June 1979, the suppliers failed to submit samples or commence supplies for over 3 years. In some cases, where samples were received within three years, trials and approval had taken quite a long time. The Committee have recommended that the existing monitoring procedure should be adequately streamlined so as to make it more effective. Planning of requirements particularly in respect of hard core items should be done sufficiently in advance. Steps should also be taken to reduce the time taken for users' inspection test to the minimum extent possible.

(vi)

6. In a case of indigenous development of high pressure air compressors, the Committee have observed that the inspection staff had no excuse for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. In the opinion of the Committee this is a serious failure and the Ministry should take appropriate disciplinary action against those responsible.

7. The Committee have found that failure on the part of the Department to place a substantially large supply order on firm 'T' before the expiry of the validity period resulted in considerable additional expenditure in procuring supplies 9 months later. The Committee are of the view that if the order for additional 75,000 shells was also placed on firm 'T' alongwith the order for 25,000 shells placed on 10 December, 1979 at the rate of Rs. 540 per shell, quite a lot of infructuous expenditure would have been saved.

Similarly in another case, delay in placing order for the procurement of 46,370 tail units required to put a large amount of ammunition 'ZB' from repairable to serviceable condition, on the established supplier firm 'Z' resulted in an avoidable additional expenditure of Rs. 4.25 lakhs.

The Committee have found that in yet another case, for the procurement of plant dry air charging sets, the non-acceptance of firm "AC's" offer of Rs. 1.39 lakhs per set within the validity period resulted in an extra expenditure of Rs. 1.68 lakhs on procurement of 13 sets out of 31.

8. In a case of procurement of paint, the Committee have found that if 4,06,000 litres of paint indented in February 1978 had been procured through the established source of supply, it would have cost Rs. 40.84 lakhs, as against the cost of Rs. 59.17 lakhs, under the supply orders placed in January-February 1980. The Committee have desired that the responsibility for the lapses be fixed and action taken against the defaulters. The Committee have also recommended that procurement action in respect of common utility items should in future as far as possible, be taken in consultation and coordination with the DGS&D and other concerned agencies.

9. The Committee have observed that the Department of Supplies, which was created in 1965 for the purpose of indigenisation, development and production of imported defence items and to achieve self-reliance in the procurement of defence equipment and stores required by the Armed Forces has not been able to achieve what was expected of them. Despite the fact that the Department has been functioning for the past twenty years, it does not appear yet to have succeeded in establishing many reliable sources for supply of defence stores and equipments *pari-passu* with industrial development of the country. In the opinion of the Committee the failure is the more disappointing in as much as Government appears to have followed a liberal policy with regard to development expenses. The Committee have recommended that Government should appoint a High Level Committee to go into the entire question of indigenisation and production of defence stores in the country.

10. The Committee (1985-86) examined Paragraph 5 at their sittings held on 27 June and 16 September, 1985. The Committee considered and finalised the Report at their sitting held on 24 April, 1986. Minutes of the sitting form *Part II of the Report.

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

12. The Committee would like to express their thanks to the Officers of the Ministry of Defence (Department of Defence Production and Supplies) for the cooperation extended and giving information to the Committee.

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

NEW DELHI

E. AYYAPU REDDY,

April 25, 1986

Chairman.

Vaisakha 5, 1908 (Saka)

Public Accounts Committee.

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

REPORT

1.1 The Report is based on Para 5 of the Report of Comptroller and Auditor General of India for the year 1982-83, Union Government (Defence Services) relating to Review on the Working of the Department of Defence Supplies. The Audit Paragraph is at Appendix I.

INTRODUCTORY

1.2 The Department of Defence Supplies (DDS) was set up under the Ministry of Defence in November, 1965 to achieve self-reliance in the procurement of Defence equipment and stores required by the Armed Forces. The DDS deals with indigenisation, development and production of imported items, new items developed by Defence Research and Development Organisation and components, sub-assemblies and assemblies required to supplement the production in the Defence Production Units. Ten Technical Committees for various disciplines of stores consisting of representatives of users, inspectors, Authorities Holding Sealed Particulars (AHSP) and Finance identify development of sources for the items for indigenisation. A Central Technical Committee headed by the Additional Secretary (Defence Supplies) reviews and oversees the work of various Technical Committees.

Functions of the Department of Defence Supplies

1.3 During evidence, the Secretary, Department of Defence Production and Supplies, explaining the main functions of the Department, inter alia stated that this Department has got two Wings, one is the Production side and the other is the Supply side. On the Production side, there are 25 ordnance factories and 9 public sector undertakings. On the Supply side, the basic function of the Department is threefold. Firstly whatever defence stores are imported an effort is made to indigenise production and thereby save foreign exchange and also to ensure sustained availability. Secondly, whatever things are developed indigenously by their Research and Development, to productionise them in the civil sector Industry, whether it is public or the private sector. Thirdly, whatever stores are intended exclusively for defence use, they have got to be procured through this Department except where the power of direct purchase has been delegated at various levels. To the extent the store is not exclusively for defence use, the users in the Army, Navy and Air Force have to go to the Director General of Supplies and Disposals if the items are established, as no indigenisation at that stage is required.

Self-reliance in procurement of Defence equipment and stores

1.4 The Committee desired to know to what extent self-reliance in the procurement of defence equipment and stores required by the Defence Forces had been achieved. The Department of Defence Production and Supplies stated in a note as under :—

"An indication of self-reliance in the procurement of defence equipment and stores can be had from the value of such stores inspected by the DGC. The DGC inspected stores worth Rs. 2220.36 crores in 1984-85. Out of these, the value of imported stores inspected and accepted, amounted to Rs. 370.44 crores. The total value of the stores procured from Trade and Ordnance Factories would, therefore, be Rs. 1849.91 crores. These are exclusive of capital equipment procured by the Defence Services such as ships, aircraft, tanks and other Armoured Fighting Vehicles built indigenously."

1.5 Enquired as to by what time cent-per cent indigenisation in meeting the requirements of defence, was likely to be achieved, the Secretary, Department of Defence Production and Supplies stated during evidence :—

"Right now, if I am correct, we do not have the capability to indigenise all the one hundred per cent requirements for Defence. Either the know-how technology is not available, or the countries which have it do not pass it on to us, or their conditions are not acceptable to us. Or even the infrastructure or Laboratories for productionising some items is not developed. However, this is a clear cut policy of the Government that whatever is produced by the private industry and trade, we are determined to see that it is utilised by the Government or the Ordnance Factories or other Defence Public Sector Undertakings. Government is very keen that the multiplier effect of expenditure on Defence purchases should lead to development of the local industry. That is why we have been helping, to the extent we can, the local industry, so that it creates skills, quality consciousness, in them and the Government is very clear about it. And, we will increase this as expeditiously and as largely as is possible commensurate to the time."

1.6 Asked if the pace of indigenisation had not been much less than what it should have been, the Secretary Department of Defence Production and Supplies stated :

"I do not say that. But somewhat differently I can say that it has been satisfactory within the civil sector where import substitution started in late fifties and early 'sixties'. In the sphere of Defence, things really started towards the late 'sixties'. The Defence Production Department was set up in 1965 and only four items were included for production. So concrete efforts for indigenisation in the Defence side started only during the end of 'sixties' while in the civil sector and other sectors it started much earlier. Therefore, the pace is slow."

1.7 The Committee desired to know the loopholes and snags which stood in the way of achieving cent percent indigenisation. The Secretary, Department of Defence Production and Supplies stated in reply as follows :—

"We have a trained technical manpower in the country. Our industrial base is also strengthened since 1960. The efforts

towards indigenisation have also succeeded to a significant extent in some areas. For example, in space, we have gone far ahead. In this background, I have to make only a few submissions. When we wish to indigenise, that is when we pick up an item saying let us start, that is not after an analysis of our total competence to indigenise 100 per cent. When we say, let us start, it may succeed or it may not succeed. when the items projected are taken into account, that is more a wish than an effort, a concrete feasibility of converting this into supply order for indigenisation.

Secondly, the manpower in the development laboratories and the manpower required for productionising in the factory, the skills required in the factory are not exactly the same. It is our experience not only in this field but in other defence armaments and stores and aviation industry that development of an item itself takes unduly long time, after the prototype in the lab has been prepared. When we convert it into production prototype, many modifications and changes have to be carried out.

Thirdly, there is bound to be a time gap between the date from which we initiate action for indigenisation and the date on which it really materialises. You say that I am importing. This is my urgent requirement. Then, I have to prepare designs and drawings. Suppose the design is a Soviet model, the drawing, design may not be available. It has to be translated from Russian language. The system or measurement has to be changed from English system to metric system. If no design is available, then we have to secure a sample. If a sample is not available, then we take out the equipment in use and dismantle it and analyse it for indigenisation. I would most humbly submit that there are lot of reasons for the slow pace in the field of indigenisation. Our Defence stores have to meet the test of different regional requirements-desert, hills and plain. They have to meet the different temperature requirements-plus 55C or minus 25C. These things take significant time for the user to test the model. First you develop in the lab and then you go to the factory and produce a prototype. That prototype is tested mechanically in the users' field for trial. Even if one component fails, you try to rectify and replace. Rectification is again tested.

This sort of process is not applicable in the civil sector. We cannot take any risk in the quality of the stores which are used by our Defence forces. Therefore, the requirements of inspection and testing are very rigid and very strict. This by its very nature takes a long time for development for testing and for production. Therefore, I would most humbly submit that 100 per cent indigenisation within the same financial year is impossible. If it is a small component worth Rs. 5 to 6, it may be possible. But if it is a gun or shell or a body, it will take a long time because they are more complicated

items. The private sector in this country, because of historical reasons, has not been able to contribute significantly in the Defence field. The short-fall has been worked out. Even ignoring the time-lag, if those four factors are taken into account, the shortfall is much less.

Secondly, there is a time-lag and we should take into account the performance of the last four years if a worthwhile study has to be carried out. In order to claim that we have succeeded, we have to see whether we have succeeded during the last four years in our performance."

1.8 Asked whether it might not be possible to find out some kind of mechanism to ensure that this pace of development was so much increased as to keep pace with the requirements, the witness stated as follows:—

"This is a very good suggestion and we will do every thing possible within the powers of the Government to increase the pace as well as the scope."

1.9 The witness added:—

"There is an organisation in the DGD. They are responsible for import substitution and indigenisation. They know our capacity and requirements. Within the Defence Ministry we have a Research and Development organisation which develops items and farms out jobs to the industry and other institutions. Thirdly, when we purchase equipment from abroad we enter into licence production agreements or transfer of know-how, and technology. That also enables us to indigenise. In licence production agreements simultaneously we identify what are the components which need to be indigenised even before the production starts. We have done that and we are exploring all the avenues."

Placement of Supply Orders

1.10 According to the Audit Paragraph, upto 31st March, 1981, 88,984 items had been projected for development and procurement through indigenous sources and supply orders for 47,363 items only could be placed by the DDS. Thus, there was an overall shortfall of about 46 per cent in the placement of supply orders. According to the DDS, a large number of items remained outstanding for want of proper particulars or samples. As against supply orders for total value of Rs. 241.54 crores during 1977-78 to 1980-81, the actual supplies received were for Rs. 190.60 crores as follows:—

	Total Amount of Supply orders placed	Total value of supplies received
	(Rs. in crores)	
1977-78	62.00	49.93
1978-79	61.09	47.16
1979-80	44.56	44.95
1980-81	73.89	48.56
Total:	241.54	190.60

1.11 The Department of Defence Production and Supplies have furnished the information regarding the total number of items projected for indigenisation number of items for which indents were placed after identification and number of items covered by supply orders upto 31st March, 1981 as follows :—

"Technical Committee	No. of items projected for indigenisation	No. of items for which indents were placed	No. of items for which supply orders placed	Shortfall
Aeronautical Stores	2778	2778	1295	1483
Armament Stores	6297	5695	3815	2482
Electronics Stores	10414	7983	3483	6931
Engineering Stores	6670	6670	2417	4253
General Stores	331	312	282	49
Marine Stores	19192	19192	17927	1265
Medical Stores	1033	1033	743	290
Vehicles	41396	41396	17104	24292
VFJ	695	695	694	01
VP	810	810	732	78
	89616		48492	41124

Insofar as the Ordnance Depots are concerned, Depot list prepared every year by each Depot, after identification of the items by the Project Managers Authority holding sealed particulars (AHSP) Users, constitute indents for the purpose of placement of supply orders."

1.12 The Committee enquired about the percentage of the number of items remaining uncovered for want of proper particulars or samples. In reply, the Department of Defence Production and Supply furnished the information as follows :—

"Technical Committee	Shortfall
Aeronautics	53.4%
Armament	2%
Electronics	7.5%
Engineering Stores	18%
General Stores	NIL
Marine Stores	6.6%
Medical	1.4%
Vehicles	30%
VFJ	NIL
VP	NIL

The above figures are approximate."

1.13 Enquired about the reasons for an overall shortfall of about 46% in the placement of supply orders as pointed out by the Audit, the Secretary, Department of Defence Production and Supplies stated as follows :—

“This is very correct that there is a gap in our goal for indigenisation and what we have been able to achieve. With this preliminary observation I would like to submit a few points for the consideration of the hon. Members. These two figures had been taken at a particular point of time, that is, 31st March 1981. So if the item was projected for indigenisation even in January 1981, this has been taken as a failure for indigenisation even though only two months have passed. So, my first submission is that since there is a minimum time lag between identification for indigenisation and its development, any analysis should not be on a fixed point of time. It has to be organised in a different manner.

My second submission in this regard is that if this is the total projection and to the extent we have resorted to import or offloaded the items to *EME, or direct local purchase has been allowed or the indent for that item ceased to exist, the figures on these four counts should be adjusted before working out the shortfall. We have done this exercise as on that date of 31st March 1981 in regard to the four main Committees where the shortfall is the highest and we find that it is only 23 per cent of the shortfall indicated in the Report.”

1.14 The Committee desired to know the net shortfall in the case of 88,984 items projected for development and procurement through indigenous sources, with the base period of 31 March, 1981 in respect of the various Technical Committees separately with respective details for the exclusions made in respect of aforesaid 4 items for working out the net shortfall. The Department of Defence Production and Supplies stated as follows :—

“The Committee-wise information regarding shortfall after adjustment for items cleared for import etc. is as under :

Name of the Committee	No. of items projected upto 31-3-81 as per the Audit Report	Net Shortfall
1. TC (Aeronautical Stores)	2,778	551(19.83%)
2. TC (General Stores)	231	23(10%)
3. TC (VFJ)	973**	1 —
4. TC (Medical Stores)	1,033	157 (15.2%)
5. TC (Electrical & Electronics Stores)	10,414	2,544(25%)
6. TC (Vehicles Stores)	41,396	2,824(12%)
7. TC (Armament Stores)	6,297	171(2.7%)
8. TC (Engineering Stores)	6,670	1,190(17.8%)
9. TC (Marine Stores)	19,192	1,265(6.5%)
	88,984	10,726(12.05%)

*Electrical and Mechanical Engineering.

**Against Sl. No. 3, the correct figure shall be 695 instead of 973 as already clarified.

It will be seen that the percentage of shortfall of items in relation to 88,984 items projected upto 31-3-81 was only 12.05%. Some of these would have been received in the last quarter of the year 1980-81 and under process. In some cases, drawings would not have been available. Considering all these, the shortfall of 12.05 per cent is not unreasonable."

Placement of Indents

1.15 A test check of supply orders (467 members) placed during 1977-78 to 1980-81 revealed the following :

Indents

1.16 Indents from users for procurement of stores are received by the Technical Committees of the respective disciplines, who float the tenders and process them up to finality. Each Technical Committee maintains a Register of Indents to indicate the date on which each indent was received, but it did not indicate in all cases whether supply orders were placed against all such indents. It is seen from the Audit Para that delay ranging from over 12 months to over 36 months in placing supply orders against indents received from the users was noticed as shown below :—

	Number of cases of delay of			Total
	Over 12 months	Over 24 months	Over 36 months	
TC (Armament Stores)	10	8	5	23
TC (Electronics Stores)	29	42	22	93
TC (General Stores)	2	1	..	3
TC (Vehicles)	1	..	..	1
TC (Engineering Stores)	52	8	13	73
	94	59	40	193

1.17 The Committee wanted to know about the extent of delay in placing supply orders against indents received from the users in the case of supply orders placed over a certain period (say October-December, 1982). The Department of Defence Production and Supplies furnished the following information :

Technical Committee	Total No. of 3 months	Upto 3 months	Upto 6 months	upto 6—12 months	Above 12 months
Aeronautics	17	..	..	17	..
Armament	23	1	10	8	4
Electronics	36	4	8	1	23
Engineering	18	..	3	2	13
General	12	..	4	8	..
Marine	304	44	91	135	34
Medical	2	..	..	1	1
Vehicle	296	..	1	230	65
VFJ	37	36	1	..	..
V.P.	19	1	8	9	..
	764	86	126	411	140

1.18 The Committee further desired to know whether any study of these delays had been made and if so, results thereof. The Department of Defence Production and Supplies stated as follows :—

"In July/August, 1983, a sample study was taken up for 95 cases and the following results were revealed :

Name of the Committee	No. of items taken up	Avg. time taken between receipt of indents and placement of S.O.
Engineering	8	7 months
Vehicles	56	5 months
Armament	8	8 months
Aeronautics	13	7 months
Electronics	10	13.2 months"

1.19 According to Department of Defence Supplies it normally takes 5 to 8 months to process an indent for placement of a supply order. The break up of various activities and the probable period involved for each activities are stated as under :—

Activity	Period
1. Study of indent on its receipt and asking for manufacturing particulars (Drgs specification)	2 weeks
2. Receipt of drgs specification from AHSP	4 to 8 weeks
3. Study of drgs specification and selection of firms	1 week
4. Approval of names of firms for floating T E	1-3 weeks
5. Preparation and issue of T E	1-2 weeks
6. Quotation period	5-8 weeks
7. Waiting period for discussions	1-5 weeks
8. Preparation approval of minutes of (TCAS) meeting.	2-3 weeks
9. Preparation of supply orders and its despatch.	2-3 weeks Minimum 19 weeks Maximum 35 weeks

1.20 According to the case studies of 6 supply orders placed during October-December 1982 pertaining to delay over 8 months, causes of delay are one or more of the following :—

1. Delay in receipt of manufacturing particulars from AHSP due to—
 - (a) The drgs'specn. are voluminous
 - (b) The drgs'specn. have to be prepared by the AHSP from samples by reverse engineering process.

- (c) The drgs|specn. are under metrication.
- (d) More than one AHSP is involved in the supply of particulars
In such cases, the end store AHS^P writes to the other involved
AHSP to supply particulars (mostly specification)
2. Tender enquiries have to be floated more than once due to poor response. This is mainly because the items are of a critical nature and very meagre in quantity at times.
 3. In case the quoted prices are considered high, counter offers are made or negotiation meetings held. Both these take a lot of time.
 4. Fresh verification of firms capacity for a particular item in case required.
 5. Additional projections of the same item received before opening of quotation involving clubbing of requirements and extension of opening dates of T|Es.
 6. Calculation of existing supply orders and re-tendering the quantity against the same indent.

1.21 Asked about the reasons for long time taken after receipt of an indent in floating of inquiry, the Secretary, Department of Defence Production and Supplies stated during evidence as follows :—

"If there are no drawings and designs then all this reverse engineering take a long time. But the concrete action would be taken after an indent is received. When an indent is received, examination of drawings and designs specification finalisation of the list of parties will be done. After that we will be in a position to take a decision with regard to manufacturers. And then.... having identified all these, an inquiry is floated. The sample and the specifications have to be given in the tender. Otherwise, we cannot quote. This itself takes time from the time of the receipt of an indent to the time of floating of inquiry."

1.22 According to the Department, 4 to 8 weeks time is taken in getting the specifications. The Committee enquired it would be possible for the indenter to supply drawing and designs alongwith the indent. The Secretary, Deptt. of Defence Production and Supplies stated :

"Firstly the indenter is the user also. He is not in custody of the specifications and documentation. One of the things in our whole system is, when we get a store development equipment manufactured indigenously, a whole documentation is required to be given by the supplier in the prescribed format in which specifications, dimensions, properties are given. Before this documentation is available that is not issued to the user. Because the user will not be able to use or maintain it without these particulars. We supply the documentation along with a spare which we develop indigenously."

1.23 The witness further elucidated as follows :—

“He does not tell us any of these things. He floats indents with the Technical Committee and then it is for the Technical Committee to find out whether already drawings and designs exist, whether already specifications are available or he has to resort to reverse engineering.”

1.24 Asked whether there was any proposal for shortening the time gap between receipt of indent and placement of supply order, the Secretary, Department of Defence Production and Supplies stated as follows :—

“The minimum and the maximum time which we have laid down as guideline for us is maximum 35 weeks and minimum 19 weeks. Now your suggestion is : can we reduce it ? Our experience shows that across the board it would not be a feasible thing, though every one would like to reduce the time. We have carried out under the orders of PAC, a study of various orders from October to December 1982 and we found that in some cases the period is much less than what we have prescribed for ourselves. It varies from item to item. If the process, the drawing the design and the specifications are available and if the suppliers are fairly reliable you do not have to retender and negotiate, then it is very easy. From our experience, where we want to indigenise, bottlenecks come in those areas.”

1.25 Asked further about the percentage of the cases where the time taken for placement of supply order exceeded 35 weeks, the witness stated :—

“We carried out a study of the cases where the supply orders were placed during October-December 1982 and there we found that in 86 cases orders were placed within 3 months, i.e. 12 weeks; in 126 cases orders were placed between 3 to 6 months and in 411 cases orders were placed between 6 to 12 months. In 141 cases it took more than 12 months. We have to look at it from a different perspective. The objection of the audit that in 193 cases it took more than 35 weeks may not represent a representative sample of the efficiency or the time really taken. It shows that there are cases where it takes much less and there are cases where it takes more time.”

1.26. The Committee wanted to know whether the Department had proper classification of indents and also different methods for processing urgent and other indents. The Department of Defence Production and Supplies has stated that :—

“Normally indents are classified as routine, priority and Operational Immediate. These indents are processed by the Technical Committees or other procurement agencies on the basis of the priority indicated by the indenter.

The Operational Immediate indents are taken up immediately for consideration and drawings and specifications are obtained from

the AHSP on priority and at times even telegraphic tender enquiry is issued. The firms are given shorter time (about 3 weeks) to quote as against the normal 6 weeks. Efforts are made to place the supply orders in 2-3 months time in such cases. Monitoring of the progress is also done more frequently."

1.27 Asked as to what extent internal reasons were responsible for delay of more than 6 months in processing the indents, the Department of Defence Production and Supplies have stated as follows :—

"Internal reasons responsible for delay of more than 6 months in processing the indents till the stage of placement of supply orders can be either at the pre-tendering stage or at the post-tendering stage. In the pre-tender stage, delays are caused due to non-availability of manufacturing particulars especially in the case of imported equipment necessitating preparation of drawings from samples by reverse engineering process, repeated tender enquiries have to be floated due to poor or no response; mainly because the items though of a critical nature are very meagre in quantity at times.

After receipt of tender enquiries, technical matters have to be sorted out not only with the tenders but also with the AHSP. The drawings and specifications have to be scrutinised by AHSP and sometimes more than one AHSP is involved.

At the post-tender stage, after the technical aspect have been sorted out, where the quoted prices are considered high, counter offers are made or negotiation meetings are held. Both these take time.

At times additional projections of the same item are received before opening of quotations involving clubbing of requirements and extension of opening dates of tender enquiries."

A(i) *Monitoring of Supply orders*

1.28 The Committee desired to know as to what system was followed to monitor progress of development. The Department of Defence Production and Supplies stated as follows :—

"The Supply Order registers maintained by the Technical Committees enable the Technical Committees to periodically review the progress of supplies. Depending on the criticality and the value of the items, review meetings with the suppliers are held at the appropriate levels including the Joint Secretary and Additional Secretary."

1.29 According to the Audit Paragraph, in the case of 3 Supply Orders (total value : Rs. 8.97 crores) placed upto June 1979, the suppliers had failed to submit samples or commence supplies for over 3 years. The Committee desired to know the reasons due to which such a situation arose in these 36 cases. The Secretary, Department of Defence Production and Supplies stated during evidence as follows :—

"Broadly after having placed the supply orders first he will submit a prototype and after it is approved. Then he will go in for Commercial production. Then he submits the samples. Sometimes if there is a defect in the prototype another prototype will be submitted for approval. Sometimes it is accepted and sometimes it is still defective and again he will be asked to prepare a prototype and this process goes on and in this process the technical committee is in a position to analyse and find out whether there is any basic defect in the design, is it due to raw material or is it with the skills used, etc."

1.30 In a subsequent note furnished to the Committee, the Department of Defence Production and Supplies stated as follows :—

"An analysis of these cases shows that all the items were complex items which were being developed for the first time by the concerned suppliers. Against some of them, samples were received within three years, but trials and approval had taken time. Out of these 36 orders, 8 orders have since been cancelled being developmental failures. All these cases were monitored including review meetings held at appropriate levels

These are hard core items and are not representative of all the developmental orders dealt with by the Department."

1.31 Asked whether the Department had got any concrete suggestions for reducing the time taken for development of samples, the Secretary of the Department stated :

"There are certain things. Firstly, our planning has to be much in advance. I should project my requirements well in time. Secondly, if somehow we can reduce the time for users' inspection/test, this time will automatically get reduced. Sometimes, what has to be tried in October/November has to be tried in those months, it cannot be tried in May/June. One has to wait necessarily."

1.32 Asked as to how it applied to all, the witness stated as follows :—

"But certain equipment will be common, if it is not for maintenance workshops etc. If the equipment has to be used by the troops, troops may have to be deployed in any part of the country."

1.33 In reply to a question if the DGI could lay down certain conditions for achieving reduction in time, the Secretary Department of Defence Production and Supplies stated :

"But he is not the final authority. The user has to give his acceptance."

A (ii) *Periodic Reviews*

1.34 The Committee desired to know whether the Department of Defence Production and Supplies made any periodic reviews to streamline the purchase procedure so that delays at all stages could be reduced. The Secretary of the Department stated :

"I am told that no regular review as such has been carried out, but in regard to various supply orders, the case is reviewed with the suppliers concerned. It is a good suggestion."

1.35 The Committee desired to know as to what steps were proposed to be taken to improve the working of the DDS in regard to cutting short delays in placing orders, better coordination with other procurement agencies and better monitoring of supply orders, to avoid delays in risk purchase, etc. The Department of Defence Production and Supplies have informed as follows :

"Several measures for improvement in the working of the Supplies Division of Department of Defence Production & Supplies have been formulated after a detailed review of the working of Supplies Wing in a meeting held with all the Chairmen of Technical Committees on 31-3-1985. The salient features of which are listed below :

- (i) The Department shall not normally (except in special cases) deal with the placement of supply orders for small value items (of Rs. 50,000 - and below) for which Depots have powers for local purchase.
- (ii) The Department shall not ordinarily (except in exceptional cases) deal with repetitive purchases of developed items. Item for which two supply orders have been fully executed and atleast 2 sources have made supplies shall be treated as 'Developed' items. Such items would be transferred to Services Hqrs. to make purchases direct or through DCS&D.
- (iii) All the items projected for indigenisation covered with incidents final depot list for which drawings and specifications are available, pending as on 1-4-85, shall be covered with supply orders before 31-3-86.
- (iv) Returns of items cleared for import will be called for with a view to eliminate further import and to accelerate indigenisation.
- (v) Enhancement of powers of purchase delegated at various levels has been made to expedite placement of supply orders.
- (vi) Validity period of tenders of the value of less than Rs. 25 lakhs has been reduced from 90 days to 60 days.
- (vii) Chairmen Technical Committees have been given powers for consideration of price increase in respect of developmental orders limited to 10 per cent of the contracted price under the following conditions :

- (i) Change in specifications, drawings etc.
- (ii) Statutory increases affecting the cost of material inputs making the contractual price unworkable due to delays beyond the control of the firm.
- (viii) In order to streamline the working of the Supply Division instructions have been issued on level jumping as under :—
 - (a) All post contract work, submission of files for meetings approval of minutes of meetings etc. will be dealt with as per channel of submission indicated below :

SO/CPO

SO/CPO

Dy. Secretary

JS(C)

Addl. Secretary (DP&S)

Files at the stage of purchase decision may be routed through all levels upto the level of the competent authority.

- (ix) Guide-lines to ensure uniformity in finalisation of contract cases have also been issued.
- (x) A committee has been set up under the Chairmanship of legal Adviser (Defence Supplies) to review the rules procedure in regard to risk purchase from technical administrative point of view and stream-line the procedure thereby.

B(i) Outstanding Advances

1.36 Financial assistance by way of development advances, tooling advances and 'on account' payments for purchase of raw material is extended to indigenous suppliers firms. According to the Audit Paragraph un-adjusted advances reported by the Internal Audit Authorities were to the tune of Rs. 8.36 crores in respect of 67 supply orders as on 5th October 1981 (5 years—Rs. 1.52 crores; 4 years—Rs. 2.63 crores; 3 years—Rs. 0.52 crores; 2 years—Rs. 3.69 crores) mainly due to failure of the firms to develop the prototype or to complete supplies. According to the DDS, the amount outstanding against 28 firms as on 29th September 1983 was Rs. 1.566 crores.

1.37 Faced with blockade of large public money in the shape of advances paid to the suppliers remaining unrecovered, the DDS decided (December 1982) not to pay any 'on account' payments or advances in future contracts to be concluded by the Department save in exceptional cases to be approved by the Raksha Mantri.

1.38 The Committee desired to know the procedure followed with regard to the placement of development orders. The Secretary, Department of Defence Production and Supplies stated during evidence as follows :—

"We have two or three options. There are pros and cons of each one of these options. The first option is where you go in for manufacture for the first time, the developmental order should be separated from the commercial order. The other option is that the two orders should be combined. The third one is what we are doing at the moment. In the first case what happens is that when I as a party got a developmental order, I have to invest a huge sum of money in machinery and other things. Then after development I am not assured under the present mechanism that I will get the order. So, he is going to ask me you give me all my cost then only I will develop. Secondly, supposing he succeeds he becomes a monopolist and may quote an unrealistic price. We are examining this matter. There are various pros and cons. If we try to go away from the existing procedure a very considered decision would be called for."

1.39 Asked whether this method would not result in non-development and non-delivery in many cases, the witness explained as follows :—

"I am afraid I would not be in a position to agree because now if you have combined the developmental and commercial order then we are also keep to help him in successfully developing that item. Further the person having invested the money is also eager and keen to see that his efforts materialise. If he is only confined to development then he will say I am getting all the funds from the Government what matters if fail. Now, he does not become more expensive. If you are able to evolve price variation clause which take care of the escalation from the stage of development to the steps of commercial production, I think, it will be a reasonable solution."

1.40 Asked about the practice being followed at present with regard to the grant of advances for tooling and development etc., the Secretary, Department of Defence Production and Supplies stated during evidence as follows:—

"Until December, 1982 we used to give advance for tooling and development. Later on it was stopped. Now, it can be given only with the approval of the Defence Minister in exceptional circumstances. Since then it had been sanctioned in 12 cases. Out of these twelve cases only six parties availed of it and six did not avail of it.

This advance is free of interest. But covered against the bank guarantee—and it enabled them not only availability of capital funds but also at a cheaper cost. This was the manner in which the Government was sharing with the manufacturer the cost of development. The other is when you separate the development order. Suppose we find there are four parties who are capable of developing.

All the four will have to make investment. If the Government assists one and not the other three it will be charged for discriminations. Secondly, the national funds will be spent four times rather than one time."

1.41 The witness further added :—

".....Here if we are able to evolve a mechanism by which we are assured of certain percentage of orders on him, then the problem is solved. Unfortunately, the present mechanism does not provide for that."

1.42 The Committee asked if the present system was not perfect, how could matters be improved so that the result was more satisfactory. There upon, the Secretary of DDS replied:—

"We are examining various alternatives, various pros and cons. But what I am unable to say is what would be the outcome."

1.43 Asked as to how the funds for grant of advance for development are provided, the Secretary, Department of Defence Production and Supplies stated as follows during evidence :

"The indenting authority provides these funds from his budget and we cannot provide funds unless there is indent. We are considering this option alongwith the other options."

1.44 The Committee asked as to how much of the amount of advance on Account Payment of Rs. 1,566 crores against 28 firms as on 29-9-1983 was not covered by Bank Guarantee and how many cases involving recovery of over Rs. 5 lakhs were outstanding as on 31-5-1985. The Deptt. of Defence Production and Supplies stated, as follows :—

"Out of the Advances on Account Payment of Rs. 1,566 crores outstanding against 28 firms as on 29 September, 1983, a total of Rs. 47.57 lakhs were not covered by Bank Guarantees. Out of the amount, Rs. 45.77 lakhs represented sums advanced to Public Sector Undertakings and only Rs. 1.79 lakhs related to a private firm. This amount has since been adjusted against the firm's bills."

Out of the total outstanding amount of Rs. 47.57 lakhs as on 31-5-85 against these 28 firms, in only one case (a PSU), the amount outstanding exceeds Rs. 5 lakhs."

1.45 The Committee further enquired as to in how many cases, security deposits were obtained from the firms and adjusted against outstanding advances. In a note the Department of Defence Production and Supplies stated as follows:—

"In accordance with the extant procedure, Security Deposits had not been obtained from established firms, Public Sector Undertakings and firms registered under NSIC. In other cases, where the Security Deposit had been obtained the amounts were

small being calculated at the rate of 2-1/2 per cent of the value of the contract subject to a maximum of Rs. 75,000/-. Moreover, the purpose of obtaining Security Deposit is not to cover the amount of advances (for which normally Bank Guarantee is obtained for equivalent amount) but to ensure performance of the contract by the supplier."

B. (ii) *Recovery of Advance from a firm.*

1.46. It is seen from the Audit para that a supply order for 20-ton low deck trailers at a cost of Rs. 1.27 crores (later reduced to Rs. 1.05 crores for lesser quantity) was placed on firm 'A' in January 1975. The firm failed to submit the pilot sample within the scheduled delivery date, i.e., 31 May 1975 and was granted three extensions upto 15 July 1977. The pilot sample submitted on 13 July 1977 was found unacceptable. The modified pilot sample submitted in March 1978 was also found defective in the user's trials.

1.47 The DDS asked the firm in April, 1981 to refund Rs. 13.80 lakhs paid in June 1976 and February 1977 as advance (without any bank guarantee) for purchase of raw materials. The firm expressed in November 1982 its inability to refund the advance on the ground that raw materials worth Rs. 19 lakhs had been purchased by it and unless those raw materials were disposed of refunds was not possible. Efforts made to utilise the raw materials elsewhere in similar other contracts did not succeed. Till September, 1983 the supply order was not cancelled and the advance of Rs. 13.80 lakhs continued to remain unsecured and unrealised without any delivery stores.

1.48 The Committee desired to know as to why the supply order for low deck trailers placed on firm 'A' in January, 1975 was not cancelled when even the modified pilot sample submitted in March, 1978 was found defective in user's trials. The Department of Defence Production and Supplies have explained the position as follows :—

"After the modified pilot sample was found defective in the user trials a meeting was convened in this Department on 30-3-79 and the defects which were of a serious nature were pointed out to the firm. The firm's representative expressed keenness to proceed with the manufacture provided no detailed design changes were involved. Thereafter the firm 'A' held technical discussions with the Vehicle Research Development Establishment on 9-4-79 and 8-8-79. During discussions, firm 'A' indicated that they would rectify the defects and supply the full quantity on order."

A letter was sent from the Department to the firm in October, 1979 asking them to indicate a definite time frame for completion of the order. The firm informed in November, 1979 that the modifications required were of a major nature requiring complete re-designing of the trailer.

Firm 'A' also indicated that they could go ahead with the manufacture of the trailers only if they were compensated for the additional investment on new design, jigs and fixtures, increased cost of manufacture and the infructuous expenditure incurred by them on materials and components. The proposal made by the firm was not considered acceptable and they were asked in January, 1980 to complete the order as per terms and conditions of the order. This was not accepted by the firm and they reiterated in April 1980 their earlier stand. The matter was examined in consultation with the Legal Advisor (Defence) in regard to the cancellation of the order. He opined that since the contract has been kept alive and various discussions had been held with the firm after the expiry of the delivery period, it would not be possible to cancel the contract at this stage without giving further notice-cum-extension for submission of pilot sample. Accordingly, the final extension for supplying an acceptable pilot trailer upto March, 1981 was given to the firm. The firm again reiterated their earlier stand. It may be seen from above that the order was not cancelled immediately after the unsuccessful user trials because of the subsequent interest shown by the firm to execute the order. The development of these trailers involves a long gestation period and repeated user trials rectifications/modifications etc. until the prototype is finally approved. Normally in such cases when the supplier shows interest in carrying on with the development, extensions of time is granted."

1.49 In reply to a question, the Ministry of Defence have informed that the last instalment of advance of Rs. 3,35,684 was paid to firm 'A' in February, 1977.

1.50 The Committee desired to know the latest position regarding recovery of advance of Rs. 13.80 lakhs from firm 'A'. In a note the Department of Defence Production and Supplies stated as follows :--

"DGS&D had intimated in August, 1983, that they were not having any bill of firm 'A' pending with them. Steps were thereafter initiated to recover the amount through the Ministry of Railways. Matter was also taken up with the Ministry of Industries to impress upon the firm for return of advance paid to them. The firm 'A' is not agreeable to refund the advance paid.

The matter has been examined in consultation with Legal Adviser (Defence) and the following further steps have been taken to recover the amount :—

- (i) The matter for recovery of advance of Rs. 13.80 lakhs has been referred to Bureau of Public Enterprises on 29-6-84.
- (ii) The disputes raised by the firm, regarding contract specification have been repudiated.

- (iii) The supply order has been cancelled at the risk and cost of the firm.

Ministry of Railways have withheld an amount of Rs. 13.80 lakhs, which will be released only after the advance payment received by firm 'A' is refunded to Ministry of Defence."

(C) Risk and Cost Purchase

1.51 The General conditions of the supply orders provide that in event of the contractor defaulting, the balance quantity against the incomplete contract may be obtained from other sources within 6 months of the date of such failure and the resulting loss may be recovered from the defaulting contractor.

Procurement of ammunition boxes

1.52 According to the Audit Para, the DDS placed, in April 1978, 6 supply orders on 6 different firms for an equal quantity of 6572 numbers of ammunition boxes at the rate of Rs. 113 each (firm 'C', 'D' and 'E') and Rs. 115 each (firm 'F', 'G' and 'GG'). Two more orders for 6572 numbers each at the rate of Rs. 113 were placed in January/February 1979 on firms 'F' and 'G'. Four firm ('C', 'D', 'E' and 'F') made part supplies while firm 'G' did not make any supplies. All these firms represented in April/June 1979 for increase in price ranging from Rs. 14.33 to Rs. 29.00 per box on the ground that the price of raw material had increased by then. This was not agreed to by the DDS and supply orders for the balance quantity of 29,935 boxes were short-closed/cancelled in December 1979 at the risk and cost of the defaulting firms.

1.53 Meanwhile, the Technical Committee (Armament Stores) floated on 20 November 1979, tender enquiry for the procurement of balance quantity. The DDS placed in June 1980, supply orders on 3 defaulting firms ('C', 'F' and 'G') and a new firm ('H') at the rate of Rs. 131 each. By this time the period of 6 months reckoned from the date of breach for repurchase at the cost of the defaulting firms had already expired. Recovery of Rs. 3.08 lakhs on account of risk purchase of extra cost could not be effected from the defaulting firms ('C', 'F' and 'G'). The DDS stated in September 1983 that even though no valid risk purchase could be made, the department was within its right to claim general damages from the defaulting firms but in view of the legal advice no further action for determining or claiming general damages could be pursued.

1.54 The Committee desired to know :

- (i) Why were tender enquiries floated before cancellation of order on the defaulting firms?
- (ii) Was it not against the usual practices of resorting to risk purchase? What were the dates of breach of contract in respect of firms 'C', 'F' and 'G'?
- (iii) When did the six months period expire in these causes?
- (iv) Was there any delay in the cancellation of the supply orders?

1.55 In a note, the Department of Defence Production and Supplies stated as follows :—

“All the contracts were on firm and fixed price basis only. The firms demanded increase in price on account of 15 per cent hike in Steel prices as announced in Parliament by the Hon'ble Minister of Steel in April 1979. The department did not consider it proper to allow price increase since these were firm and fixed price contracts. All the same, an exploratory tender enquiry was issued on 20-11-79 for the defaulted quantity of 28925 nos. to ascertain the market trend. There was no specific mention in the tender enquiry that it was floated against risk purchase.”

1.56 As regards the dates of breach of contract and expiry of 6 months period, the position has been stated as under :—

Name of firm	Date of breach	Expiry period of six months	Date of cancellation of orders
'C'	31-10-79	29-1-80	12-12-79
'F'	22-8-79	21-2-80	12-12-79
'G'	31-8-79	29-2-80	12-12-79

1.57 According to DDS, there was no delay in cancellation of the supply orders.

1.58 In reply to a question, the Department of Defence Production and Supplies have stated that the defaulting firms were contemporaneously kept apprised about the aforesaid tender enquiry through issue of a copy of the tender enquiry.

1.59 The Committee desired to know as to why valid risk purchase could not be made in the case of defaulting firms 'C', 'F' and 'G' and whether responsibility had been fixed in this regard. The Department of Defence Production and Supplies stated :—

“As a levy of 15 per cent surcharge on all steel items, as announced by Hon'ble Steel Minister in the Parliament on 6-4-79, all the firms holding contracts requested for price increase ranging from Rs. 14.33 to Rs. 29 per Box —C— 30A. As per legal advice the increase in the price of steel resulted in the impossibility of performing the contracts and hence the same had got frustrated. As such, the question of making any valid risk purchase did not arise.”

(D) Procurement of trailers fire fighting large 1800 LPM

1.60. Supply orders for 122 numbers of trailer fire fighting large 1800 LPM were placed in June/September, 1976 on two firms (102 trailers on firm 'J' and 10 trailers on firm 'K'). While firm 'K' completed supply of 10 trailers within the extended delivery period upto 14 May 1977, firm 'J' could supply only 11 trailers by May 1978. In view of the urgency and critical nature of stores, the DDS had meanwhile floated in April, 1978 a

stand-by tender for the procurement of 102 trailers. On 23 September 1978, the DDS referred the short-closure of the order at risk and cost of the defaulting firm to the Legal Adviser (Defence) who observed in October, 1978 that it would not be possible to enforce the claim for risk purchase since the prescribed procedure was not followed for calling stand-by tender. The contract with firm 'J' was cancelled in February 1979 at its risk and cost. In April, 1979 supply orders for the balance 102 trailers were placed on firm 'J' (22 numbers) and four other firms (80 number).

1.61 Firm 'J' whose contract was cancelled in February 1979 at its risk and cost did not accept the cancellation and pointed out that in view of non-availability of engines from the manufacturers in time, the reasons for non-supply of the trailers were beyond its control and it was not responsible for delay in supply. The DDS stated in September 1983 that it might not be legally possible to hold the firm responsible for that.

1.62 The Committee desired to know as to why the order for 22 trailers was placed on the defaulting firm 'J'. In a note, the Department of Defence Production and Supplies stated as follows :

- “(a) The defaulting firm 'J' was already having 22 nos. premier tury engines delivered by M/s. P.V. Bombay for the fabrication of trailer fire fighting.
- (b) The defaulting firm stated during the negotiation meeting held on 28-8-78 in DDS that they had submitted 22 nos. of pumps during delivery period for stage inspection. However, these pumps were not submitted in the fourth and the last stage of inspection. During the meeting, it was felt that since the firm 'J' was having engine and pumps for supply of 22 nos. of more TFPs, this qty. should be obtained from them at their old price i.e. 35,000 and accordingly, supply order for 22 trailers was placed on defaulting firm 'J'. This action of DDS was later justified by the fact that supply of these 22 trailers materialised much before the others”.

1.63 With regard to the failure of firm 'J' to supply trailers and non-placement of claim for damages on the firm on the basis of earlier legal advice, it was stated during the evidence that “The Legal Advisers... based their view on some inadequate appreciation of law or facts”. Claim of Rs. 4,57,329.60 was however raised on firm 'J' on 28-8-84 for general damages on the basis of a subsequent legal advice.

1.64 As regards the procedure followed for stand-by tenders for risk purchase and the legal advice given in this case, the Department of Defence Production Supplies have stated as under :

- “Department of Defence Supplies referred the short closure of the order at the risk and cost of the firm 'J' to the Legal Adviser (Defence). The Legal Adviser (Defence) observed that calling of the stand-by tenders during the pendency of the contract without cancelling the contract was not legally in order. On the matter being referred by Department of Defence Supplies for reconsideration in view of Directorate General Supplies &

Disposal procedures for stand by tenders, the Legal Adviser stated that as per Directorate General Supplies & Disposal Office Order, the following are the criteria for stand-by tender for risk purchase :

- (1) (i) Stand-by tenders have to be invited prior to the date of breach and that too in exceptional circumstances.
 - (ii) Stand-by tenders which are opened not later than a month before the date of breach can be accepted.
 - (iii) In any case, the cancellation of the contract on the defaulting supplier should precede the acceptance of the stand-by tender.
 - (2) (i) In case stand-by tenders are opened or relate to a date prior to the date of breach, it would not be possible to enforce claim for risk purchase in the price quoted in the risk purchase tenders.
 - (ii) Only those tenders which bear the date after the date of breach should be considered for making an effective risk purchase.
2. Legal Adviser (Defence) further observed that all these conditions of (1) above are not satisfied in this case. However, the factual position of the case was as indicated below :
 3. As regards the condition mentioned in 1(i) above, the stand-by tenders were invited on 1-4-78 in view of the urgency and critical nature of the store while the date of breach was 31-5-78 and as such this condition had been satisfied.
 4. As regard condition mentioned at 1(ii) above, further condition 2(ii) states that only those tenders which bear the date after the date of breach should be considered for making an effective risk purchase.Legal Adviser observed on 4-10-78 the date of breach should be considered for making an effective risk purchase. Legal Adviser observed on 4-10-78 that the condition mentioned at 1(ii) and at 2(ii) above bear some inconsistency. In this case stand-by tenders were opened on 12-6-78 and the date of breach was 31-5-78. All tenders bear the date later than 31-5-78. So condition mentioned at 2(ii) above, is satisfied.
 5. The cancellation of contract was issued on 6-2-79 and the acceptance of the stand-by tender was also done on 6-2-79 and so the condition mentioned at 1(iii) above is also satisfied.
 6. In view of the position explained above, Department of Defence Supplies has followed the correct procedure as laid down by Director General Supplies & Disposal.
 7. Further in a meeting held on 16-10-78 the Legal Adviser expressed the opinion that DGS&D Office Order was issued after close consultation with the Ministry of Law and that in case

of urgent and essential store, stand-by tenders could be invited which by the very definition would be before the date of breach.

- 8 The firm did not accept the cancellation at their risk and cost and mentioned that non supply of the trailers was beyond their control and they were not responsible. So the matter was again referred to Legal Adviser (Defence) and he advised as below:

“Delivery was not linked with supply of engine by M's. PAL. Normally, such contracts were entered into by them when they have these in stocks. However, if other manufacturers of engines stop production after entering into this contract, he can claim impossibility of performance”. As per legal position stated above, it may not be possible to hold the firm responsible for the breach of the contract and claim any damages from the firm 'J' as the Indian Contract Law admits impossibility of performance”.

9. In view of the advice given above, the case for risk purchase and general damages was not pursued at that stage.
10. A second legal opinion on 23-7-84, however, was obtained as to whether general damages can be claimed as the firms on whom orders were placed after cancellation of order on firm 'J' had completed the supplies with M's. Premier Automobiles engine. Legal Adviser (Defence) advised on 7-8-84 as under :

“The short point for consideration at this stage is whether it is open to the Government to claim general damages from the defaulter firm M's. Hindustan General Industries. The answer to this question is in the affirmative. The general damages should be claimed immediately from the firm on the basis of the market rate on or about the date of breach. It is understood during discussion that the last agreed date of delivery was 31-5-1978 after which the contract is stated to be not kept alive.

- i) In these circumstances, the market rate as reflected from the quotations submitted by various firms on or about 12-6-1978 can be taken as the basis for working out the said claim. The lowest quotation for the defaulted quantity would be the basis for the claim for general damages.
- ii) It is further understood during discussion that even the defaulter firm quoted a higher rate initially at the time of its own breach. The defaulter firm however, reduced their quoted rate during negotiations. In respect of 22 numbers, the defaulter firm however, appears to have agreed at the original rate of Rs 35,000 per item. The general damages would, therefore, be claimable for the defaulted quantity minus 22 numbers. Even for the said balance defaulted quantity, it is understood during discussion that the other firms also agreed to reduce their quoted rates. The market rate may, therefore, be taken as the lowest rate arrived at after nego-

tiations, for the balance defaulted quantity. Care could, however, have to be taken to explain the process of arriving at the market rate on the basis of quotations and the reductions arrived at during negotiations suitably before the arbitrator when the claim is submitted for arbitration.

Another method of establishing the market rate would be by placing reliance on the rates published in the standard trade journals and other standard price lists advertised by standard suppliers of similar items."

11. In view of the advice given above, a claim of Rs. 4,57,329.60 has been raised against firm 'J'.

115 Asked about the difficulties being faced by the DDS in enforcing the risk purchase provisions, the Department have stated in a note as under :

"The Department is mainly concerned with development of items in the civil trade. In making valid risk purchase, Department is facing the following difficulties :

- (a) The risk purchase order can be placed only after cancellation of the defaulted order.
- (b) During the development many modifications on specification drawings are made after various trials. For making a valid risk purchase the terms and conditions including specification drawings of the defaulted order and the Risk Purchase order are to be identical. Hence any product improvements required cannot be incorporated in Risk Purchase Order.
- (c) Against Risk Purchase Tender Enquiry the defaulter is to be given a chance to quote and if his offer is the lowest it cannot be ignored and again order is to be placed on the defaulter. If the defaulter's offer is ignored the extra expenditure incurred in R'P cannot be recovered.
- (d) Being developmental in nature in many instances, there may not be other developed sources for making a R'P. This will again result in placement of developmental orders on new firms and earlier developmental efforts would go waste which would be time consuming.

In view of the reasons stated above, Department have to take a decision on making R'P after considering various aspects of individual cases as stated above.

In the cases cited in the audit para regarding purchase of ammunition boxes, the legal advice was that because of the abnormal increase in the cost of R'M by Government action, impossibility of performing the contract had occurred under the Contract Act no valid R'P could be made. In the other case of Trailer Fire Fighting, non-availability of engine from the single approved source, due to lock out in their premises, was accep-

ted as a case of 'impossibility of performance' by our Legal Adviser".

1.66 On an enquiry about the implementation of the risk purchase clause contained in the contracts, the Secretary, Department of Defence Production and Supplies informed the Committee during evidence as follows :

".....We have appointed an internal Committee to examine the issue legally and financially because there is a legal inconsistency also in the conditions apart from the financial aspects".

1.67 The Department of Defence Production and Supplies informed in a subsequent note that "A Committee has been set up under the Chairmanship of Legal Adviser (Defence) to review the procedure in regard to risk purchase. The report of the Committee is expected by the end of December 1985".

Acceptance of substandard stores and avoidable idle outlay

A. Indigenous development of higher pressure air compressors

1.68 Audit Paragraph points out that against the Navy's requirements for indigenous development of high pressure air compressors a supply order for development and manufacture of 25 numbers of portable air compressors at a total cost of Rs. 26.25 lakhs (at the rate of Rs. 1.05 lakhs each) was placed by the DDS on firm 'R' in September 1977. The firm was required, in the first instance, to manufacture 2 prototypes (complete with indigenous components and materials) for test and trials; the remaining 23 numbers were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype.

1.69—1.70 According to the Department of Defence Production and Supplies, requirements for high pressure air compressors were assessed by the Navy in October, 1976 and indent therefor was also placed simultaneously in the same month.

On 25th March, 1979, firm 'R' on whom supply order was placed in September, 1977, submitted the prototypes which, on inspection, were found to be defective. The defects were rectified and the prototypes re-submitted by the firm in October, 1979; bulk production clearance was given in November 1979 without the prototypes being put to trial.

1.71 The Committee desired to know as to why bulk production clearance was given in November, 1979 without the prototypes being put to trials. The Department of Defence Production and Supplies stated as follows :

"The prototype was offered in May 1979 and after inspection in the firm's premises, the prototype was cleared for user trials to be carried out in October, 1979. Bulk Production Clearance (BPC) was granted in November, 1979 with the condition that bulk supplies shall meet the specific standard stipulated and if modifications were necessary as a result of users trials, these would be carried out on the prototype as well as the balance

quantities under manufacture. Issue of BPC even before carrying out the user trials and ensuring the reliability of the equipment was not prudent on the part of the concerned officers of the Department of Production and Inspection (Navy)".

1.72 When enquired about the existing orders on the subject, at that time the Department of Defence Production and Supplies stated :

"There were no specific orders on the subject at that time. In accordance with the contract, in the first instance, the firm was required to submit 2 nos. of prototypes and the remaining 23 nos. to be supplied after grant of Bulk Production Clearance based on satisfactory performance of the prototypes. The contract also did not specifically stipulate the requirements of 'user trials'. This being a critical item required for diving operation, BPC should have been given only after satisfactory user trials and approval of the manufacturing drawings".

1.73 The Committee further enquired whether any responsibility had been fixed for this lapse. The Department of Defence Production and Supplies have informed as under :

"On the basis of the findings of the Board of Investigation, the Department came to the conclusion that it was only a case of procedural and conceptual technical lapses on the part of the inspecting officers. The three concerned officers were given written warnings and transferred. The firm was held responsible for concealing the use of imported components. The conditional BPC issued to them was withdrawn. On Account Payment drawn by the firm against this supply Order was also withdrawn".

1.74 Asked as to what further corrective actions were taken in the matter, the Secretary, Department of Defence Production and Supplies stated during evidence as follows :

"One was preventive action, that is, guidelines have been issued for the staff as to what to do and at what stage. So, there is no scope for ambiguity. Secondly, the concerned staff was transferred from those positions. As regards the firm, the bank guarantee has been encashed against the advances made to the firm".

1.75 It is further seen from the Audit Para that later when these prototypes were put to trials, the Directorate of Production and Inspection (Naval) pointed out in April 1980 that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones and had thereby "cheated the Government". As a result, bulk production clearance accorded in November 1979 without proper verification about the use of indigenous components in consonance with the terms of the contract was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design drawings for approval by the inspection authorities and to produce two fresh prototypes using

indigenus materials/components. The firm submitted two revised prototypes in March 1982 but the same were not put to users' trials and bulk production clearance was, therefore, not given (December 1982) for the remaining 23 numbers.

1.76 The Committee desired to know as to why no inspection was carried out during the intermediate stage of manufacture of the prototype of air compressor. The Department of Defence Production and Supplies stated as follows :

“In a development-cum-bulk production order particularly specialised equipment like this, it was expected of the inspection staff to coordinate effectively with the manufacturers at every stage of manufacture. On the basis of the report of the Fact Finding Board of Investigation, it was concluded that the concerned Inspector did not comply with the norms of normal inspection and accepted the equipment only by visual inspection which did not detect the use of imported components in its manufacture. The officer was served with a written warning to be careful in future. Guidelines were also issued for the procedure to be followed in respect of Air Compressor prescribing *inter alia* stage inspection of basic components to be carried out by the Inspector in accordance with the provisionally approved drawings”.

1.77 Asked about the latest position in the matter, the representative of the Navy stated :

“That order is still pending. But subsequently he has been able to produce two samples and those samples have succeeded. M/s. Khosla was not able to do it but that firm succeeded in supplying at least the prototype. They have already supplied two”.

1.78 Elaborating further, the Secretary, Department of Defence Production and Supplies stated as follows:

“The supply order was placed in September 1977. Prototypes were offered for inspection in May 1979. In October, 1979 the prototype was cleared for user's trial. In November 1979 BPC was accorded to the firm. In April 1980, the BPC was withdrawn as it was reported that the firm had used imported parts. It was asked to re-submit fresh prototype. In July 1980 the Company was asked to submit fresh prototype supplied manufacturing drawings for approval. In October 1980 it was accorded approval in consultation with the Headquarters. In March 1982 fresh prototypes were offered by the firm. In July 1983 prototypes were cleared for user's trial for 400 hours. In September 1984 the user reported satisfactory performance and also suggested some improvements and modifications. In December 1984 BPC was accorded to the firm subject to incorporation of some modifications. In May 1985 modification was completed on one unit. The trial report is under scrutiny.

The second prototype is still with Navy under use. Modification will be done when it is spared by the Navy."

1.79 The representative of the Navy further added :

"After this the completed prototypes have been cleared and the firm has been given bulk clearance."

1.80 The Committee pointed out that the firm was found to be a cheat in April, 1982. The Committee therefore desired to know the efforts made after that to find out new manufacturers. The Secretary, Deptt. of Defence Production and Supplies stated as follows :

"The bulk production clearance was withdrawn in April, 1982 and another order with a new firm was placed.....in the year 1983. They have also given a sample which is being evaluated."

1.81 The Committee desired to know the latest position with regard to the recovery of balance on account Payment of Rs. 1.01 lakhs which was not covered by the bank guarantee. The Department of Defence Production and Supplies stated as follows :

"It may also be clarified that against S.O. No. 1007 dated 12th September 1977 on firm 'R' for 25 nos. of the portable high air compressors each at a cost of Rs. 1.05 lakhs, an advance of Rs. 2,16,473 was made to the firm. The BPC to the firm is held up for certain minor modifications after completion of the user's trials in March 1984. Still, the OAP has been recovered by encashment of the Bank Guarantees valued at Rs. 2,19,273/- in June 1983. Thus, in this particular contract, no 'OAP' remain unadjusted".

B. Procurement of Generating Sets of 2 KVS capacity

1.82 According to Audit paragraph, a supply order for the procurement of 230 generating sets of 2 KVA capacity at the rate of Rs. 11,850 each (total cost : Rs. 27.25 lakhs) was placed by DDS on firm 'S' in August 1975. The firm was to submit the prototype by 15th September, 1975 and bulk supply was to commence thereafter at the rate of 30 sets per month. The firm however, supplied only 192 sets during June 1978—September 1980 and failed to make further supplies thereafter. In December, 1981 the DDS short-closed the order after receipt of 192 sets at the risk and cost of the defaulting firm.

1.83 The COD 'XX' reported in May 1982 that out of the 192 Generating sets supplied by firm 'S' during June 1978—September 1980 25 sets were lying in repairable conditions since June 1980 and that the guarantee period of 15 months had expired.

1.84 The Committee desired to know at what stage the 25 generating sets were found to be repairable and what were the dates of receipt and inspection. The Department of Defence Production and Supplies

have informed that the item was found repairable in receipt/inspection stage. Dates of receipt and inspection are as follows :

Date	Qty.
20-3-80	2
24-5-80	5
14-6-80	2
17-9-80	3
23-7-80	5
27-9-80	4
13-11-80	4
	25

1.85 The Department of Defence Production and Supplies intimated that firm 'S' was asked to repair the 25 sets lying in repairable condition in February 1981. According to the Department all these sets were repaired in September, 1983 and have been issued to the units.

1.86 Enquired whether the cost of repairing 25 Generating sets was realised from the Suppliers. In a note the Department of Defence Production and Supplies intimated as follows :

"The question pertains to Generating Set 2 KVA procured from firm 'S'. The firm themselves repaired the Gen. sets situated at COD Agra free of cost. The question of realising the cost of repairs therefore, does not arise."

Avoidable expenditure due to acceptance of offers beyond validity period

1.87 According to the Audit paragraph, acceptance of offers beyond the validity period resulted in extra expenditure of Rs. 1.02 crores in the following cases :

Shells of Ammunition 'ZA'

1.88 It is seen from the Audit paragraph that the Ordnance Factory Board requested the DDS on 19 June, 1979 to arrange procurement of 1 lakh shells from firm 'T'. The DDS issued on 29 June, 1979 a single tender enquiry to firm 'T' for supply of 1 lakh shells.

1.89 The Committee enquired whether these shells were an established item of production in the Ordnance Factories and if so, what were the bottlenecks in its production and what were the quantities of shells produced in the Ordnance Factories during 1977-78 and 1978-79? The Department of Defence Production and Supplies stated in a note as follows :

"These shells were are an established item of production at Ordnance Factory, Kanpur. The main bottleneck in the production was unsatisfactory performance of the Johnshaw

Press. The quantity of shells produced during 1977-78 and 1978-79 in the Ordnance Factories is nil."

1.90 Asked as to why the Johnshaw press was not got set right rather than going in for outside purchase of shells. The Department of Defence Production and Supply stated :

"A technical assessment was made and it was found that reconditioning of Johnshaw Press was not economically viable. Further, the satisfactory performance of the press after reconditioning was doubtful."

1.91 Enquired further as to why a single tender enquiry was floated in June, 1979 for procurement of shells of ammunition ZA and whether the DGTD was consulted about the indigenous sources of supply of this item. The Department of Defence Production and Supplies stated as follows :

"For indigenisation of this item DGOF and CI(A) tried to develop two firms 'A' and 'B' while efforts on firm 'B' did not succeed, firm 'A' were able to develop the item. They had also successfully executed one educational order for 200 nos. placed by DGOF. The requirement against indent projected on DDS by DGOF was super emergent and supply of about 15,000 nos. were required by December 1979 to meet Army requirement for the year 1979-80. As the development of a new source would take at least one year it was decided to float single tender enquiry to the firm who had developed this item. As far as DGTD is concerned its representative is a member of the Technical Committee."

1.92 In reply to a further question as to why order for shells was not placed on firm 'T' before expiry of a validity date of 31-7-1979, the Department of Defence Production and Supplies stated that the order for shells could not be placed on firm 'T' before the expiry of the validity date of 31-7-1979 because *prima-facie* the offer of the firm of Rs. 498 per piece appeared to be on the high side compared to the developmental order of Rs. 370 per piece placed on 28-2-1979. The firm had also quoted other unacceptable terms. Further the validity period of the offer was too short for processing a supply order of such a high value.

1.93 The Committee desired to know the reasons for non-placement of supply order upto 5th November, 1979 after it was decided in August 1979 to place orders for 25,000 shells with an option for another 25,000 shells to be exercised during the currency of the contract. The Department of Defence Production and Supplies stated as follows :

"After the negotiation meeting with firm 'T' held on 17-8-1979 the consensus in the Negotiating Committee was to place an order on firm 'T' for 25,000 shells. Since the urgent requirement was only for 16,000 nos. it was decided later to ascertain the willingness of the firm for 16,000 shells placed on them along with the on account payment in lieu

of advance payment. The firm's reply was received on 3-10-1979 expressing their inability to accept the quantity reduction and the on account payment in lieu of advance. The case was processed for placement of order on 5-10-1979 for seeking Raksha Mantri and Finance Minister's approval which was obtained on 6-12-1979 and order placed on 10-12-1979 for a quantity of 25,000 shells only at Rs. 540 per shell."

1.94 Asked further as to when the DDS had come to know about the other sources of supply from which quotations were invited in September, 1979. The Department of Defence Production and Supplies stated as follows :

"Other sources for supply of Bomb Body for ammunition 'ZA' were located when Ordnance Factory Board requested DDS in June 1979 to arrange procurement. A formal indent was projected by DGOF on DDS in July 79 for supply of 1 lakh nos. Bombay 120mm Mortar Body. In the meeting held on 17-8-1979 in the room of AS(DS) associating representative from I.F., OFB and TC(AS) it was decided to cover only the super emergent requirement on the single source who had developed this item and for the balance quantity to approach other likely suppliers."

1.95 According to the Audit Paragraph, in the tender enquiry issued by the DDS on 29th June, 1979, one of the conditions was that the raw material for 50,000 shells would be supplied by the Ordnance Factory. However, the order placed in December, 1979 on firm 'T' did not clear for supply of raw materials. The Committee desired to know as to how the raw materials were utilised by the concerned factory. The Department of Defence Production and Supplies stated as follows :

"Raw materials available with Ordnance Factory was utilised in full by March, 1983 for their own production and supply of finished shells."

1.96 It is seen that firm 'U' was allowed the rate of Rs. 610 when it has quoted the rate of Rs. 590 (for 50,000 shells) and Rs. 600 (for 25,000 shells) with price variation clause for steel, fuel and power. The Committee desired to know as to why the firm was not allowed the quoted rate with price variation clause subject to the ceiling rate of Rs. 610. In a note the Department of Defence Production and Supplies stated as follows :

"Pursuant to the negotiation meeting held on 11-2-1980, firm 'U' made their offer for an order for 25,000 nos. as (i) Rs. 600 per number with escalation on steel and (ii) Rs. 615 each firm price without any escalation. The firm and fixed price finally negotiated at Rs. 610- was more favourable to the Department as the order involved development time. The firm actually took nearly 1-1/2 years to development the item and start supplies."

1.97 The Committee enquired as to why the entire supply order for 75,000 shells at the rate of Rs. 615 per shell was not placed on firm 'T' which had made the supplies earlier. The Department of Defence Production and Supplies stated :

"Supply order for 75,000 shells at the rate of Rs. 615 per shell was not placed on firm 'T' which had made the supplies earlier with a view to developing additional sources to meet anticipated recurring large demands in the future."

1.98 The Department of Defence Production and Supplies have also confirmed that the firms 'U' and 'V' have since completed the outstanding supplies of shells.

1.99 According to the Audit Paragraph, failure on the part of the DDS to place supply order on firm 'T' before expiry of the validity date of 31st July, 1979 resulted in an extra expenditure of Rs. 96.25 lakhs in procuring supplies 9 months later. The Committee desired to know whether any action had been taken to get the extra expenditure of Rs. 96.25 lakhs regularised. The Department of Defence Production and Supplies stated as follows :

"The question of regularising the extra expenditure of Rs. 96.25 lakhs did not arise in the circumstances explained below :

On the basis of available information at that time, the price of Rs. 498/- each appeared to be on the higher side and, therefore a negotiation had to be held. Negotiation was also necessary on some of the important conditions of the firm, like their request for 10 per cent advance. Even if the order was placed in a hurry at Rs. 498 each for the quantity of 1 lakh nos. for which the firm had submitted the quotation, it would have been quite unrealistic to expect supplies at this price in the face of the genuine error in computing the price as indicated by them later, specially when the firm know that there was no alternative established source. The Department, of course even in that situation would have no plausible explanation or justification for such a hurried action for placement of order for such a large value (approx. Rs. 5 crores) on a single firm with unacceptable conditions. It is an accepted policy that when there is a continued demand over a long period, the emphasise is to induct more than one source. The same was applied in this case to avoid monopolistic situation. This policy had paid dividends also as now we have established sources in this item providing adequate competition and economy."

B. Procurement of tail units of an ammunition 'ZB'

1.100 According to the Audit Paragraph based on an urgent indent placed in May 1977 by Central Ammunition Depot 'XY' for the procurement of 46,370 numbers of tail units required to put back a large number (93,666 numbers) of an ammunition 'ZB' from repairable to

serviceable condition, the Technical Committee (Armament Stores) invited in September 1977 tenders from 12 firms and 5 firms responded. The DDS placed in December 1977 supply orders for 23,185 tail units each on firms 'X' and 'Y' at the rate of Rs. 6.95 per unit (value of supply orders Rs. 322 lakhs).

1.101 It is further seen from the Audit Paragraph that according to the Technical Committee, 5 firms which responded to the tenders invited in September 1977, were inexperienced and lacked capacity to undertake manufacture of the stores. The Committee desired to know as to why supply orders for tail units were placed on two firms 'X' and 'Y' of these five inexperienced firms. In a note the Department of Defence Production and Supplies stated as follows:

"The firms X & Y were called for negotiations meeting on 15-11-1977. However, before the negotiation meeting was held, SIA Delhi Cantt. was asked to verify capacity of these firms X & Y. The following were the observations of SIA Delhi Cantt.:

- (a) Firm 'X': This firm has the capacity and capability provided they augment their capacity with projection welding machine for which they had placed an order.
- (b) Firm 'Y': (i) The firm does not have facilities for varnishing treatment.
- (ii) The firm will also have to install deep drawing press.

The spot projection welding machine which is understood to have been shifted from another firm required modification to accommodate welding of the fins. It is not possible to assess the suitability of machine without practical trials.

Since the firms had shown confidence to develop and manufacture these items, it was decided to give 50 per cent qty. to each of these firms who had quoted the lowest price of Rs. 695 each."

1.102 According to the Audit Paragraph, firm 'Z' agreed in June 1978 to accept the order for 93,370 numbers at the rate of Rs. 850 and requested the DDS to issue a letter of intent immediately to enable it to commence planning and procurement of raw materials. No letter of intent was, however, issued to firm 'Z'. The supply order for 93,370 Tail Units was placed on firm 'Z' only in arch. 1979. In April, 1979 firm 'Z' declined to accept the order on the ground that its offer had not been accepted within the validity date of 27th October, 1978 and the prices of raw materials had gone up during the intervening period. Asked as to why no letter of intent was issued to firm 'Z', the Department of Defence Production and Supplies stated:

"No letter of intent was issued to firm 'Z' for their offer for supply of stores at Rs. 8.50 firm and fixed since there was a considerable quantity on order on the firm and it was also a deliberate decision to develop an alternative source."

1.103 It is seen from the Audit Paragraph that the DDS had stated in September 1983 that the earlier order of May 1978 had been placed on firm 'Z' at a ceiling price of Rs. 8.50 subject to cost examination, and placing of another order on the firm at a fixed price of Rs. 8.50 as recommended by the Technical Committee would have prejudiced the price fixation in the earlier order, and the matter required further clarification from the Technical Committee.

1.104 In view of the decision taken to cancel the orders on firms 'X' and 'Y' the reaction of firm 'Z' had to be watched for sometime before covering the cancelled quantity. The Committee enquired as to when the price fixation in respect of the earlier order of May, 1978, placed on firm 'Z' was finalised. The Department of Defence Production and Supplies stated :

"On completion of supplies the order was regularised vide amendment letter dated 7-4-1980 fixing the price at Rs. 8.50 each firm and fixed."

1.105 Enquired about the nature of clarification required from the Technical Committee and when was it sought. The Department of Defence Production and Supplies intimated :

"A reference was made to the TC(AS) vide note dated 26-9-1978 to clarify the amendments made to the specifications governing supply. TC(AS) furnished their comments vide their note dated 12-12-1978. The drawings for central tube specified solid drawn bright steel tubes to specification BSS.T 54 besides Bars to specification BS 970. Since this specification has been withdrawn by the originator, its equivalent specification BS-980 CDS-10 had been stipulated."

1.106 It is seen from the Audit Paragraph that finally in January 1980, a supply order was placed on firm 'Z' for supply of 1 lakh tail units at the rate of Rs. 12.05 (total cost : Rs. 13.05 lakhs) as against its offer of June 1978 to accept the order for 93,370 number at the rate of Rs. 8.50. The balance quantity of 43,370 tail units were covered by another supply order placed in February 1980 on firm 'AA' at the rate of Rs. 13.05. The delay in placing orders on the established supplier (Firm 'Z') resulted in extra expenditure of Rs. 4.25 lakhs besides rendering 93,666 numbers of ammunition 'ZB' costing Rs. 1.31 crores to remain repairable for amount of tail units.

1.107 The Committee desired to know the reasons due to which the offer made by firm 'Z' could not be accepted within the validity date of 27th October, 1978. The Department of Defence Production and Supplies intimated as follows :

"The offer made by firm 'Z' for supply of stores at Rs. 8.50 could not be accepted within the validity period of 27th October, 1978 mainly on account of the following :

- a) Against an earlier supply order on firm 'Z' we had allowed a ceiling price of Rs. 8.50 subject to cost

examination. This cost examination was not over by 27th October, 1978 and it was therefore, felt that placement of an order on firm 'Z' on a firm and fixed price of Rs. 8.50 before this examination was completed may not be correct.

- (b) There was only one source viz., firm 'Z' which had been developed for this item. Efforts to develop additional sources viz., firms 'X' and 'Y' had failed. Hence a view had to be taken whether to cover the entire quantity on firm 'Z' or to try to develop additional sources also in order to avoid any monopolistic situation with the firm 'Z' as the only supplier. This matter was under examination."

1.108 Asked about the present position of repair to 93,666 numbers of ammunition 'ZB', the Department of Defence Production and Supplies stated :

"The entire stocks of ammunition, 'ZB' held in irreparable condition for want of Tail Unit No. 4 have since been repaired/ upgraded."

1.109 In reply to a question, the Department of Defence Production and Supplies have stated that the life prescribed for this ammunition was 30 years. The year of manufacture of this ammunition was from 1941 to 1972.

Procurement of plant dry air charging sets (engine driven)

1.110 In July 1978, the DDS floated tender enquiries to 14 firms for the procurement of 10 numbers of plant dry air charging sets (engine driven) against indents raised (June 1977 and March 1978) by the DQS. No quotations were received till the date of opening of tender (21st October 1978). On a request from firm 'AB', the date of opening of tender was extended and an offer was received on 30th November 1978 from this firm but it was not found acceptable to the AHSP as the firm had not quoted for the complete set conforming to defence specifications. Fresh enquiries were floated (February 1979) to 4 firms (including firm 'AB'). As the single quotation received from firm 'AB' on retendering was incomplete, it was decided (18th October 1979) to retender. Meanwhile, the requirement increased to 13 sets. Fresh enquiries for 13 sets were invited (January 1980) from 10 firms and 2 firms 'AB' and 'AC' responded (February 1980).

1.111 The Committee desired to know as to when the quotations were received from firms 'AB' and 'AC' in response to tender enquiries for 13 Plant dry Air charging sets invited in January 1980. The Department of Defence Production and Supplies stated as follows :

"The tender enquiry was floated to 10 firms on 25th January, 1980. The due date for receipt and opening of tenders was indicated as 14.30 hours on 25-3-1980. The quotations of both the firms 'AB' and 'AC' were received within the due date and same were opened on 25-3-1980."

1.112 It is seen from the Audit Paragraph that while firm 'AC' quoted Rs. 1.08 lakhs per set with price variation clause for proprietary items, which was increased to Rs. 1.39 lakhs after taking into account price variation before opening of tenders, and kept the offer open up to 25th June 1980, firm 'AB' quoted Rs. 3.22 lakhs per set with the validity period upto 27th May, 1980.

1.113 In May 1980 the requirement for the equipment was increased to 31 sets. Offers of both the firms (AB & AC) met with all the defence specifications but no supply order was placed on them before the validity period. Firm 'AC' revised the price of the equipment to Rs. 1.78 lakhs per set by up-dating its price in terms of the price variation clause and simultaneously extending the validity of its offer up to July 1980. A supply order for 31 sets was placed on firm 'AC' on 4th September, 1980 at the rate of Rs. 1.52 lakhs (total cost Rs. 47.12 lakhs). The non-acceptance of firm 'AC's offer of Rs. 1.39 lakhs per set within the validity period resulted in an extra expenditure of Rs. 1.68 lakhs on procurement of 13 sets.

1.114 The Committee desired to know the reasons for not placing the order within the validity period of the offers on firms 'AB' and 'AC'. The Department of Defence Production and Supplies explained the position as follows :

"After receipt of clarifications from the firms, part case was sent by TC(ES) to Department of Defence Supplies on 28-5-1980 and the same was received in DDS on 30-5-1980. The case was examined in the Department of Defence Supplies. The lowest quotation was very much above the estimated price of the indenter and reference was required to be made to indenter about their acceptance of the price for procurement of store. The indenter confirmed on 12th June 1980 that there is no difficulty in providing additional funds. Further, it was decided to hold a negotiation meeting with both the firms 'AB' and 'AC' and date for negotiation meeting was fixed as 24-6-1980. The firm 'AC' requested to postpone the meeting to the 1st week of July as 24th June was not convenient to them. Accordingly, negotiation meeting was postponed to 5th July 1980 and Telegraphic supply order was placed on the firm 'AC' on 30-7-1980 within the extended validity date of 31st July, 1980."

1.115 DOS raised indent for procurement of these sets as early as in 1977-78 and supply order could be placed on 4th September, 1980 i.e. after a period of 3 years. The Committee desired to know as to how many years in advance of actual requirement the DOS placed indent on DDS. The Department of Defence Production and Supplies stated as follows :

"The provision review is carried out by the Army HQ(DOS) on 1 October every year which caters for the maintenance and reserve liabilities upto 42 months. Based on the deficiencies revealed the requirement is projected on procurement agencies.

in this case Department of Defence Supplies, after obtaining necessary Financial clearance from the associated finance. Delivery periods are determined based on the lead time required for the source of supply and the urgency of the requirement. In the case of procurement through DDS a lead time of 18 months is normally expected to be given for procurement of stores. However, in the present case the delivery requirements indicated in the indents received were as follows :

Sl. No.	Date of Indent	Qty.	Delivery requirement indicated
1.	23-6-77	5 nos.	Dec. 77
2.	8-3-78	5 nos.	Dec. 78
3.	10-8-79	3 nos.	Not indicated
4.	26-5-80	18 nos.	Not indicated
5.	27-7-81	2 nos.	April 82."

1.116 The Committee desired to know the dates on which the supplies against the supply order placed on firm 'AC' materialised and how the requirements during the period 1977 onwards were met. The Department of Defence Production and Supplies stated as follows :

"The firm started supplies w.e.f. 11 February 1983 in instalments and the entire qty. 33 has materialised vide Inspection Note No. IENZ/WZ/SO-2041/29 Final dated 9 April 1984 received from Inspector of EE, R. K. Puram, New Delhi. Till the supplies materialised deficiencies continued. The units may have managed with the charging sets already available with them."

Delay in supply and avoidable expenditure

A. Development and supply of shells for producing particular type of ammunition 'ZC'

1.117 It is seen from the Audit Paragraph that based on the deliberation of the price negotiation meeting held in December 1977, the DDS placed in October 1978 two supply orders one on a private firm 'AD' and the other on a public sector undertaking 'AE'—for development and supply of 50,000 shells (required for producing a particular type of ammunition 'ZC' in the Ordnance Factories).

1.118 The Committee asked as to when the DDS were informed for the development and procurement of ammunition 'ZC'.

The Department of Defence Production and Supplies stated :

"Proposal for development and procurement of forgings from trade for 105 mm IFG were initiated during May 1977 by DCOF based on the discussions in the Secretary (DP)

production review meeting on 20.21-11-1976 at DGOF Hqrs."

1.119 It is seen from Audit para that although the price negotiation meeting was held in December 1977, the DDS placed supply orders in October, 1978 i.e. after 10 months. The Committee desired to know as to why DDS took 10 months to place development supply order. In a note the Department of Defence Production and Supplies stated as follows :

"Although a meeting was held in December 1977 to place an order on firm 'AD'. The order could not be placed immediately on them in view of their critical financial position. The issue was finally settled under the aegis of Ministry of Industrial Development and Heavy Industry."

1.120 Asked on what grounds firm 'AD' was granted extension upto 30-9-1979 for submission of samples of shells for ammunition 'ZC', the Department of Defence Production and Supplies stated as follows :

"That is an extremely difficult and critical store which required considerable developmental efforts than initially anticipated by the firm. Besides the store was being developed for the first time in civil trade. Hence the production problems, bottlenecks could not be anticipated. The firm however made efforts during the period October 1978 to April 1979 to develop this item by making one set of tools and dies and clarifying various technical aspect with Controller of Inspection (Ammunition), Kirkee, Ordnance Factories Ambajhari and Sr. Inspector of Armament, Bombay.

In view of the earnest efforts being made by the firm the delivery period was extended up to 30-9-1979, within which the firm submitted the advance samples."

1.121 The Committee asked for a copy of letter wherein the DDS informed firm 'AD' that its request for price increase would be considered after it had supplied about 2,000 shells. The Department of Defence Production and Supplies stated as follows :

"No letter wherein DDS informed the firm 'AD' that its request for price increase would be considered after it had supplied about 2,000 shells, was issued. It was only an internal decision taken by the Department."

1.122 The Committee enquired as to why the issue regarding price escalation of fuel and power was also not sorted out in the meeting held in April, 1981. In a note the Department of Defence Production and Supplies stated as follows :

"In accordance with the delivery schedule stipulated in the contract the firm had to commence bulk supply 90 days from the date of approval of advance sample @ 1000 nos. in the first month, 3000 nos. in the second month, 4000 nos. in the third month and 5000 nos. per month from the

fourth month onwards. The advance sample was cleared on 12-12-1980. The firm had some problems with their upsetter and were considering installation of a new upsetter. The efforts made to commence bulk supply by the firm were not very satisfactory. In the circumstances, during the meeting held in April 1981 the representatives of the firm were told by the deptt. that escalation could be considered on inputs like power and fuel from a prospective date provided there was no slackening of effort in meeting the delivery schedule as stipulated in the contract. The representatives of the firm who attended the meeting promised to confirm the acceptance of same after consulting their management. The firm, however, did not confirm the same in writing after their return. It was, therefore, not possible to settle the issue of price escalation of fuel and power in April 1981. They also failed to make any bulk supplies as per the contracted delivery schedule and were able to tender the first lot only in May, 1982. In their letter dated 11-8-1981 the firm again made an appeal to consider escalation on fuel and power effective from March 1977. An internal decision was taken by the Department that the request for price revision would be considered after delivery of at least 2000 nos. of contracted store by the firm."

1.123 It is seen from the Audit Paragraph that on a request being made by firm 'AD' in July, 1982 for revision of the price from Rs. 324 to Rs. 731.52 per shell on the ground that the cost of production had risen sharply, the DDS in February 1983, through an amendment to the supply order, decided to increase the rate from Rs. 324 to Rs. 533 per shell. Firm 'AD' supplied only 7,962 shells by March, 1983.

1.123A. The Committee desired to know as to when the supplies were completed by firm 'AD' and what was the impact of delay in supplies on defence preparedness. The Deptt. of Defence Production and Supplies stated as follows :

"Out of the quantity 50,000 Nos on firm 'AD' against Supply Order No. CPO-765 dt. 12-10-78 quantity of 20,186 Nos. has been supplied so far. The DP has been extended further upto 31st January, 1985. The delay in supply did not affect the defence preparedness. However, there was slight shortfall in the Ordnance Factory Production but same was overcome by import."

1.124 It is seen that although there had been delay in submission of samples by the suppliers and subsequent delay in supply of shells due to no fault of the Department price increase had been given resulting an avoidable expenditure of Rs. 2.08 crores, to the Government. The Committee desired to know the reasons for justification in the price increase. The Department of Defence Production and Supplies stated as follows :

"This is an extremely difficult and critical store which required considerable developmental efforts than initially anticipated by the suppliers and the purchaser. Besides, the store was being developed for the first time in civil trade. Firms took about two years to get their advance samples cleared. By the time BPC was granted to firms 'AD' and 'AE', the main raw material, namely, steel price (Govt. administered) had considerably gone up. In view of these reasons the view was taken that the request of the firms for price increase merited consideration in the Department. The refusal to consider price increase would have led to cancellation of the orders on the firms after such developmental efforts and would have further delayed the process of developing the store indigenously. Even when price increase was agreed to, the actual price was granted only on the actual cost of production as verified by the SCAO of the Department.

In this case, it would be pertinent to mention that as against subsequent developmental orders placed in early 1983 on two firms, only one firm have commenced trickle supplies by the end 1985. This proves the difficulty in developing this item."

1.124A Asked about the Department's policy regarding price variation clause, the Department of Defence Production and Supplies stated :

"Government (Deptt. of Defence Production and Supplies are not averse to having a price variation clause, in the case of orders with long gestation period, in respect of items where the costs are susceptible to variation. For example, in the case of Generating Sets, the contracts provide for escalations on engine, alternators and control panels. For metals price variation based on JPC/MMTC prices are normally agreed to."

1.125 With regard to the cases where supplies had been delayed due to no fault of the Department, the Committee desired to know whether the price variation had been limited to what it would have been if the supplies had been made in time. In a note the Department of Defence Production and Supplies stated as follows :

"When delays are not attributable to the purchaser, extensions are granted with conditions reserving the purchasers right to levy liquidated damages and limiting escalation to the original delivery period."

1.126 According to the Audit Paragraph, Undertaking 'AE' failed to submit acceptable sample for about 2 years. Bulk production clearance was given to the Undertaking on 29th October, 1980. Asked about the reasons due to which the Undertaking failed to submit acceptable samples, the Deptt. of Defence Production and Supplies in a note stated as under :

"The stores being of developmental nature, being established in the country for the first time in civil trade, delay in submission of acceptable samples was inevitable. Initially firm was having certain tooling problems for the manufacture of this difficult item. Once they overcame the tooling problems they submitted samples in May 1979. However, these samples were not upto the required standard and hence rejected. After detailed discussions with DGI's and DF's technical authorities they overcame these difficulties and got their advance samples approved. Shortage of electric supply also affected their production schedule."

1.127 In reply to a question, the Department have informed that the acceptable advance sample were submitted by the firm on 19th September, 1980. The bulk production clearance was accorded to them on 19th October, 1980, after machining trials.

1.128 Enquired as to how the requirements of ammunition of 'ZC' were met during 1977 to 1982-83. In a note, the Department of Defence Production and Supplies stated as under :

"Requirements of ammunition of 'ZC' during 1977 to 1982-83 were met with the forgings produced at Ordnance Factories. Supply from trade also was sought to augment production in Ordnance Factories. Some requirements were met through import also."

8. Procurement of trailers 1 ton 2 wheeled and Generating Sets

1.129 According to the Audit Paragraph, the DDS floated in March, 1979 tender enquiries to 9 firms for procurement of 134 trailers without panel (for mounting generating sets) and 100 trailers with panel for general service. The lowest rate (Rs. 13,200 each) was that of firm 'AF' and the second lowest rate (Rs. 16,500 each) was quoted by firm 'AG'. Before finalising the supply orders on firms 'AG' and 'AF', the capacity of firm 'AF' (lowest tender) was got ascertained through the Inspectorate of Vehicles (North Zone) who reported that the firm had only limited capacity with regard to manufacture, machinery and financial resources and that the firm would not be able to give more than 5 trailers per month. Notwithstanding the report of the Inspectorate of Vehicles, 134 trailers (without panel) were covered through supply orders placed in July 1979 by the DDS on firm 'AF' (34 numbers at the rate of Rs. 13,200) and firm 'AG' (100 numbers at the rate of Rs. 16,500).

1.130 Asked as to what were the considerations on which it was decided to place supply order for 34 sets on firm 'AF', despite the advice of the Inspectorate of Vehicles (North Zone) regarding incapability of the firm to undertake such heavy order, the Department of Defence Production and Supplies stated as follows :—

"The following were the considerations :—

(i) The offer of 'AF' was the lowest.

- (ii) Delivery Schedule offered was acceptable.
- (iii) Development of another source of supply was considered desirable."

1.131 Enquired further as to why firm 'AG' was allowed to submit its sample within 6 months (24 weeks), when the firm 'AF' was asked to submit sample within 6 weeks. The Department of Defence Production and Supplies stated that the time was allowed for submission of sample to firm 'AF' and firm 'AG' based on the time quoted in their respective quotations.

1.132 According to the Audit Paragraph, while firm 'AG' completed supplies within the extended date of supplies (May 1981), firm 'AF' could supply only 20 trailers, even after grant of 3 extensions, till 31st December, 1982.

Generating Sets

1.133 According to the Audit Paragraph, another indent for 45 generating sets was raised by the DDS in August 1979. In order to procure the generating sets for mounting on the trailers to be supplied by firms 'AF' and 'AG' the DDS placed (November and December 1979) two supply orders—one on firm 'AH' for 145 sets at the rate of Rs. 0.90 lakh (total cost Rs. 130.50 lakhs) and the other on firm 'AI' for 50 sets at the rate of Rs. 0.83 (total cost Rs. 4.15 lakhs). The delivery of generating sets mounted on trailers was to commence after 2 months (by firm 'AH') and 3 or 4 months (by firm 'AI') depending on the receipt of trailers. At the time of placement of the order, firm 'AI' had defaulted in supply of 73 sets ordered in October 1975; against that order only 19 sets mounted on the trailers were supplied till January 1981 and supply of 54 sets had not materialised. Both the firms were held responsible for installation of the generating sets on the trailers to be supplied to them free, although there was no adequate ready stock of trailers to be fed to firm 'AH' and 'AI' for mounting the generating sets.

1.134 The Committee desired to know position with regard to the placement of supply orders on those firms whose performance had not been satisfactory in the earlier contracts. The Secretary, Deptt. of Defence Production and Supplies stated during evidence as follows :

"This must be only in case of developmental orders. Your observation is correct that we have not been strict, because this is the effort of indigenisation; and if the fellow has not succeeded, we should not be inhuman. In the case of repetitive Orders, I for one, would entirely agree that if he indulges in malpractice, he should be kept out and we do this. There was a specific case in which the fellow was debarred for a certain period. His quotation was not examined. If they do not succeed in developmental orders, we have to be more tolerant."

1.135 The Committee desired to know the considerations on which the order for supply of generating sets was placed in December 1979 on

firm 'AI' although it was known that firm 'AI' had defaulted in supply of similar sets against the earlier order of October 1975. The Department of Defence Production and Supplies stated as follows :

"A meeting was held in the Office of AS(DS) in August, 1979, where all concerned were present to discuss and finalise the procurement of 195 nos. Gen. Set 11.25 KVA. It was noted therein that 'AI' already held an order for quantity 73 nos of these sets against which they had supplied only 19 sets at that time and their performance was generally not satisfactory. It was also noted that this firm was technically competent with a good capacity and had done fairly well in the past, though of late the firm had got into difficulty due to protracted labour trouble at their Bombay factory.

The price offered by this was lowest. Besides taking into account their existing load and other technical factors which were in their favour, it was decided to cover only a part of the requirement i.e. 50 nos on this firm. The rest of the quantity went to another who had supplied this set in the past."

1.136 Enquired about the progress of supply of remaining 54 sets by firm 'AI' against the earlier order of October 1975. The Department of Defence Production and Supplies stated :

"71 nos. supplied out of 73. 2 sets (Class 'C' samples) returned to firm after test by CIP Bangalore have not yet been re-worked and reoffered for acceptance inspection."

1.137 According to the Audit Paragraph, in view of the non-adherence of the prescribed delivery schedule by firms 'AH' and 'AI', the Department of Defence Supplies decided in January 1981 to relax the mobility test and to have only limited mobility tests on the trailers to be supplied by firm 'AG'. Asked whether the relaxation in mobility tests in any way affected the users' requirements, the Department of Defence Production and Supplies stated :

"Limited mobility trials in addition to the mobility trials on trailers only, in no way affected the users' requirements."

1.138 The Committee further enquired whether the decision to relax the mobility test was taken in consultation with the users. The Department of Defence Production and Supplies stated :

"Trailers used by the firm were approved by CIV Ahmednagar (AHSP) after detailed mobility trials. Since certain modifications were required on the trailers before mounting the Gen. Sets, a limited readability trial was carried out on the trailer mounted Gen. Sets to check efficacy of the mounting and to finalise the mounting drawings. As this was a technical matter to be decided by the inspecting authority and the users were not involved, the question of consulting the users on this aspect did not arise"

1.139 The Committee desired to know as to when the Gen. Sets were offered for inspection without trailers. The Department of Defence Production and Supplies stated as follows :

“Since the Supply Order was for trailer mounted Gen. Sets as per the indentors requirement, the inspecting officer was required to inspect the complete equipment namely the Gen. Sets mounted on the trailers. As such the question of the firm offering only the Gen. Sets without the trailers for inspection did not arise.”

1.140 It is seen from the Audit Paragraph that firm ‘AI’ was asked in May 1981 to defer supplies of 73 generating sets against their order of October 1975 for which 73 trailers were issued to them for mounting the generating sets and utilised 54 (out of 73) trailers to execute the latest order of December 1979. The DDS also decided in May 1981 to utilise 70 trailers (with panel), covered under the supply order on firm ‘AG’ after dismounting the panels.

1.141 The Committee asked as to why firm ‘AI’ could not be asked earlier than May 1981, to utilise the 54 out of 73 trailers available against the earlier order of October 1975, to execute the latest order of December 1979, to avoid price increase. The Department of Defence Production and Supplies stated as follows :

“Supplies were not delayed on account of trailers. The firm received the first consignment of engines from their sub-contractors only by 2nd April, 1981, after which they had commenced supplies by utilising the trailers which were held by them against the earlier order for mounting the generating sets.

The first batch of 5 nos. offered on 5 May, 1981, were inspected and accepted by our inspector on 18 May, 1981. The supplies against 1979 orders were completed in September, 1981, utilising the trailers meant for the earlier order.”

1.142 It is seen from the Audit Paragraph that while firm ‘AH’ completed the supplies on 17th July, 1982, firm ‘AI’ completed the order on 31st October, 1981 i.e. after more than a year of the original date of completion due to delay in issuing trailers to them for mounting the generating sets. Thus both firms (‘AH’ and ‘AI’) claimed price escalation to the extent of Rs. 22.24 lakhs (firm ‘AH’ : Rs. 15.43 lakhs and firm ‘AI’ : Rs. 6.81 lakhs) in terms of the price variation clause.

Avoidable expenditure due to direct procurement of items of common utility

1.143 It is seen from the Audit Paragraph that in March 1976, orders were issued by Government that certain items of stores which were peculiar to defence use and were meant “exclusively for defence” could be procured by defence authorities if the value of these was less than

Rs. 50 lakhs. The DDS, however, procured one such item of common utility viz. paint RFU which was not "exclusively for defence" use and was already being procured by the DGS&D through established indigenous sources on rate contract. Procurement of paint RFU by the DDS, instead of obtaining it through the DGS&D, resulted in an avoidable extra expenditure of Rs. 18.33 lakhs.

1.144 The Committee desired to know as to why procurement of paint 'Ready for use' was arranged by the Department of Defence Supplies in contravention of Government orders of March 1976. The Department of Defence Production and Supplies stated as follows :

"Paint 'Ready For Use' is one of the exclusive items transferred to Ministry of Defence by DGS&D vide their office order No. 155 dated 12-11-1975 and hence DDS is the appropriate agency to purchase this item for Defence."

1.145 It has also been stated by the DDS that they were not making direct procurement of any other items of common utility which were not exclusively for defence use and were being procured by the DGS&D through established indigenous sources on rate contract.

1.146 Audit Para points out that on the basis of an indent for 4,06,000 litres of paint RFU in 3 different sizes of packs required during June 1978 to December 1978 by the DDS, the **Technical Committee (General Stores)** invited tenders in July 1978. One of the firms—firm 'AI' which was an established supplier of paint RFU to Defence under the DGS&D rate contract, quoted the rates Rs. 8.80 per litre for 20 litre drums, and Rs. 10 per litre for 5 litre drums, which were the lowest.

1.147 It is seen that the DDS did not finalise any supply order and passed on in November 1978 the papers to the DDS for procurement of the stores through the DGS&D on the ground that paint RFU was not an item included in the 'exclusive items of stores for defence'. The DDS returned in December 1978 the papers to the DDS stating that the stores were required urgently, and should have been included in the exclusive list of stores for defence and its procurement be arranged by the DDS itself.

1.148 The Committee asked as to why on receipt of the indent of February 1978, the DDS did not inform the DDS that paint 'Ready of Use' was not an item in the list of exclusive items of stores for defence. The Department of Defence Production and Supplies stated as follows :

"As paint 'Ready For Use' is an item in the exclusive list of items for defence, procurement action was initiated by DDS and hence no reference was made to DDS."

1.149 The Committee enquired whether the paint in question was procured by DGS&D for Defence after 1975 and if so, in which year. The Department of Defence Production and Supplies stated as follows :

"Yes. The paint in question was procured by DGS&D for Defence against the requirements of Vehicle Factory, Jabalpur, as indicated below :

Name of the firm	Order No. & date	Qty. on order	Rate
Bristol Paints	182 dt. 25-1-79	42,000 litres in 20 litre packing	Rs. 9.40 per litre
Modi Industries	183 dt. 25-1-79	42,000 litres in 20 litre packing	Rs. 9.80 per litre"

1.150 Enquired whether the Defence authorities were barred from making purchases on the basis of the rate contracts of DGS&D. The Department of Defence Production and Supplies stated as under :

"Officers in the Defence Organisation designated as Direct Demanding Officers are empowered to make purchases on the basis of DGS&D rate contracts. It may, however, be stated that for items which are exclusive to Defence, there are no DGS&D rate contracts."

1.151. According to Audit Paragraph, the main reasons for not placing orders on established suppliers were ascribed by the Department of Defence Supplies to shortage of raw materials with them and the apprehension that adherence to delivery schedule by these suppliers was doubtful. The Committee desired to know the basis on which it was gathered that the suppliers were facing shortage of raw materials and adherence to delivery schedule by them was doubtful. The Department of Defence Production and Supplies stated as under :

"In the negotiation meeting held on 22-2-79 with 9 firms, 7 of them categorically stated that they were not in a position to commit definite price and delivery schedule because of non-availability of raw materials in the market. It was true that the only source in the country for raw material chromium tri-oxide pigment viz. M/s. Golden Chemical, Bombay was closed from 1978 to mid 1979."

1.152 Enquired as to how the Department of Defence Production and Supplies coordinated with other major purchasing agencies like DGS&D and DGOF to ensure that it did not pay higher price than the rates charged by those agencies for the same products at the same time. The Secretary, Department of Defence Production and Supplies stated, during evidence as follows :

"The same item cannot be dealt with by both (DGS&D and DDS). It is an aberration. There are two cases of this nature. I will send you a note on this if you want. So, there is a possibility of the same item being purchased at different prices and we are examining how we can avoid such a situation."

1.153 In a subsequent note furnished after evidence, the Department of Defence Production and Supplies stated as follows :

"The Department deals with procurement of developmental items, normally not dealt by DGS&D or DGOF. Hence, the question of coordination with them does not arise. However, in special instances, when it comes to the Department's attention that other agencies have dealt with same or similar stores, information on prices is collected from them to judge the reasonableness of their prices.

In the case of Paint RFU, (example 1), there was, however, some confusion as to who should deal with the purchase; being the first purchase after it was made an exclusive item. In this case no consultation with DGS&D was made to ascertain previous prices. In regard to the second example viz. Tail Unit, DGOF's price was ascertained to judge the reasonableness of the price finalised."

1.154 It is seen from the Audit Paragraph that according to a part order for 2,50,000 litres of paint placed in March 1979, Firm 'AL' was required to submit acceptable advance samples by 31st March, 1979 and bulk production was to commence from the date of approval of advance samples at the rate of 35,000-40,000 litres per month. Firm 'AL' failed to submit acceptable samples till February 1980 and the supply order was cancelled in February 1980 without financial repercussions on either side. The Committee desired to know as to why the order of firm 'AL' was cancelled without financial repercussions. The Department of Defence Production and Supplies stated in a note as follows :

"The firm could not develop the acceptable advance samples as they could not get the required quality of Green Chrome Oxide, the main raw material from M/s. Golden Chemical, Bombay which was under lockout. The firm tried to manufacture the store with Green Chrome Oxide from another source namely M/s. Sudershan which was not of the required quality and samples were, therefore, rejected. The order on firm 'AL' was accordingly cancelled without financial repercussions since it was a developmental failure."

1.155 Asked as to how the requirements of the Indentor for paint were met from January 1978 till the receipt of supplies, the Department of Defence Production and Supplies stated :

"During the period 1978 to 1980, the unit requirements were met Ex fresh receipts which materialised against the demands placed on DGS&D prior to 1975. During this period qty. 3.94 lakh litres materialised and was issued. Dues out as on 1-10-80 were maintained to the extent of 4.7 lakh litres."

1.156 The Committee asked as to how the rates at which supply orders were placed during January/February, 1980 for a total quantity of 12.15 lakh litres of paint in different packs compared with the DGS&D rates prevailing during the same period. The Department of Defence Production and Supplies stated as follows :

"No comparison of rates can be made as DGS&D has not placed any orders during the period January|February, 1980."

1.157 Asked as to what would have been the total cost had the purchases of paint been made through DGS&D, the Department of Defence Production and Supplies stated :

"This being an exclusive item, the question of purchase through DGS&D does not arise."

1.158 In March, 1979 another indent for 8,20,300 litres of paint was placed by the DOS on the DDS urging immediate procurement of this quantity by June, 1980. In order to cover the entire quantity of 12,26,300 litres (4,06,000 litres plus 8,20,300 litres) supply orders were placed in January-February, 1980 by the Department on different firms for a total quantity of 12.15 lakh litres of paint in different packs. Of the total requirement of 12.15 lakh litres of RFU paint, only 1.50 lakh litres were required to be procured in one litre packs. By not segregating this small quantity of 1 litre packs, the Department has lost advantage of the cheaper rates offered by the firm 'AJ' in July 1978.

1.159 The Committee, therefore, desired to know whether responsibility had been fixed for the loss incurred due to rejection of earlier offers. The Department of Defence Production and Supplies stated in a note as follows :

"The quotations received in September, 1978 against the procurement for 12.15 lakh litres of RFU Paint were not initially considered in the Department since there was a mistaken impression that the subject stores were to be procured only from DGS&D as a common utility item.

This was resolved only in December, 1978. The case was thereafter processed in the Department in January 1979 and coverage was made as demanded after the negotiation meeting held on 22-2-1979."

Other Interesting Points

A. Retreading of Tyres

1.160 In March 1976 and April 1977, the DDS placed the following 3 supply orders for retreading of 537 numbers of 80 × 24 tyres (for a certain imported tractor) which were beyond local repairs (BLR) :

Firm	Date of supply order	Quantity on order	Total cost
		(Numbers)	Rs.
'AZ'	20th March 1976	397	5,14,115
'AZ'	23rd April 1977	100	1,09,000
'BA'	27th April 1977	40	43,600

Retreading of 497 tyres by firm 'AZ' at a total cost of Rs. 6.23 lakhs was completed during May 1976—October 1977 and the retreaded tyres were sent to COD 'YY'.

1.161 It is seen that the supply order placed on a firm 'BA' on 27th April, 1977 for retreading of 40 tyres of a certain imported tractor did not provide any safeguard for the issue of BLR tyres to the firm by COD 'YY'. The Committee desired to know as to why no safeguards were provided in the supply order. The Department of Defence Production and Supplies stated as follows :

"At the time of placement of Supply Order, the firm 'BA' was reputed retreader for Defence and was on Rate Contract. The BLR tyres were to be issued by COD 'YY' and they had taken a Bank Guarantee for Rs. 50,000, which was adequate safeguard."

1.162 Enquired further as to why no indemnity bond was taken from firm 'BA' while issuing BLR tyres to it, the Department of Defence Production and Supplies stated :

"The 'BLR' tyres were supplied to the firm against a bank guarantee and it was, therefore, not necessary to take an indemnity bond."

1.163 According to the Audit Paragraph retreading of 497 tyres by firm 'AZ' at a total cost of Rs. 6.23 lakhs, orders for which were placed on it on 30-3-1976 and 23rd April, 1977, was completed during May 1976—October 1977, and the retreaded tyres were sent to COD 'YY'.

1.164 It is further seen from the Audit Paragraph that the DDS had pointed out in March 1978 that in view of availability of adequate stock of new tyres, there was no need of getting the BLR tyres retreaded. The DOS also advised (May 1979) the DDS that since there was likelihood of the imported tractors being phased out in the near future, the order for retreading of tyres on firm 'BA' be cancelled. The supply order was cancelled in September 1979 by the DDS without financial repercussion on either side on the ground that the firm had failed to submit the acceptable samples. Firm 'BA' refuted the charge of failure on its part to submit the acceptable samples and stated in October 1979 that it had submitted 6 acceptable samples in October 1977 itself and was awaiting bulk production clearance. In April 1982, COD 'YY' reported that 34 BLR tyres (cost : Rs. 0.79 lakhs) were lying with the firm since long (nearly 6 years) and their condition would have deteriorated under prolonged storage and adverse weather conditions and that these would be rendered unfit for retreading for future use and would cause considerable loss to the State. These tyres had not been returned by the firm till September 1983.

1.165 The Committee enquired as to when the Director, Ordnance Services (Army Headquarters) had come to know that the imported tractors were likely to be phased out soon. The Department of Defence Production and Supplies stated as follows :

"During the visit of the DDS to..... in December 1982 it was clarified by the supplier that they will not supply any spares required for overhaul of.....tractors unless India enters into a special agreement for providing capital repair facilities in India under which the foreign authorities will carry on the overhaul of..... Tractors under their own arrangement in India. Due to the non-availability of overhaul spares ex-import in complete range and depth, it was found increasingly difficult to maintain the.....vehicle system. Accordingly a study was ordered in November, 1983, to assess the feasibility of overhauling the equipment as per details given below with existing assets of spares :—

- (a) 60.....Engines
- (b) 150.....Vehicles less engines
- (c) 150.....Semitrailers

As per the recommendation of study report the overhaul of the equipment mentioned at sub-para (a) to (c) are not possible due to the non-availability of large percentage of the vital item required for overhaul. The future prospects of receipt of stores ex-import against our projections are also remote.

Since the...vehicle system is found to be non-maintainable, it was decided in April 1984 by the Ministry of Defence in a meeting which was attended by all connected branches to obsolete the equipment."

1.166 According to Audit Paragraph, an expenditure of Rs. 5.90 lakhs on retreading of 471 (out of 497) BLK tyres when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were to be used were being phased out in the near future proved infructuous.

1.167 Asked as to what was the necessity of going in for retreading of 471 BLR tyres when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were being used, were to be phased out in the near future. In a note, the Department of Defence Production and Supplies intimated as follows :

"As a result of the provisional review carried out on 1st June, 1975 minus balance of 7 was revealed after taking into account 80 per cent beyond local repair tyres arising as asset. Therefore, the requirements against which orders on firm 'SAZ' and 'BA' were placed in March 1976 and April 1977 were justified.

Retreading of quantity 497 was completed during 1976-77 and Ordnance Directorate was not aware of the phasing out of...Tractor at that time. It was only in April 1984 that the decision to obsolete the tractor in question was taken on the recommendations of a Study Team convened in November 1983 to assess the feasibility and maintainability of the tractor. The decision to declare...Tractor fleet as obsolete was

taken in a meeting held in the office of Deputy Master General of Ordnance on 9th March, 1984. Minutes of the meeting were issued on 16th March, 1984. Relevant extracts of the meeting are reproduced below :

"In the final analysis it was decided unanimously that the... Tractor fleet be declared obsolete as it is not possible to overhaul the engine vehicle portion or the semi-trailer considering the aspect brought out in the study report as well as those discussed in this conference. The Deputy Master General of Ordnance directed that the major users i.e. S&T Directorate be informed to initiate a case for the obsolescence of the... Tractor and trailer. The Deputy Master General of Ordnance also directed Joint Director Inspection Vehicles (DGI) not to grant any further extension to delivery date of supply orders and if possible cancel the existing supply orders without any financial repercussion."

Present Position

"At present, only quantity 113 tyres in question is held at Central Ordnance Depot, Delhi Cantt. and the remaining stock has been issued... Tractors though due to be phased out are still in service and will be retained till 1990."

1.168 When asked whether the firm 'BA' had since returned the 34 BLR tyres, the Department of Defence Production and Supplies stated as follows :

"The firm 'BA' have returned the BLR tyres during November 1983|December 1983."

1.169 The Committee desired to know as to why timely action for getting back the 'BLR' tyres from firm 'BA' was not taken immediately on cancellation of the order in September, 1979. The Department of Defence Production and Supplies stated as follows :

"The supply order was cancelled in September 1979 as the firm's pilot sample had failed in trials. The firm from October 1979 onwards started representing against the rejection of the samples. The firm wanted to know the reasons for rejection of the samples and indicated that they will return the tyres only after the matter in regard to rejection is resolved. Repeated reminders were issued to the firm and clarifications given indicating the reasons for rejection of the samples. The firm, however, initially disputed the grounds of rejection. Later, through the personal intervention of the Inspector the matter was finally resolved and the firm was prevailed upon to return the tyres."

Waiver|non-recovery of Liquidated Damages

1.170 It is seen from the Audit Paragraph that the total amount of liquidated damages recoverable from suppliers on account of delayed supplies of stores in respect of 92 supply orders placed by the DDS during

the period 1977-78 to 1980-81 worked out to Rs. 37.83 lakhs. Of this, an amount of Rs. 18.78 lakhs involving 44 supply orders was waived fully by the DDS. Out of the balance amount of Rs. 19.05 lakhs (48 supply orders), a sum of Rs. 1.57 lakhs (8 per cent) only was recovered.

1.171 Asked about the procedure followed for levy of liquidated damages, the Secretary, Department of Defence Production and Supplies stated as follows :

“Generally we follow the guidelines followed by the DGS&D. But our policy flowing from that basically summarises into where there is delay due to circumstances beyond the control of the firm, the liquidated damages are fully waived. Where the delay, fully or partially, is due to firm's failure but no loss or inconvenience to consignee is there or can be demonstrated, the liquidated damages are fully waived. Where delay, fully or partly, is due to firm's failure, or the consignee is not able to certify or demonstrate loss in monetary terms but inconvenience is caused, then a penalty of 10 per cent is generally levied. If the circumstances are such that this levy is considered harsh, then this 10 per cent comes down to 5 per cent. These are the various parameters within which the Department is functioning. We are thinking whether we can lay down more specific guidelines for the departmental officers concerned so that the area of discretion can be minimised to the extent it is feasible.”

1.172 The Committee desired to know as to why liquidated damages leviable for delayed supplies are mostly either waived in full or only token liquidated damages levied/recovered without ascertaining the extent of loss involved from the indentory/user instead of merely relying on a certificate from the stock holders. The Department of Defence Production and Supplies stated as follows :

“The previous procedure hitherto followed in the Department is as explained below :—

The determination of leviable L/D is done in consultation with Integrated Finance. Though the general conditions of the contract provide for recovery of L/D @ 2 per cent per month in respect of delayed supplies, all that we can recover from the supplier, as per Law, is a reasonable compensation not exceeding the amount specified. The fact that L/D clause in the general conditions of contract is part of every contract, in itself precludes its being treated as a genuine pre-estimate of damages. The value that we can recover in cases of delays is only loss actually sustained due to delay in supply, subject to a limit of 2 per cent specified in the general conditions of contract.

According to the advice of Ministry of Law, actual loss is to be quantified in terms of money for the actual delay in supplies. Where the loss cannot be so quantified, we cannot legally recover L/D. Even then the practice of this Department

has been to levy token L/D upto 10 per cent of leviable L/D where the firms are responsible for the delays, even if consignees certify that there had been no loss or inconvenience. Guidelines have since been issued vide O.M. No. 4(11)[85]D(S.1) dated 20-9-1985 to bring about uniformity in regard to the levy of liquidated damages for delayed supplies and to minimise areas of discretion.

- | | |
|---|---|
| (i) Delay in supplies resulted in monetary loss actual/demonstrable and firms were fully responsible for the delay. | Full L/D |
| (ii) Delay in supplies resulted in monetary loss actual/demonstrable but the firm were responsible only for part of the delay. | Full L/D for the period for which they are responsible and remaining part of the delay was beyond their control.
The apportionment of the delays must be done judiciously and recommended by the TC. |
| (iii) Delay in supplies resulted in monetary loss actual/demonstrable and entire delay was due to circumstances beyond their control. | L/D may be waived fully |
| (iv) Monetary loss actual/demonstrable cannot be certified but inconvenience has been caused. | Token L/D=10% of leviable L/D calculated for the period for which the firms are responsible." |

1.173 Asked whether it was possible to incorporate predetermined liquidated damages clause in the case of supply orders placed for indigenous items on established sources, the Department of Defence Production and Supplies stated as follows :

"The following 'Liquidated Damages' Clause appears in the general conditions of the contract supply orders concluded by the Ministry of Defence in Schedule 'B', which stipulated a predetermined rate."

- 9(iii) "To recover from the contractor as agreed liquidated damages, and not by way of penalty a sum of 2 per cent of the price of any stores which the contractor has failed to deliver as aforesaid, for each month or part of a month exceeding 15 days during which delivery of such stores may be in arrears."

2. However, since the objective development-current-production supply orders for defence stores is to establish sources for items hitherto imported/newly developed, there are bound to be delays, owing to changes in specifications/drawings effected from time to time for improvement during the process of development and bulk production."

1.174 The Department of Defence Supplies under the Ministry of Defence was set up in 1965 essentially to achieve self-reliance in the procurement of Defence equipment and stores required by the Armed Forces. The Committee find that out of items numbering 88,984 projected for deve-

development and procurement through indigenous sources, upto 31 March, 1981 supply orders for only 47,363 items only were placed by the Department on indigenous suppliers. According to the Department, a large number of items remained outstanding for want of proper particulars or samples. The Committee are unhappy to note that percentage of the number of items remaining uncovered for want of proper particulars or samples in respect of three Technical Committees, viz., TC (Aeronautics), TC (Vehicles) and TC (Engineering Stores) was as high as 53.4 per cent, 30 per cent and 18.1 per cent respectively. The Committee recommend that the Government should identify the bottlenecks responsible for such a high shortage in the placement of supply orders, particularly in respect of the items pertaining to the aforesaid three Technical Committees.

1.175 The Committee note that concrete efforts for indigenisation on the defence side started only during the closing years of 'sixties', which according to the Department of Defence Supplies, is the real reason for the slow pace of indigenisation of defence equipment. The requirements of inspection and testing of the defence supplies are very strict and rigid, are stated to be the other reasons for the slow pace of indigenisation. While fully appreciating these constraints, the Committee are not satisfied that everything possible has been done to accelerate the pace of indigenisation.

1.176 According to the test check carried out by the audit of 467 supply orders placed during 1977-78 to 1980-82, delay ranging from over 12 months to over 36 months was revealed in placing supply orders against indents received from the users. According to the Ministry of Defence, it normally takes 5 to 8 months to process an indent for placement of a supply order. It is a matter of deep concern that in as many as 193 of these 467 supply orders, the delay in finalisation of the supply orders ranged from over 2 months to over 36 months. In spite of the fact that the Department of Defence Supplies has now been in existence for more than 20 years, no worthwhile steps appear to have been taken to shorten the time taken in finalisation of indents. The Committee recommend that procedures should be evolved in consultation with all concerned so that indents are finalised within the shortest possible time.

1.177 Another disquieting feature of the working of the Department of Defence Supplies is the lack of effective monitoring of supply orders. In as many as 36 supply orders of the total value of Rs. 8.97 crores placed upto June 1979, the suppliers failed to submit samples or commence supplies for over 3 years. In some cases, where samples were received within three years, trials and approval had taken quite a long time. The Committee are not convinced by the argument of the Department that all the items were complex items which were being developed for the first time. Due to such abnormal delays and developmental failures, orders for as many as 8 out of 36 items had to be cancelled.

1.178 The Committee recommend that the existing monitoring procedure should be adequately streamlined so as to make it more effective. Planning of requirements particularly in respect of hard core items should be done sufficiently in advance. Steps should also be taken to reduce the time taken for users' inspection test to the minimum extent possible. The

Committee note that several measures for improving the working of the Supplies Division have been formulated after a detailed review of the working of the Supplies Wing in a meeting held with all the Chairmen of Technical Committees on 31-3-1985. Prior to 31-3-1985 no comprehensive internal review of the working of the Supplies Division had been conducted by the Department.

The Committee recommend that in future periodic reviews of the Supplies Division should be conducted by the Department with a view to streamlining the purchase procedure so that unnecessary delays at all stages could be obviated.

1.179 The Committee note that till December, 1982, financial assistance by way of development advances, tooling advances and 'on account' payments for purchase of raw materials, was extended to indigenous suppliers/firms, and in this manner the Government was sharing with the manufactures the cost of development. The Committee note that as on 5th October, 1981, unadjusted advances amounting to Rs. 8.36 crores in respect of 67 supply orders had accumulated owing to failure of the firms to develop the prototypes or to complete the supplies. According to the DDS the amount outstanding against 28 firms as on 29th September, 1983 was Rs. 1,566 crores. Faced with such a large amount remaining unrecovered, the DDS decided in December, 1982 not to pay any 'on account' payments or advances in its future contracts save in exceptional cases to be approved by the Raksha Mantri.

1.180 The Committee feel that effective development of local industry is essential for meeting the requirements of the Defence Forces and for that reason all possible assistance is very necessary for creating skills and quality consciousness. The Committee consider that the virtual stopping of the practice of granting 'on account' payments or advances in December 1982, Government have virtually discontinued for all practical purposes the principle of sharing with the manufacturer the cost of development. It is not unlikely that manufacturers may not show much interest in effectively executing developmental orders. The Secretary of the Department assured the Committee during evidence that they were examining various pros and cons in this regard. The Committee desire that suitable mechanism which may be helpful for effective and early execution of the developmental supply orders, should be evolved without delays.

1.181 The Committee find that out of the advances on Account of Payment of Rs. 1,566 crores outstanding against 28 firms as on 29 September, 1983, a sum of Rs. 47.57 lakhs was not covered by Bank Guarantee and recovery of such advances became difficult in the absence of any safeguards. The Committee trust that while working out the mechanism for sharing the developmental cost with the manufacturers as recommended in the preceding paragraph, suitable safeguards for recovery of advances in the event of failure or cancellation of the supply orders will also be provided.

1.182 The Committee would like to draw attention to a supply order placed on firm 'A' for 20-ton low deck trailers at a cost of Rs. 1.05

crores. The firm, which was required to submit the pilot sample within the scheduled delivery date i.e. by 31-5-1975, actually submitted it on 13-7-1977 and this was later found to be unacceptable. Even the modified sample submitted in March 1978 was found to be not free from defects of serious nature. The Committee are concerned to note that in spite of the repeated failure of the firm to develop a satisfactory sample even within a period of more than 3 years, the Department failed to cancel the contract at the risk and cost of the firm immediately after March, 1978, when the modified sample was found to be defective. While the Committee entirely supports the policy of giving every assistance, encouragement and support to those who undertake to produce defence equipment, the Committee are of the view that the reasons advanced by the Department for not taking a stricter action in not actually cancelling the order after the unsuccessful user trials because of the subsequent interest shown by the firm to execute the order, are not wholly convincing.

1.183 In 1980 the matter regarding cancellation of the order by the Department was examined in consultation with the Legal Advisor (Defence) who opined that since the contract had been kept alive after the delivery period, it would not be possible to cancel the contract at that stage without giving further notice-cum-extension for submission of pilot sample. According to the Audit Paragraph the supply order had not been cancelled till as late as September, 1983. According to the Department, the Supply Order was finally cancelled at the risk and cost of the firm. The Committee consider that in this case excessively generous view has been taken of the continued failure of the supplying firm.

1.184 A disquieting feature of the aforesaid supply order on firm 'A' is that a sum of Rs. 13.80 lakhs paid to the firm in June 1976 and February 1977, for purchase of raw materials, without any bank guarantee as not been recovered so far. It is surprising that the last instalment of advance of Rs. 3,35,684 - was paid to the firm in February, 1977, in spite of the fact that the firm had failed to submit the sample within the scheduled delivery date of 31 May, 1975. The Committee have been informed by the DDS that the matter for recovery of advance of Rs. 13.80 lakhs has been referred to Bureau of Public Enterprises on 29-6-1984. It has been stated that the Ministry of Railways have withheld an amount of Rs. 13.80 lakhs, which will be released only after the advance payment received by firm 'A' is refunded to the Ministry of Defence. The Committee would like to know the latest position about the recovery of this amount of Rs. 13.80 lakhs as also the recovery of risk and cost expenses from the firm.

1.185 The Committee note that in the cases failure on the part of the Department of Defence Supplies to enforce the contract conditions regarding cancellation of contract and to effect risk and cost purchase within 6 months of the date of breach of contract, resulted in an intractable additional expenditure of Rs. 10.91 lakhs as regarding purchase of Ammunition boxes and Trailer Fire Fighting. According to the Ministry of Defence, in the case of purchase of ammunition boxes, the legal advice was that because of the abnormal increase in the cost of raw material by Government action, impossibility of performing the contract had occurred under the Contract Act and as such no valid risk purchase could be

made. Similarly in the case of Trailer fire fighting, non-availability of engine from the single approved source, due to lock out in their premises, was accepted as a case of impossibility of performance by the Legal Adviser. However, when a second legal opinion was obtained in the case for the purchase of trailer fire fighting, the Legal Adviser (Defence) advised on 7-8-1984 that general damages should be claimed from the defaulting firm on the basis of the market rate on or about the date of the breach. Consequently, a claim of Rs. 4,57,329.60 was raised against the defaulting firm. It would appear the first legal advice was given without adjudicial appraisal of all the connected facts. The Committee would like to know the latest position about the realisation of the claim for general damages amounting to Rs. 4,57,329.60.

1.186 The Department of Defence Supplies, which is mainly concerned with development of items in the private sector claims that they are faced with many difficulties in effecting valid risk purchase. The Department has set up a Committee under the Chairmanship of the Legal Adviser (Defence) to review the procedure in regard to the risk purchase. If this Committee has submitted its recommendations the Public Accounts Committee would advise that if these recommendations are acceptable, they should be made generally known in the Department.

1.187 The Committee note that against the Navy's requirements for indigenous development of high pressure air compressors, supply order for development and manufacture of 25 number of portable air compressors at a total cost of Rs. 26.25 lakhs was placed by the Department of Defence Supplies on firm 'R' in September 1977. The firm was required, in the first instance, to manufacture 2 prototype complete with indigenous components and materials for test and trials. The remaining 23 numbers were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype. On 25th March, 1979, the firm submitted the prototypes. They were found on inspection to be defective. After rectifying the defects the prototypes were resubmitted by the firm in October, 1979. The bulk production clearance was given in November, 1979, without testing the rectified prototypes. The Department have admitted that the grant of Bulk Production clearance even before carrying out the users trials were carried out was not prudent on the part of the concerned officers of the Directorate of Production and Inspection (Navy). Later when these prototypes were put to trials, the Directorate of Production and Inspection (Naval) pointed out in April, 1980 that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones. Consequently the bulk production clearance accorded in November, 1979 without proper verification was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design drawings for approval by the inspection authorities and to produce two fresh prototypes using indigenous materials/components.

1.188 The Committee are constrained to observe that the inspection staff had no excuse for not complying with the obvious norms of inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. This is a serious

failure and the Ministry should take appropriate disciplinary action against those responsible.

1.189 By no stretch of imagination can it be held that it was only a case of procedural and conceptual technical lapse on the part of the Inspecting Officers. The Committee are unable to agree with the findings of the Board of Investigation. The Committee would like the Department to review the matter and take more stern action so that such lapses may not recur in future.

1.190 The Committee note that out of a supply order for procurement of 230 generating sets of 2KVA capacity at the total cost of Rs. 27.25 lakhs, placed on firm 'S' in August, 1975, the firm supplied only 192 sets during June, 1978—September 1980 and failed to make further supplies thereafter despite grant of extension upto 30 September, 1981. In December, 1981, the Department short-closed the order at the risk and cost of the defaulting firm. The risk purchase could not be effected as the users wanted the remaining sets with the revised specification. The Committee further note that 25 sets costing Rs. 2.96 lakhs out of the 192 generating sets, were found to be defective though in repairable condition. It is a matter of serious concern that these 25 generating sets received early in 1980 should not have been put to any use as they could not be got repaired till September, 1983. The Committee can only record their dissatisfaction and displeasure.

1.191 The Committee note that the Department of Defence Supplies issued on 29 June, 1979 a single tender enquiry to firm 'T' for supply of one lakh shells of an ammunition 'ZA'. The firm 'T' quoted on 3 July, 1979 the rate of Rs. 498 per shell for the entire quantity of one lakh shells with its own materials. On 6 July, 1979, firm, 'T' intimated that if raw materials for 50,000 shells were supplied by the Ordnance Factory the cost thereof could be reduced. The Department failed to place any order on firm 'T' before expiry of the validity date (31 July 1979) of its offer. According to the Department, the order could not be placed before the expiry of the validity date of 31 July, 1979 because prima facie the offer of the firm of Rs. 498 per shell appeared to be on the high side compared to the developmental order of Rs. 370 per shell placed on 28 February, 1979. Besides this, certain conditions like demand for 10 per cent advance etc. needed to be thrashed out.

Firm 'T' revised on 9 August, 1979 its quotation from Rs. 498 to Rs. 596 per shell on the plea that it had erred in calculating the original rate. At the meeting held in DDS on 17 August 1979, it was decided that a quantity of 25,000 shells would be covered at Rs. 540 per shell with escalation clause. Accordingly, on 10 December 1979, the DDS placed a supply order on firm 'T' for 25,000 shells at the enhanced rate of Rs. 540 per shell.

Strangely enough 4 separate supply orders for the balance quantity of 75,000 shells were placed in May and June 1980 on four firms 'T', 'U', 'V' & 'W' at the rate of Rs. 615, Rs. 610, Rs. 610 & Rs. 615 per shell respectively. While firm 'T' completed delivery of 25,000 shells against sup-

ply order of December 1979 by March 1981 and supplied 2,682 shells upto September 1982 against the supply order of May 1980, firms 'U', 'V' and 'W' failed to adhere to the delivery schedule prescribed in the supply orders placed on them. According to the Department, separate supply orders were placed on firms 'T' and 'U', 'V' and 'W' with a view to developing additional sources to meet anticipated recurring large demands in future. The Committee consider it as only a partially valid argument. Failure on the part of the Department to place a substantially large supply order on firm 'T' before the expiry of the validity period resulted in a large additional expenditure in procuring supplies 9 months later. The Committees are of the view that if the order for additional 75,000 shells was also placed on firm 'T' alongwith the order for 25,000 shells placed on 10 December, 1979 at the rate of Rs. 540 per shell, quite a lot of infructuous expenditure would have been saved.

1.192 Similarly in another case, delay in placing order for the procurement of 46,370 tail units required to put a large amount of ammunition 'ZB' from repairable to serviceable condition, on the established supplier firm 'Z' resulted in an avoidable additional expenditure of Rs. 4.25 lakhs. Initially, the Department placed in December, 1977 supply order for 23,185 tail units each on firms 'X' and 'Y' inspite of the observation made by the Technical Committee (Armament Stores) that the firms were inexperienced and lacked the capacity to undertake manufacture of the stores. According to the Department the orders on these firms were placed since the firms had shown confidence to develop and manufacture these items and had also quoted the lowest price of Rs. 6.95 each. As the firms 'X' and 'Y' failed to develop acceptable samples, it was decided to cancel the orders on them. Mere price advantage offered by the concerned firms when there was doubt about in their own competence ought not to have been accepted as sufficient justification for placing order on the firms in the face of Technical Committee's clearly expressed opinion about their in-competence.

1.193 On cancellation of the orders for tail units on firms 'X' and 'Y' the Technical Committee decided in June 1978 to place an order for entire quantity on an established firm 'Z'. The firm had agreed in June, 1978 to accept the order for 93,370 numbers at the rate of Rs. 8.50 and requested the Department to issue a letter of intent immediately to enable it to commence planning and procurement of raw materials. According to the Department no letter of intent could then be issued as there was a considerable quantity on order on the firm and there was also a deliberate decision to develop an alternative source. The former argument is on the face of it unjustifiable as an attempt had been made to ascertain the firm's capacity while the latter argument would have had force if they had already discovered any suitable firm willing to undertake the task. The delay in placing-order for the full quantity only resulted in a higher price having to be paid. The Committee take a very serious view of the entire transaction.

1.194 The Committee observe that for development of additional sources of supply of railway equipment the Ministry of Transport (Department of Railways—Railway Board) follow the system of placement of

educational/developmental orders at a preferential price on new entrepreneurs besides placing order for the major portion of supplies on established suppliers. The Committee commend the system followed by the Ministry of Transport (Department of Railways) to acceptance by the Department of Defence Supplies.

1.195 In yet another case, for the procurement of plant dry air charging sets, the non-acceptance of firm "AC's" offer of Rs. 1.39 lakhs per set within the validity period resulted in an extra expenditure of Rs. 1.68 lakhs on procurement of 13 sets out of 31. According to Audit, firm "AC's" offer of Rs. 1.39 lakhs was kept open upto 25 June 1980. In the meantime, requirement for the equipment was increased in May 1980 to 31 sets. The DDS failed to place supply order on the firm before the validity period. Firm "AC" revised the price of the equipment to Rs. 1.78 lakhs per set and also extended the validity of its offer upto July 1980. Finally a supply order for 31 sets was placed on the firm on 4 September, 1980 at the rate of Rs. 1.52 lakhs.

1.196 The Committee note that the Department of Defence Supplies placed in October, 1978 after the question of price negotiations was discussed in a meeting in December 1977, two supply orders one on a private firm 'AD' and the other on a public sector undertaking 'AE' for development and supply of 50,000 shells each at the rate of Rs. 324 and Rs. 356 per shell, respectively. These shells were required for producing a particular type of ammunition 'ZC' in the Ordnance Factories. According to the Department, although a meeting for price negotiation was held in December, 1977 to place an order on firm 'D', the order could not be placed immediately on them in view of their critical financial position.

1.197 Both the firms 'AD' and 'AE' were required to complete delivery of the shells by the middle of 1980. Both the firms failed to submit defect-free samples in time—firm 'AD' submitted the samples in time—firm 'AD' submitted the samples at the end of one year and seven months, while firm 'AE' did so by about 2 years. Bulk production clearance was granted only on 12 December, 1980 to firms 'AD' and on 29 October, 1980 to firm 'AE'. There was abnormal delay on the part of firms 'AD' and 'AE' in making the supply of shells in as much as firm 'AD' supplied only 20,186 out of 50,000 shells so far and firm 'AE' could supply 38,208 shells by March 1983. It is surprising that inspite of such an inordinate delay on the part of these firms, enhancement of price per shell was sanctioned for both the firms, 'AD' from Rs. 324 to Rs. 533 and 'AE' from Rs. 365 to Rs. 565. The Committee do not find any justification for agreeing to such a generous increase in both the cases.

1.198 In yet another case the Committee find that two supply orders for 134 trailers (without panels) were placed by the Department in July 1979 on two firms 'AF' and 'AG' for 34 and 100 trailers, respectively. These trailers were required for mounting generating sets. The Inspectorate of Vehicles (North-Zone) from whom the capacity of firm 'AF' was ascertained had reported that the firm had only limited capacity with regard to manufacture, and its financial resources were also limited.

The Inspectorate had further stated that the firm "AF" would not be able to give more than 5 trailers per month. The Committee are therefore surprised to find that an order for 34 trailers was placed on the firm for delivery at the rate of 8—10 numbers per month. The firm could supply only 20 trailers after grant of 3 extensions till 31st December, 1982. Firm 'AC' completed the supply order placed on it within the extended date of May, 1981. Similarly in order to procure generating sets for mounting on the trailers to be supplied by the firms 'AF' and 'AG', the Department placed the supply orders in November and December 1979—one on firm 'AH' for 145 generating sets and the other on firm 'AI' for 50 sets. The trailers were to be supplied to these firms by the Department. The delivery of generating sets mounted on trailers was to commence after two months by firm 'AH' and after 3 or 4 months by firm 'AI' depending on the receipt of trailers. As there were not sufficient trailers, there was some delay in supplying them to the firms AH and AI with the result that they could not complete the supplies. The delay in issuing the trailers resulted in a delay of more than a year in completing the orders. Consequently both these firms claimed price escalation to the extent of Rs. 22.24 lakhs in terms of the price variation clause. It is obvious that the Department should have taken care to ensure that the availability of generating sets on the one hand and of trailers on the other coincided as it is this one failure which resulted in a large avoidable expenditure.

1.199 The Committee note that an indent was placed by Director of Ordnance Services on the Department of Defence Supplies in February, 1978 for procurement of 4,06,000 litres of paint RFU in 3 different packing viz. 20 litre drums, 5 litre packs and 1 litre packs. Although the paint was urgently required by the DOS during June, 1978 to December 1978, a part order for 2,50,000 litres of paint in 3 different packs was placed by the Department in March, 1979 on firm 'AL' at the rates of Rs. 8.80 per litre for 20 litre drums, Rs. 10.08 per litre for 5 litre packs and Rs. 12.00 for 1 litre pack. Strangely enough no orders were placed on firm 'AF', which had quoted the lowest rate of Rs. 8.80 per litre for 20 litre drums and Rs. 10 per litre for 5 litre packs. Firm 'AL' was required to submit acceptable advance samples by 31st March, 1979. The supply order on firm 'AL' was cancelled in February, 1980 without financial repercussions on either side, as the firm failed to submit acceptable samples till that period. The item was already being procured by the DGS&D through established indigenous sources on rate contract.

1.200 Subsequently, in March 1979, Director of Ordnance Services placed on DDS another indent for 8,20,300 litres of paint requiring immediate procurement of this quantity by June, 1980. As a result of the fresh tender enquiries floated in August, 1979, the Department of Defence Supplies placed 9 supply orders in January-February, 1980, on different firms for a total quantity of Rs. 12.15 lakhs litres of paint in different packs at the rate of Rs. 12.91 to Rs. 13.50 per litre for 20 litre drums, Rs. 15.10 to Rs. 15.30 per litre for 5 litre packs and Rs. 16.75 to Rs. 17.00 for 1 litre pack. According to the Department, the paint in question was procured by DGS&D for Defence Department at the rates

of Rs. 9.40 to Rs. 9.80 per litre in 20 litre packing against the orders placed on 25-1-1979. The Committee are not satisfied with the explanation of the Department that there was some confusion as to who should deal with the purchase, being the first purchase after it was made an exclusive defence item. The Committee regret that failure of the Defence Department to hold consultation with DGS&D before placing the order led to avoidable loss to the Department. If 4,06,000 litres of paint indented in February 1978 had been procured through the established source supply, it would have cost Rs. 40.84 lakhs, as against the cost of Rs. 59.17 lakhs, under the supply orders placed in January-February 1980. The Committee desire that the responsibility for the lapses be fixed and action taken against the defaulters. The Committee also recommend that procurement action in respect of common utility items should in future as far as possible, if not invariably be taken in consultation and coordination with the DGS&D and other concerned agencies.

1.201 The Committee note that 497 number of tyres BLR (for imported tractors) beyond local repair were got retreaded by a firm 'AZ' during May 1976—October, 1977 at a total cost of Rs. 6.23 lakhs. These tyres were got retreaded in spite of the fact that an adequate stock of new tyres was already available and the imported tractors in question were likely to be phased out in the near future. The Committee note with surprise that retreading of 497 tyres was completed during May 1976, October, 1977 and the Ordnance Dte. was not aware of the purchasing out of the tractor at that time. It was only in April, 1984 that the decision to declare the tractors in question obsolete was taken. The incorrectness of the decision to get these tyres retreaded is further corroborated by the fact that till March, 1983, out of the 497 retreaded tyres, only 26 had been issued to user units, 370 had been transferred to two other ordnance depots and 101 held in stock. Even at present, as many as 113 of these retreaded tyres are held in stock at Central Ordnance Depot. The Committee are distressed to note that an expenditure of Rs. 5.90 lakhs on retreading of 471 out of 497 tyres when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were to be used, were being phased out in the near future, has proved infructuous. The Committee consider it to be yet another instance of complete lack of planning coordination and foresight on the part of the Department, which has resulted in avoidable loss to the Government.

1.202 The Committee find that an amount of Rs. 37.83 lakhs was recoverable as liquidated damages from suppliers of stores in respect of 92 supply orders placed by the Department during the period 1977-78 to 1980-81. Of this, an amount of Rs. 18.78 lakhs involving 44 supply orders was waived fully by the Department. Out of the balance amount of Rs. 19.05 lakhs, only a sum of Rs. 1.57 lakhs was recovered. The Committee trust that incorporation of a liquidated damages clause in the supply contracts is meant for ensuring timely execution of the contracts and to guard against the propensity for delay. Though the Committee agree that in development-cum-production supply orders, the strict enforcement of this clause may not to some extent be possible but they feel that the very purpose of this clause is defeated if the suppliers

know from their past experience that such damages would finally be waived. Further, the use of free and uncontrolled discretion by the concerned officers with regard to the waiving of liquidated damages may lead to its misuse. The Committee recommend that comprehensive guidelines for the concerned departmental officers should be issued so that this discretion is very judiciously exercised. The Committee note that some guidelines were issued on 20-9-1985 to bring about uniformity in regard to the levy of liquidated damages for delayed supplies and to minimise areas of discretion. The Committee recommend that the question of further revamping these guidelines should be periodically reviewed.

1.203 From the facts mentioned above, the Committee have reached the firm conclusion that the Deptt. of Defence Supplies, which was created in 1965 for the purpose of indigenisation, development and production of imported defence items and to achieve self-reliance in the procurement of defence equipment and stores required by the Armed Forces has not been able to achieve what was expected of them. Despite the fact that the Department has been functioning for the past twenty years, it does not appear yet to have succeeded in establishing many reliable producers of defence stores and equipments pari passu with the industrial development of the country. The failure is the more disappointing in as much as Government appears to have followed a liberal policy with regard to development expenses. The Committee trust that the Department will examine the various suggestions made in the foregoing paragraphs designed to improve its working. The Committee recommend that Government should appoint a High Level Committee to go into the entire question of indigenisation and production of defence stores in the country.

NEW DELHI;

April 28, 1986.

Vaisaka 5, 1908 (Saka)

E. AYYAPU REDDY,

Chairman,

Public Accounts Committee,

APPENDIX I

Audit Paragraph

Review on the working of the Department of Defence Supplies

Introduction

1.1 The Department of Defence Supplies (DDS) was set up under the Ministry of Defence in November 1965 to achieve self-reliance in the procurement of Defence equipment and stores required by the Armed Forces. The DDS deals with indigenisation, development and production of imported items, new items developed by Defence Research and Development Organisation and components, sub-assemblies and assemblies required to supplement the production in the Defence Production Units. Ten Technical Committees for various disciplines of stores consisting of representatives of users, inspectors, Authorities Holding Sealed Particulars (AHSP) and Finance identify development of sources for the items for indigenisation. A Central Technical Committee headed by the Additional Secretary (Defence Supplies) review and oversees the work of various Technical Committees.

Targets for placement of orders during the year are fixed based on the likely quantum of work and their capacity. The total number of items projected for development by the Technical Committees, at the beginning of each year, after identification and the number of items covered by supply orders up to 31st March 1981 for each of the disciplines are given in the following table :

Technical Committee (TC)	Number of items projected up to 31-3-1981	Number of items for which supply orders were placed upto 31-3-1981	Shortfall
1. TC (Aeronautics Stores)	2,778	1,295	1,483
2. TC (General Stores)	231	208	23
3. TC (Vehicles)	973	695	298
4. TC (Medical Stores)	1,033	743	290
5. TC (Electronic/Electrical Stores)	10,414	3,483	6,931
6. TC (Vehicle Stores)	41,396	17,104	24,292
7. TV (Armanent Stores)	6,297	3,491	2,806
8. TC (Engineering Stores)	6,670	2,417	4,253
9. TC (Marine Stores)	19,192	17,927	1,265
10. TC (Tank Spares) (Data not made available)	..	..	..
Total	88,984	47,363	41,621

There was an overall shortfall of about 46 per cent in the placement of supply orders. According to the DDS, a large number of items remained outstanding for want of proper particulars or samples. As against supply order for total value of Rs. 241.54 crores placed during 1977-78 to 1980-81, the actual supplies received were for Rs. 190.60 crores as shown below :

	Total amount of supply orders placed	Total value of supplies received
(Rs. in crores)		
1977-78	67.00	49.93
1978-79	61.09	47.16
1979-80	44.56	44.95
1980-81	73.89	48.56
Total	241.54	190.60

A test check of supply order (467 numbers) placed during 1977-78 to 1980-81 revealed the following :

Indents

1.2 Indents from users for procurement of stores are received by the Technical Committees of the respective disciplines, who float the tenders and process them up to finality. Each Technical Committee maintains a Register of Indents to indicate the date on which each indent was received, but it did not indicate in all cases whether supply order were placed against all such indents. Delay ranging from over 12 months to over 36 months in placing supply orders against indents received from the users was noticed as shown below :

	Number of cases of delay of			Total
	Over 12 months	Over 24 months	Over 36 months	
TC (Armament Stores)	10	8	5	23
TC (Electronic Stores)	29	42	22	93
TC (General Stores)	2	1	..	3
TC (Vehicles)	1	..	..	1
TC (Engineering Stores)	57	8	13	73
Total	94	59	40	19

The main reasons for delay ascribed by the DDS were non-availability of manufacturing particulars like drawings and specifications, poor response from suppliers and difficulty in locating sources and time taken in negotiations with the suppliers.

The suppliers are allowed 6 to 8 weeks for submission of samples and another 6 months to commence bulk supplies after approval of the samples. In the case of 36 supply orders of the total value of Rs. 8.97 crores placed up to June 1979, the suppliers failed to submit samples or commence supplies for over 3 years. Against 67 other supply orders (value : Rs. 33.21 crores) placed during 1972 (two), 1973 (two), 1974 (one) and January—June 1979 (sixty-two) stores worth Rs. 12.10 crores only had been supplied till August 1982. According to the DDS (September 1983), the process of indigenisation takes lot of time and in the case of development items there is bound to be a gap between the placement of supply order and materialisation of supplies.

Outstanding advances.

1.3 Financial assistance by way of development advances, tooling advances and 'on account' payments for purchase of raw materials is extended to indigenous suppliers firms. Unadjusted advances reported by the Internal Audit Authorities were to the tune of Rs. 8.36 crores in respect of 67 supply orders as on 5th October 1981 (5 years — Rs. 1.52 crores ; 4 years—Rs. 2.63 crores ; 3 years—Rs. 0.52 crore ; 2 years — Rs. 3.69 crores) mainly due to failure of the firms to develop the prototype or to complete supplies. According to the DDS, the amount outstanding against 28 firms as on 29th September 1983 was Rs. 1.566 crores.

Faced with blockade of large public money in the shape of advances paid to the suppliers remaining unrecovered, the DDS decided (December 1982) not to pay any 'on account' payments or advances in future contracts to be concluded by the Department save in exceptional cases to be approved by the Raksha Mantri.

1.4 Firm 'A' on whom a supply order was placed (January 1975) for 20-ton low deck trailers at a total cost of Rs. 1.27 crores (later reduced to Rs. 1.05 crores for lesser quantity) failed to submit the pilot sample within the scheduled delivery date (31st May 1975) and was granted three extensions up to 15th July 1977. The pilot sample was submitted on 13th July 1977 and was found unacceptable. The modified pilot sample submitted (March 1978) was also found defective in the user's trials. The DDS asked (April 1981) the firm to refund Rs. 13.80 lakhs paid (June 1976 and February 1977) as advance (without any bank guarantee) for purchase of raw materials. The firm expressed (November 1982) its inability to refund the advance on the ground that raw materials worth Rs. 19 lakhs had been purchased by it and unless those raw materials were disposed of, refund was not possible. Efforts made to utilise the raw materials elsewhere in similar other contracts did not succeed. The supply order was not yet (September 1983) cancelled and the advance of Rs. 13.80 lakhs continued to remain unsecured and unrealised without any delivery of stores. The DDS stated (September 1983) that it was a case of developmental failure and the contract should have been cancelled without financial repercussions which was not done because the firm failed to refund the on-account payment and that steps had been taken to recover the amount through the Director General, Supplies and Disposals (DGS&D).

Risk and cost purchases

1.5 The general conditions of the supply orders provide that in event of the contractor defaulting the balance quantity against the incomplete contract may be obtained from other sources within 6 months of the date of such failure and the resulting loss may be recovered from the defaulting contractor. Non-adherence to these provisions by the DDS resulted in extra expenditure of Rs. 10.91 lakhs to the State in the following cases :

1.6 To cover the requirement of 39,432 numbers of ammunition boxes, the DDS placed (April 1978) six supply orders on six different firms for an equal quantity of 6,572 numbers of boxes at the rate of Rs. 113 each (firms 'C', 'D' and 'E') and Rs. 115 each (firms 'F' 'G' and 'GG'). Firms 'F' 'G' and 'GG' completed the supplies. Two more orders for 6,572 numbers each at the rate of Rs. 113 were placed (January/February 1979) on firms 'F' and 'G'. Four firms ('C', 'D', 'E' & 'F') made part supplies aggregating 5,925 numbers while firm 'G' did not make any supplies. All these five firms represented (April/June 1979) for increase in price ranging from Rs. 4.33 to Rs. 29 per box on the ground that the price of raw material had increased by then. This was not agreed to by the DDS and supply orders for the balance quantity of 26,935 boxes were short-closed/cancelled (December 1979) at the risk and cost of the defaulting firms.

Meanwhile, the Technical Committee (Armament Stores) floated (20th November 1979) tender enquiry for the procurement of balance quantity. The question of recovery of extra expenditure arising out of risk purchase was referred to the Legal Adviser (Defence) who opined (March 1980) that "in order to place a valid re-purchase, the defaulting firm necessarily has to be kept in picture. Where it is effected by an advertisement tender, a copy of the tender notice, should be sent to the defaulter informing him that the enquiry relates to re-purchase of stores against the contract which was cancelled at his risk and cost."

The DDS placed (June 1980) supply orders on three defaulting firms 'C' (5,000 numbers), 'F' (9,000 numbers), and 'G' (9,689 numbers) and a new firm 'H' (9,000 numbers) at the rate of Rs. 131 each. By this time, the period of 6 months reckoned from the date of breach for re-purchase at the cost of the defaulting firms had already expired. Recovery of Rs. 3.08 lakhs on account of risk purchase at extra cost could not be effected from the defaulting firms 'C' (Rs. 0.96 lakh), 'F' (Rs. 0.94 lakh) and 'G' (Rs. 1.18 lakhs). The DDS stated (September 1983) that even though no valid risk purchase could be made, the department was within its right to claim general damages from the (defaulting) firms but in view of the legal advice no further action for determining or claiming general damages could be pursued.

1.7 On receipt of an operational indent of November 1975 from the Director of Ordnance Services (DOS) for procurement of 122 numbers of trailers fire-fighting large 1,800 LPM, tender enquiry was floated (December 1975) to 8 firms. Of the six firms which responded, the lowest offer of Rs. 37,500 was from firm 'I' and the second lowest of Rs. 39,550 was from firm 'K'. After holding a price negotiation meeting in May 1976, a supply order for 62 trailers was placed (June 1976) on firm 'I' at the rate of

Rs. 35,500. An additional quantity of 50 trailers at the same rate was ordered (September 1976) on this firm through an amendment to the supply order. The balance quantity of 10 numbers was ordered (September 1976) on firm 'K' at the same rate. While firm 'K' completed supply of 10 trailers within the extended delivery period up to 14th May 1977, firm 'J' could submit (February 1977) only the pilot sample after obtaining extension up to 30th May 1977. After acceptance of the sample, bulk production clearance was accorded (25th June 1977) for completion of supply by May 1978. Firm 'J' could supply only 11 trailers (including the sample) by May 1978. In view of the urgency and critical nature of the stores, the DDS had meanwhile floated (April 1978) a standby tender for the procurement of 102 trailers. The tenders received from 6 firms (including the defaulting firm 'J') were opened on 18th June 1978. The prices quoted by the firms after negotiation ranged from Rs. 41,300 to Rs. 42,300 per trailer. The DDS referred (23rd September 1978) the short-closure of the order at risk and cost of the defaulting firm to the Legal Adviser (Defence) who observed (October 1978) that it would not be possible to enforce the claim for risk purchase since the prescribed procedure was not followed for calling stand-by tender. The contract with firm 'J' was cancelled (February 1979) at its risk and cost.

Five supply orders were placed on five different firms (including firms 'J' and 'K') in April 1979 for the balance 102 trailers: order for 22 numbers was placed on the defaulting firm 'J' at the rate of Rs. 35,000 and the balance quantity of 8 trailers was divided amongst four other firms viz., firm 'K' at Rs. 42,500 (30 numbers), firm 'L' at Rs. 41,000 (15 numbers), firm 'M' at Rs. 39,250 (20 numbers) and firm 'N' at Rs. 39,250 (15 numbers). The order on firm 'K' was off-loaded by 17 numbers and was covered against the order on firm 'M'. The order on firm 'L' was also cancelled without financial repercussion and the quantity of 15 numbers was covered on two other firms (5 numbers and 10 numbers). Subsequently, the prices were increased as asked for by the various firms. The supply of all the 102 trailers was completed at a total cost of Rs. 46.19 lakhs.

Firm 'J' whose contract was cancelled (February 1979) at its risk and cost did not accept the cancellation and pointed out that in view of non-availability of engines from the manufacturers in time the reasons for non-supply of the trailers were beyond its control and it was not responsible for delay in supply. The DDS stated (September 1983) that it might not be legally possible to hold the firm responsible for the breach of contract and to claim any damages from it. Even though the delivery of trailers was not linked with the supply of engines, risk purchase was not enforced by the DDS, thereby resulting in an extra expenditure of about Rs. 7.83 lakhs to the state.

Acceptance of sub-standard stores and avoidable idle outlay

1.8 Against the Navy's requirements for indigenous development of high pressure air compressors a supply order for development and manufacture of 25 numbers of portable air compressors at a total cost of Rs. 26.25 lakhs (at the rate of Rs. 1.05 lakhs each) was placed by the DDS on firm 'R' in September 1977. The firm was required, in the first instance, to

manufacture 2 prototypes (complete with indigenous components and materials) for test and trials; the remaining 23 numbers were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype. On 25th March 1979, the firm submitted the prototypes which, on inspection, were found to be defective. The defects were rectified and the prototypes resubmitted by the firm in October 1979; bulk production clearance was given in November 1979 without the prototype being put to trials. Later when these prototypes were put to trials, the Directorate of Production and Inspection (Naval) pointed out (April 1982) that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones and had thereby "cheated the Government". As a result, bulk production clearance accorded (November 1979) without proper verification about the use of indigenous components in consonance with the terms of the contract was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design/drawings for approval by the inspection authorities and to produce two fresh prototypes using indigenous materials/components. The firm submitted two revised prototypes in March 1982 but the same were not put to users' trials and bulk production clearance was, therefore, not given (December 1982) for the remaining 23 numbers. The firm had been paid (October 1977—January 1980) Rs. 2.16 lakhs as on account payments towards cost of prototypes and purchase of raw materials.

Thus, indigenisation of high pressure air compressors for which firm 'R' was paid Rs. 2.16 lakhs as on account payments could not be achieved. The DDS stated (September 1983) that against advance on account payments of Rs. 3.76 lakhs (which included Rs. 1.60 lakhs relating to another order) bank guarantees for Rs. 2.75 lakhs were encashed by the Department leaving a balance of Rs. 1.01 lakhs.

1.9 A supply order for the procurement of 230 generating sets of 2 KVA capacity at the rate of Rs. 11,850 each (total cost : Rs. 27.25 lakhs) was placed by the DDS on firm 'S' in August 1975. The firm was to submit the prototype by 15th September 1975 and bulk supply was to commence thereafter at the rate of 30 sets per month. The firm, however, supplied only 192 sets during June 1978—September 1980 and failed to make further supplies thereafter despite grant of extensions (up to 30th September 1980). The firm, having become a sick unit, had asked for (January 1980) a price increase which was not agreed to. The DDS short-closed (December 1981) the order after receipt of 192 sets at the risk and cost of the defaulting firm. COD 'X' reported (May 1982) that out of 192 sets received, 25 sets (cost : Rs. 2.96 lakhs) were lying in repairable conditions since June 1980 and that the guarantee period of 15 months had expired. The firm had not taken any action for repairing them in spite of repeated reminders by action for repairing them in spite of repeated reminders by COD 'XX'. One set which, after having been received from the firm, was taken by the Controllorate of Inspection (Electronics) for class 'C' test had also become unserviceable (October 1981).

Thus, neither 25 numbers of defective generating sets (cost : Rs. 2.96 lakhs) were not repaired/replaced by firm 'S' nor was risk and cost purchase effected for the quantity short supplied (38 sets) by it. The DDS

stated (September 1983) that the amount required to be spent in repair of defective diesel sets would be got adjusted from the balance of 5 per cent payment due to the firm still lying with the department. The DDS added that the question of risk purchase was also examined in consultation with the users who wanted the remaining sets with the revised specifications and diesel engines in place of the earlier sets with petrol engines; in the circumstances the question of any risk purchase did not arise.

Avoidable expenditure due to acceptance of offers beyond validity period

1.10 Acceptance of offers beyond the validity period resulted in extra expenditure of Rs. 1.02 crores in the following cases :

A. An educational order for 200 shells of an ammunition 'ZA' at the rate of Rs. 370 each was placed (February 1979) by the Director General, Ordnance Factories (DGOF) on firm 'T'. The shells supplied (May-June 1979) by the firm were found satisfactory during extensive performance trials. The Ordnance Factory Board (OFB) requested (19th June 1979) the DDS to arrange procurement of 1 lakh shells from firm 'T'. The DDS issued (29th June 1979) a single tender enquiry to firm 'T' for supply of 1 lakh shells, indicating that 50 per cent of the shells were to be manufactured from the raw materials to be supplied by the Ordnance Factory. Firm 'T' quoted (3rd July 1979) the rate of Rs. 498 per shell for the entire quantity of 1 lakh shells with its own materials. Firm 'T' intimated (6th July 1979) that if raw materials for 50,000 shells were supplied by the Ordnance Factory, the cost thereof could be deducted. No order was, however, placed on firm 'T' before expiry of the validity date (31st July 1979) of its offer.

Firm 'T' revised (9th August 1979) its quotation from Rs. 498 to Rs. 596 per shell on the plea that it had erred in calculating the original rate and stated that the price of each shell would be more by 10 per cent if the quantity to be ordered was less than 1 lakh shells. It was decided in a meeting held in the DDS (17th August 1979) that a quantity of 25,000 shells would be covered (with an option for another 25,000 shells to be exercised during the currency of the contract) at Rs. 540 per shell with escalation clause. Even after this decision no supply order was placed on firm 'T' till 5th November 1979 when it represented that due to increase in the cost of production in the intervening period, the price agreed to by it on 17th August 1979 be increased by about 20 per cent. Later (27th November 1979) firm 'T', however, agreed to withdraw the price escalation of 20 per cent on the initial quantity of 25,000 shells but insisted on allowing increase on the optional quantity of 25,000 shells. The DDS placed (10th December 1979) a supply order on firm 'T' for 25,000 shells at the rate of Rs. 540 (without any option clause for additional quantity of 25,000 numbers).

Meanwhile, the Technical Committee (Armament Stores) had invited (17th September 1979) quotations from 13 parties (including firm 'T') for supply of the remaining quantity of 50,000 shells. Eight firms responded and their offers (received between 15th October 1979 and 17th November 1979) ranged from Rs. 590 to Rs. 735 per shell with varying validity

periods. Firm 'U' which was the lowest, quoted the rates of Rs. 590 (for 50,000 shells) and Rs. 600 (for 25,000 shells) with price variation clause for steel, fuel and power. Firm 'T' which had quoted Rs. 636 was the 3rd lowest tenderer. A consensus was reached in a meeting held on 11th and 12th February 1980 wherein the representatives of 3 firms were also present that a uniform rate of Rs. 615 per shell would be accepted the firms. Accordingly, the DDS placed (May and June 1980) four supply orders on different firms for a total quantity of 75,000 shells (quantity increased from 50,000 to 75,000 shells due to exclusion of the option clause in the supply order of December 1979 placed on firm 'T') as under :

From	Month of placing order	Quantity ordered	Rate per shell	Total value of order
		(Numbers)	Rs.	(Rs. in lakhs)
'T'	May 1980	25,000	615	153.75
'U'	May 1980	25,000	610*	152.50
'V'	May 1980	15,000	610*	91.50
'W'	June 1980	10,000	615	61.50

*The price of Rs. 615 was reduced to Rs. 610 in the case of firms 'U' and 'V' due to proximity of their factories to the station having steel plant.

Firm 'T' completed delivery of 25,000 shells against the supply order of December 1979 by March 1981 and supplied 21,682 shells up to September 1982 against the supply order of May 1980. Firms 'U', 'V' and 'W' failed to adhere to the delivery schedule prescribed in the respective supply orders placed on them. Firm 'U' supplied 500 shells by July 1982. Firm 'V' delivered 1,000 shells during February-March 1982 and firm 'W' completed the supply of 10,000 shells by August 1982.

Thus, failure on the part of the DDS to place supply order on firm 'T' before expiry of the validity date (31st July 1979) resulted in an extra expenditure of Rs. 96.25 lakhs in procuring supplies 9 months later.

B. Based on an urgent indent placed (May 1977) by Central Ammunition Depot 'XY' for the procurement of 46,370 numbers of tail units required to put back a large number (93,666 numbers) of an ammunition 'ZB' from repairable to serviceable condition, the Technical Committee (Armament Stores) invited (September 1977) tenders from 12 firms and 5 firms responded. The Technical Committee observed (November 1977) that the firms were inexperienced and lacked capacity to undertake manufacture of the stores. The DDS placed (December 1977) supply orders for 23,185 tail units each on firms 'X' and 'Y' at the rate of Rs. 6.95 per unit (value of supply orders : Rs. 3.22 lakhs)

Both the firms ('X' and 'Y') failed to develop acceptable samples. In view of poor performance of these firms, the Technical Committee decided (27th June 1978) to cancel the orders on them and off-load the entire quantity to an established supplier i.e., firm 'Z' (on whom an earlier order for 2,38,000 numbers at the rate of Rs. 8.50 had been placed in January

1977 and whose offer of Rs. 8.50 was ignored at the time of placement of the orders in December 1977 on the ground that the rates offered by firms 'X' and 'Y' were cheaper). Meanwhile, the demand of Central Ammunition Depot 'XY' increased (January 1978) to 93,370 numbers.

Firm 'Z' agreed (June 1978) to accept the order for 93,370 numbers at the rate of Rs. 8.50 and requested the DDS to issue a letter of intent immediately to enable it to commence planning and procurement of raw materials. No letter of intent was, however, issued to firm 'Z'. The DDS stated (September 1983) that the matter regarding status of the earlier order placed on the same firm with provisional price, final price to be worked out after examination, had to be considered. The supply order for 93,370 tail units was placed on firm 'Z' only in March 1979. Firm 'Z' declined (April 1979) to accept the order on the ground that its offer had not been accepted within the validity date (27th October 1978) and that prices of raw materials had gone up during the intervening period. On being persuaded to accept the order, firm 'Z' agreed (May 1979) to a price of Rs. 13.25 each. In June 1979, the Technical Committee informed the DDS that firm 'Z' had also been given an order for 1 lakh tail units by the DGOF direct at the rate of Rs. 11. In October 1979, another demand for 50,000 tail units was placed by the DGOF on the DDS. As the DDS decided to place an order for 1 lakh tail units, firm 'Z' agreed to reduce the rate further to Rs. 13.05. A supply order was thereupon placed (January 1980) on firm 'Z' for supply of 1 lakh tail units at the rate of Rs. 13.05 (total cost : Rs. 13.05 lakhs). The balance quantity of 43,370 tail units was covered by another supply order placed (February 1980) on firm 'AA' at the rate of Rs. 13.05.

The DDS stated (September 1983) that the earlier order of May 1978 had been placed on firm 'Z' at a ceiling price of Rs. 8.50 subject to cost examination and placing of another order on the firm at a fixed price of Rs. 8.50 as recommended by the Technical Committee would have prejudiced the price fixation in the earlier order, and the matter required further clarification from the Technical Committee. In view of the decision taken to cancel the orders on firms 'X' and 'Y', the reaction of firm 'Z' had to be watched for sometime before covering the cancelled quantity.

Thus, delay in placing order on the established supplier (firm 'Z') resulted in extra expenditure of Rs. 4.25 lakhs besides rendering 93,666 numbers of ammunition 'ZB' (cost : Rs. 1.31 crores) to remain repairable for want of tail units.

C. In July 1978, the DDS floated tender enquiries to 14 firms for the procurement of 10 numbers of plant dry air charging sets (engine driven) against indents raised (June 1977 and March 1978) by the DOS. No quotations were received till the date of opening of tender (21st October 1978). On a request from firm 'AB', the date of opening of tender was extended and an offer was received on 30th November 1978 from this firm but it was not found acceptable to the ASHP as the firm had not quoted for the complete set conforming to defence specifications. Fresh enquiries were floated (February 1979) to 4 firms (including firm 'AB').

As the single quotation received from firm 'AB' on retendering was incomplete, it was decided (18th October 1979) to re-tender. Meanwhile, the requirement increased to 13 sets. Fresh enquiries for 13 sets were invited (January 1980) from 10 firms and 2 firms 'AB' and 'AC' responded (February 1980). While firm 'AC' quoted Rs. 1.08 lakhs per set with price variation clause for proprietary items, which was increased to Rs. 1.39 lakhs after taking into account price variation before opening of tenders, and kept the offer open up to 25th June 1980, firm 'AB' quoted Rs. 3.22 lakhs per set with the validity period up to 27th May 1980.

The requirement for the equipment was increased (May 1980) to 31 sets. Offers of both the firms ('AB' and 'AC') met with all the defence specifications but no supply order was placed on them before the validity period. Firm 'AC' revised the price of the equipment to Rs. 1.78 lakhs per set by up-dating its price in terms of the price variation clause and simultaneously extending the validity of its offer up to July 1980. After price negotiation meeting with the firm on 5th July 1980, the up-dated price was brought down to Rs. 1.52 lakhs per set. A supply order for 31 sets was placed (4th September 1980) at the rate of Rs. 1.52 lakhs (total cost : Rs. 47.12 lakhs) on firm 'AC'.

The non-acceptance of firm 'AC's offer of Rs. 1.39 lakhs (which took into account the price increase for proprietary items) within the validity period, in spite of the specifications conforming to defence specifications, resulted in an extra expenditure of Rs. 1.68 lakhs on procurement of 13 (out of 31) sets.

Delay in supply and avoidable expenditure

1.11 Based on the deliberations of the price negotiation meeting held in December 1977, the DDS placed (October 1978) two supply orders--one on a private firm 'AD' and the other on a public sector undertaking 'AE'--for producing a particular type of ammunition 'ZC' in the Ordnance Factories) at the following rates :

	Quantity	Rate	Total cost
	(in numbers)	Rs.	(Rs. in crores)
Firm 'AD'	50,000	324	1.62
Undertaking 'AE'	50,000	356	1.78

Firm 'AD' was allowed (February 1979) an advance of Rs. 10 lakhs, bearing interest at 12 per cent per annum for the purchase of raw materials (mainly steel); undertaking 'AE' was allowed to claim 'on account' payment up to a maximum of 50 per cent of the value of supply order or 90 per cent of the cost of raw materials purchased by it, whichever was lower.

Firm 'AD' was to submit 270 numbers of advance samples for approval within 90 days of placement of the order (i.e. by 12th January 1979) and supply of the stores was to commence within 90 days from the date

of approval of advance samples at the rate of 1,000 numbers in the first month, 3,000 numbers in the second month, 4,000 numbers in the third month and 5,000 numbers from fourth month onwards. The firm was granted extension for submission of samples up to 30th September 1979. The samples submitted (27th September 1979) by firm 'AD' were not approved (April 1980) by the Technical Committee (Armament Stores). Firm 'AD' was, therefore, asked (April 1980) to submit fresh samples after getting the delivery date extended. The firm submitted fresh samples on 9th August 1980. The samples were approved and bulk production clearance subject to elimination of certain defects was given on 12th December 1980. Firm 'AD' asked (14th December 1980) for a price from Rs. 324 to 571.87 per shell besides requesting for incorporation of a price variation clause with regard to steel as also for provision of non-refundable tooling cost of Rs. 1 lakh in the supply order. Although in a meeting held in April 1981 (which was attended by the representative of firm 'AD') the DDS agreed to incorporate the escalation clause, firm 'AD' requested (August 1981) the DDS to allow escalation on fuel and power also in consideration of which firm 'AD' was prepared to forego profit on the escalation. Since firm 'AD' had not delivered a single shell by that time, it was decided by the DDS that its request would be considered after it had supplied 2,000 shells. In July 1982, firm 'AD' again asked for revision of the price to Rs. 731.52 per shell on the ground that the cost of production had risen steeply. In February 1983, the DDS, through an amendment to the supply order, decided to increase the rate from Rs. 324 to 533 per shell. Firm 'AD' supplied 7,962 shells by March 1983.

Undertaking 'AE' failed to submit acceptable samples for about 2 years. Bulk production clearance was given to undertaking 'AE' on 29th October 1980. Undertaking 'AE' requested (February 1981) for enhancement of the price from Rs. 356 to Rs. 863 per shell on the ground that the cost of raw materials and consumables had gone up considerably during the intervening period. In August 1981, the DDS enhanced the price from Rs. 356 to Rs. 565 per shell through an amendment to the supply order. Undertaking 'AE' supplied 38,208 shells by March 1983.

The delay in submission of samples by the suppliers and subsequent delay in supply of shells caused an avoidable expenditure of Rs. 2.08 crores to the Government.

According to the DDS (September 1983), the department was dealing with the development of strategic defence stores and a number of uncertain factors come into play and it may be unreasonable to ignore such factors and insist on enforcing the contractual terms which may ultimately discourage the entrepreneurs and would be a negative step towards self-reliance in the field of defence.

1.12 On the basis of a priority indent raised (August 1978) by the DOS for procurement of 134 numbers of trailers 1 ton 2 wheeled, the DDS floated (March 1979) tender enquiries to 9 firms for procurement of 131 trailers without panel (for mounting generating sets) and 100 trailer with panel for general service. Eight firms responded and the rates

quoted by them ranged from Rs. 13,200 to Rs. 22,500 each for trailers without panel. The lowest rate of Rs. 13,200 was that of firm 'AF' and the second lowest rate (Rs. 16,500 each) was quoted by firm 'AG'. Before finalising the supply orders on these two firms, the capacity of firm 'AI' (lowest tenderer) was got ascertained through the Inspectorate of Vehicles (North Zone) who reported that the firm had only limited capacity with regard to manufacture, machinery and financial resources and that the firm would not be able to give more than 5 trailers per month. Notwithstanding the report of the Inspectorate of Vehicles, 134 trailers (without panel) were covered through supply orders placed (July 1979) by the DDS on firm 'AF' (34 numbers at the rate of Rs. 31,200) and firm 'AG' (100 numbers at the rate of Rs. 16,500).

While firm 'AF' was to submit sample within 8 weeks of the date of order and to supply trailers at the rate of 8—10 numbers per month commencing within 30 days of receipt of bulk production clearance, firm 'AG' was to submit sample within 6 months of the date of order and supply at the rate of the 25 trailers per month commencing 4 months after approval of the sample. The supplies were, thus, scheduled to be delivered by firms 'AF' and 'AG' during November 1979—February 1980 and January—September 1980 respectively. While firm 'AG' completed supplies within the extended date of delivery (May 1981), firm 'AF' could supply only 20 trailers, even after grant of 3 extensions, till 31st December 1982.

Another indent for 45 generating sets was raised by the DOS in August 1979. In order to procure the generating sets for mounting on the trailers to be supplied by firms 'AF' and 'AG' the DDS placed (November and December 1979) two supply orders—one on firm 'AH' for 145 sets at the rate of Rs. 0.90 lakh (total cost : Rs. 130.50 lakhs) and the other on firm 'AF' for 50 sets at the rate of Rs. 0.83 lakh (total cost : Rs. 4.15 lakhs). The delivery of generating sets mounted on trailers was to commence after 2 months (by firm 'AH') and 3 or 4 months (by firm 'AI') depending on the receipt of trailers. At the time of placement of the order, firm 'AI' had defaulted in supply of 75 sets ordered in October 1975; against that order only 19 sets mounted on the trailers were supplied till January 1981 and supply of 54 sets had not materialised. Both the firms were held responsible for instrumentation of the generating sets on the trailers to be supplied to them free, although there was no adequate ready stock of trailers to be fed to firms 'AH' and 'AI' for mounting the generating sets.

The supply orders contained a price variation clause in respect of engines and alternators to be fitted in the generating sets, which was to be determined with reference to their base price prevailing as on 1st April 1979. The trailers to be supplied to these firms were also required to undergo a mobility test before mounting of the generating sets on them.

In view of non-adherence of prescribed delivery schedule by firms 'AH' and 'AI', the DDS decided (January 1981) to relax the mobility test and to have only limited mobility test on the trailers to be supplied by firm 'AG'. Firm 'AI' was asked (May 1981) to defer supplies of 73 generating sets against their order of October 1975 for which 73 trailers were issued

to them for mounting the generating sets and utilised 54 (out of 73) trailers to execute the latest order of December 1979. The DDS decided (May 1981) to utilise 70 trailers (with panel), covered under the supply order on firm 'AG' after dismounting the panels.

While firm 'AH' completed the supplies on 17th July 1982, firm 'AI' completed the order on 31st October, 1981 i.e. after more than a year of the original date of completion due to delay in issuing trailers to them for mounting the generating sets. Both firms ('AH' and 'AI') claimed price escalation to the extent of Rs. 22.24 lakhs (firm 'AH' : Rs. 15.43 lakhs and firm 'AI' : Rs. 6.81 lakhs) in terms of the price variation clause.

The DDS stated (September 1983) that the availability of limited numbers (only 22 numbers) of trailers with the Army Base Workshop was not known to them and that the generating sets had to be fitted on the balance trailers, which were from a different source of supply than those on which mobility test had earlier been carried out.

Thus, placement of (1) supply order for 34 trailers (without panel) on firm 'AF' in spite of its very limited capacity as pointed out by the Inspectorate of Vehicles and (2) supply orders for generating sets (to be mounted on the trailers) on firms 'AH' and 'AI' without the availability of adequate number of trailers causing delay in the execution of latter supply orders resulted in extra expenditure of Rs. 22.24 lakhs towards escalation.

Avoidable expenditure due to direct procurement of items of common utility

1.13 In March 1976, orders were issued by Government that certain items of stores which were peculiar to defence use and were meant "exclusively for defence" could be procured by defence authorities if the value of these was less than Rs. 50 lakhs. The DDS, however, procured once such item of common utility viz. paint RFU which was not "exclusively for defence" use and was already being procured by the DGSD through established indigenous sources on rate contract. Procurement of paint RFU by the DDS, instead of obtaining it through the DGSD, resulted in an avoidable extra expenditure of Rs. 18.35 lakhs in the following case:

On the basis of an indent for 4,06,000 litres of paint RFU in 3 different sizes of packs required during June 1978 to December 1978 by the DOS, the Technical Committee (General Stores) invited in July 1978. Of the 12 valid tenders 6 firms quoted rates in all the 3 sizes of packs as under :

From	Rate (per litre) for		
	20 litre drums	5 litre packs	1 litre packs
	Rs.	Rs.	Rs.
'AM'	9.50	11.00	12.00
'AN'	9.50	11.00	13.50
'AO'	10.35	11.35	13.35
'AP'	10.49	11.99	13.99
'AQ'	11.27	12.77	14.57
'AR'	11.00	12.00	13.00

One of the firms—firm 'AJ' (which was an established supplier of paint RFU to Defence under the DGSD rate contract) quoted for paint in 20 litre drums and 5 litre packs only (due to shortage of raw materials at that time). The rates quoted by firm 'AJ' (Rs. 8.80 per litre for 20 litre drums and Rs. 10 per litre for 5 litre packs) were the lowest. The second lowest rates were those of firms 'AK' and 'AL', both of which quoted the rate of 8.90 for 20 litre drums only.

The DDS did not finalise any supply order and passed on (November 1978) the papers to the DOS for procurement of the stores through the DGSD on the ground that paint RFU was not an item included in the 'exclusive items of stores for defence'. The DOS returned (December 1978) the papers to the DDS stating that the stores were required urgently, and should have been included in the exclusive list of stores for defence and its procurement be arranged by the DDS itself. After negotiations with the tenderers in a price negotiation meeting held in February 1979, a part order for 2,50,000 litres of paint (in 3 different packs) was placed (March 1979) on firm 'AL' at a total cost of Rs. 24.48 lakhs (although it had quoted for paint in 20 litre drums only) as under :—

	Rate per litre Rs.
1,12,500 litres (in 20 litre drums)	8.80
1,00,000 litres (in 5 litre packs)	10.08
37,500 litres (in 1 litre packs)	12.00

The main reasons for not placing orders on established suppliers were ascribed by the DDS to shortage of raw materials with them and the apprehension that adherence of delivery schedule by these suppliers was doubtful.

Firm 'AL' was required to submit acceptable advance samples by 31st March 1979 and bulk production was to commence from the date of approved of advance samples at the rate of 35,000 40,000 litres per month. Firm 'AL' failed to submit acceptance samples till February 1980 and the supply order was cancelled (February 1980) without financial repercussion on either side.

In the meantime, another indent for 8,20,300 litres of paint was placed (March 1979) by the DOS on the DDS urging immediate procurement of this quantity by June 1980. In order to cover the entire quantity of 12,26,300 litres (4,06,000 litres plus 8,20,300 litres), the DDS issued (August 1979) tender enquiries to 26 firms excluding firm 'AL' (which had failed to submit acceptable samples against the supply order placed on it in March 1979). Sixteen firms responded, most of which had quoted earlier (September 1978) but on whom the DDS had not placed any orders then. After considering these quotations, 9 supply orders were placed (January-February 1980) by the DDS on different

firms for a total quantity of 12.15 lakh litres of paint in different packs (total cost : Rs. 1.75 crores) as under :

Firm	In 20 litre drums		In 5 litre packs		In 1 litre packs	
	Qty. (in lakh litres)	Rate per litre	Qty. (in lakh litres)	Rate per litre	Qty. (in lakh litres)	Rate per litre
		Rs.		Rs.		Rs.
'AJ'	2.00	13.30	..	..	..	..
'AO'	2.00	13.50	..	..	1.00	17.00
'AP'	..	..	1.50	15.10	..	..
'AQ'	..	..	1.50	15.25	..	..
'AN'	..	..	1.00	15.30	..	..
'AS'	1.00	12.97	..	..	..	..
'AT'	0.50	13.25	0.75	15.10	..	..
'AU'	0.40	12.91	..	..	..	..
'AV'	..	..	..	..	0.50	16.75
	5.90		4.75		1.50	

As per the records of the DDS, the DGSD procured (January 1979) this paint through these firms at prices ranging from Rs. 9.40 to Rs. 10.25 per litre.

The DDS stated (September 1983) that the orders on any other firms against the earlier purchases were not placed as most of the reputed firms refused to offer a firm delivery schedule during the negotiation meeting held in February 1979 and there was no purpose to cover any quantity on them.

Had the DDS placed assorted supply orders by adopting price differential treatment in the first instance, the procurement of 4,06,000 litres of paint indented in February 1978 would have cost Rs. 40.84 lakhs, as against the cost of Rs. 59.17 lakhs, under the supply orders placed in January-February 1980, resulting in an avoidable extra expenditure of Rs. 18.33 lakhs and the supplies would have been received earlier.

Other interesting points

1.14 In March 1976 and April 1977, the DDS placed the following 3 supply orders for retreading of 537 numbers of 80X24 tyres (for a certain imported tractor) which were beyond local repairs (BLR) :

Firm	Date of supply order	Quantity on order	Total cost
		(Numbers)	
'AZ'	30th March 1976	397	5,14,115
'AZ'	23rd April 1977	100	1,09,000
'BA'	27th April 1977	40	43,600

Retreading of 497 tyres by firm 'AZ' at a total cost of Rs. 6.23 lakhs was completed during May 1976—October 1977 and the retreaded tyres were sent COD 'YY'.

As per the scheduled delivery period, firm 'BA' was required to submit acceptable advance samples for approval within 2-3 weeks from the date of supply order and bulk supplies were to commence after approval of the samples was to be completed within 4 months thereafter. The supply order did not, however, provide any safeguard for the issue of BLR tyres to firm 'BA' by COD 'YY'. In May 1977, COD 'YY' issued 40 numbers of BLR tyres to firm 'BA' without obtaining any indemnity bond from it. Firm 'BA' after having been granted extension up to 5th November, 1977 submitted the samples in October, 1977. The samples were found suitable by the Inspectorate of Vehicles (North Zone) for conducting road trials. No bulk production clearance was, however, given to the firm and instead, the firm was assured (December 1977) by the DDS that road trials on the samples would be completed at the earliest and acceptance or otherwise of the samples would be intimated on completion of the trials.

The road trials of the samples were conducted during August 1978—April 1979. The samples underwent 2,607 Kms. of road trials and were rejected (June 1979) as the same were not found satisfactory. Accordingly bulk production clearance was not given.

Meanwhile, the DOS had pointed out (March 1978) that in view of availability of adequate stock of new tyres, there was no need of getting the BLR tyres retreaded. The DOS also advised (May 1979) the DDS that since there was likelihood of the imported tractors being phased out in the near future, the order for retreading of tyres on firm 'BA' be cancelled. The supply order was cancelled (September 1979) by the DDS without financial repercussion on either side on the ground that the firm had failed to submit the acceptable samples. Firm 'BA' refuted the charge of failure on its part to submit the acceptable samples and stated (October 1979) that it had submitted 6 acceptable samples in October 1977 itself and was awaiting bulk production clearance. In April 1982, COD 'YY' reported that 34 BLR tyres (cost : Rs. 0.79 lakh) were lying with the firm since long (nearly 6 years) and their condition would have deteriorated under prolonged storage and adverse weather conditions and that these would be rendered unfit for retreading for future use and would cause considerable loss to the State. These tyres had not yet been returned by the firm (September 1983).

It was noticed (March 1983) during local examination in COD 'YY' that out of 497 retreaded tyres only 26 had been issued to user units, 370 had been transferred to two other ordnance depots and 101 held in stock.

Thus, the expenditure of Rs. 5.90 lakhs on retreading of 471 (out of 497) BLR tyres ex-trade when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were to be used were being phased out in the near future, proved infructuous. Further 34 BLR tyres (cost : Rs. 0.79 lakh) issued to firm 'BA' without obtaining any indemnity bond or any other safeguard in the absence of a suitable provision in the supply order had not been returned (September

1983) for over 6 years and there was possibility of their getting deteriorated under prolonged storage and adverse weather conditions.

1.15 In August 1977, the DDS placed a supply order on firm 'BB' for the procurement of 300 numbers each of sight bore 104-A and 105-A at the rate of Rs. 4,150 and Rs. 4,000 each respectively. As per delivery schedule advance sample was to be submitted within 4 weeks of receipt of order and bulk supply was to commence 2 months after the date of clearance of sample at the rate of 30 numbers per month. The quantities on order were increased (December 1978) to 450 numbers each. While sight bore 105-A continued to be supplied by firm 'BB' at regular intervals, there was no progress in the supply of sight bore 104-A. The firm requested (February 1980) for extension in delivery date up to 20th September, 1982. The DDS, however, granted (May 1980) extension up to June 1981 only and notified the firm that in the event of its declining the extension granted or failure to deliver, the stores within the extended period, the contract would stand cancelled and the outstanding quantity would be purchased at its risk and cost.

Meanwhile, a further requirement of 669 numbers of sight bore 104-A was projected (August 1979) by the DOS. On receipt of quotations in response to a fresh tender enquiry in March 1980, a meeting was held in August 1980 for procuring the additional requirement. In the meeting the DOS clarified that there was an error in projecting the requirement earlier and their requirement for sight bore 104-A was 228 numbers only as against 669 projected earlier.

As the item (sight bore 104-A) was required urgently by the users and firm 'BB' had supplied only 6 numbers of this item, the DDS enquired (9th September 1980) from the firm if off-loading of 300 numbers of this item would be acceptable to it. Firm 'BB' agreed (20th September 1980) to the off-loading of 150 numbers only. The supply order on the firm 'BB' was amended (November 1980) accordingly and another order for 150 numbers of this item was placed simultaneously on another firm 'BC' at the higher rate of Rs. 5,550 each. By this time, firm 'BB' had supplied only 38 numbers of this item and was granted (July 1981) further extension up to 15th August 1983 for completing supply of the remaining quantity (252 numbers). Firm 'BC' completed supply of the entire quantity of the item (sight bore 104-A) by May 1981.

The DDS stated (September 1983) that cancellation of the contract at risk and expense of firm 'BB' was not considered as (i) the delivery period against the contract was still valid, (ii) the cancellation could not have been done for the part quantity and (iii) firm 'BB' was a company under government management and was under nationalisation.

Notwithstanding the unsatisfactory delivery of supplies by firm 'BB' for which extension was granted first up to June 1981 and later 15th August, 1983, off-loading of 150 numbers of the item (sight bore 104-A) from firm 'BB' and ordering them on firm 'BC' at higher cost, instead of short-closing the order at the risk and expense of the former, resulted in an extra expenditure of Rs. 2.10 lakhs.

Waiver/non-recovery of liquidated damages

1.16 The total amount of liquidated damages recoverable from suppliers on account of delayed supplies of stores in respect of 92 supply orders placed by the DDS during the period 1977-78 to 1980-81 worked out to Rs. 37.83 lakhs. Of this, an amount of Rs. 18.78 lakhs involving 44 supply orders was waived fully by the DDS. Out of the balance amount of Rs. 19.05 lakhs (48 supply orders), a sum of Rs. 1.57 lakhs (8 per cent) only was recovered. The main considerations on which liquidated damages were waived by the DDS were :

- (a) the firms were good;
- (b) the firms were executing other supply orders placed by the Department; and
- (c) the consignees concerned had certified that the delay in materialisation of stores from the firms had not caused any loss real or potential to the State.

Significantly, the consignees were merely the store holding depots and had given the certificate without consulting the indentors/users whether any loss was sustained or not.

According to the DDS (September 1983), where there is no demonstrable/actual loss on account of delay in supplies, liquidated damages are ordinarily limited to 10 per cent of the total amount of liquidated damage-leviable at the rate of 2 per cent per month (for the period of delay), and were determined in consultation with the Integrated Finance and despite lack of any report on losses by the consignee.

The fact remains that the liquidated damages were either waived in full or token amount was levied on the basis of the certificates furnished by the consignees who are only stock holders and without ascertaining the extent of loss involved from the indentors/users.

1.17 Summing up :—The important points that emerge are as under :

During last 16 years 88,984 items had been projected for development and procurement through indigenous sources and supply orders for 47,363 items only could be placed by the DDS.

In 193 cases the DDS took 12 to 36 months in placing supply orders from the date of receipt of indents.

While against 36 supply orders (total value : Rs. 8.97 crores) placed upto June 1979, the suppliers had failed (August 1982) to submit samples or commence supplies for over 3 years; against 67 other supply orders (total value : Rs. 33.21 crores) placed during 1972 to June 1979 stores worth Rs. 12.10 crores only had been supplied till August 1982.

Based on a report rendered by the internal audit on 5th October, 1981, advances amounting to Rs. 8.36 crores remained unadjusted in respect of 67 supply orders for periods ranging

from 2 to 5 years: the amount outstanding against 28 firms as on 29th September, 1983 was Rs. 1.566 crores.

Failure on the part of the DDS to comply with the contract conditions regarding cancellation of contract and to effect risk and cost purchase within 6 months of the date of breach of contract resulted in an extra expenditure of Rs. 10.91 lakhs.

Air compressors (cost: Rs. 2.16 lakhs) and generating sets (cost: Rs. 2.98 lakhs) were procured although they did not conform to specifications.

Non-acceptance of offers within the validity period in 3 cases resulted in extra expenditure of Rs. 1.02 crores.

Delays in supplies in 2 cases resulted in avoidable expenditure of Rs. 2.30 crores.

Procurement of an item of common utility (paint RFU) ignoring the established source of supply resulted in extra expenditure of Rs. 18.33 lakhs.

An expenditure of Rs. 5.90 lakhs on retreading of BLR tyres ex-trade proved infructuous besides non-return of 34 BLR tyres (cost: Rs. 0.79 lakh) by the repair agency for nearly 6 years.

Out of liquidated damages amounting to Rs. 37.83 lakhs leviable in 92 cases, a sum of Rs. 18.78 lakhs (44 cases) was fully waived.

[Paragraph 5 of the Report of the Comptroller and Auditor General of India for the year 1982-83, Union Government (Defence Services)]

APPENDIX II

Conclusions and Recommendations

Sl. No.	Para No.	Ministry/ Department concerned	Conclusion/Recommendation
1	2	3	4
1.	1.174	Defence (Deptt. of Defence Production and Supplies)	The Department of Defence Supplies under the Ministry of Defence was set up in 1965 essentially to achieve self-reliance in the procurement of Defence equipment and stores required by the Armed Forces. The Committee find that out of items numbering 88,984 projected for development and procurement through indigenous sources, upto 31 March, 1981 supply orders for only 47,363 items only were placed by the Department on indigenous suppliers. According to the Department, a large number of items remained outstanding for want of proper particulars or samples. The Committee are unhappy to note that the percentage of the number of items remaining uncovered for want of proper particulars or samples in respect of three Technical Committees viz., TC (Aeronautics), TC (Vehicles) and TC (Engineering Stores) was as high as 53.4%, 30% and 18.1% respectively. The Committee recommend that the Government should identify the bottlenecks responsible for such a high shortage in the placement of supply orders, particularly in respect of the items pertaining to the aforesaid three Technical Committees.
2.	1.175	Defence (Deptt. of Defence)	The Committee note that concrete efforts for indigenisation on the defence side started only during the closing years of 'sixties', which

1	2	3	4
		Production and Supplies).	according to the Department of Defence Supplies, is the real reason for the slow pace of indigenisation of defence equipment. The requirements of inspection and testing of the defence supplies are very strict and rigid, are stated to be the other reasons for the slow pace of indigenisation. While fully appreciating these constraints, the Committee are not satisfied that everything possible has been done to accelerate the pace of indigenisation.
3.	1.176	Defence (Deptt. of Defence Production and Supplies).	According to the test check carried out by the audit of 467 supply orders placed during 1977-78 to 1980-82, delay ranging from over 12 months to over 36 months was revealed in placing supply orders against indents received from the users. According to the Ministry of Defence, it normally takes 5 to 8 months to process an indent for placement of a supply order. It is a matter of deep concern that in as many as 193 of these 467 supply orders, the delay in finalisation of the supply orders ranged from over 12 months to over 36 months. In spite of the fact that the Department of Defence Supplies has now been in existence for more than 20 years, no worthwhile steps appear to have been taken to shorten the time taken in finalisation of indents. The Committee recommend that procedures should be evolved in consultation with all concerned so that indents are finalised within the shortest possible time.
4.	1.177	Defence (Deptt. of Defence Production and Supplies).	Another disquieting feature of the working of the Department of Defence Supplies is the lack of effective monitoring of supply orders. In as many as 36 supply orders of the total value of Rs. 8.97 crores placed upto June 1979, the suppliers failed to submit samples or commence supplies for over 3 years. In some cases, where samples were received within three years, trials and approval had taken quite a long time. The Committee are not convinced

1	2	3	4
			by the argument of the Department that all the items were complex items which were being developed for the first time. Due to such abnormal delays and developmental failures, orders for as many as 8 out of 36 items had to be cancelled.
5.	1.178	Defence (Deptt. of Defence Production and Supplies)	The Committee recommend that the existing monitoring procedure should be adequately streamlined so as to make it more effective. Planning of requirements particularly in respect of hard ore items should be done sufficiently in advance. Steps should also be taken to reduce the time taken for users' inspection/test to the minimum extent possible. The Committee note that several measures for improving the working of the Supplies Division have been formulated after a detailed review of the working of the Supplies Wing in a meeting held with all the Chairmen of Technical Committees on 31-1-1985. Prior to 31-3-1985 no comprehensive internal review of the working of the Supplies Division had been conducted by the Department. The Committee recommend that in future periodic reviews of the Supplies Division should be conducted by the Department with a view to streamlining the purchase procedure so that unnecessary delays at all stages could be obviated.
6.	1.179	Defence (Deptt. of Defence Production and Supplies).	The Committee note that till December 1982, financial assistance by way of development advances, tooling advances and 'on account' payments for purchase of raw materials, was extended to indigenous suppliers/firms, and in this manner the Government was sharing with the manufacturers the cost of development. The Committee note that as on 5th October, 1981, unadjusted advances amounting to Rs. 8.36 crores in respect of 67 supply orders had accumulated owing to failure of the firms to

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			<p>develop the prototypes or to complete the supplies. According to the DDS the amount outstanding against 28 firms as on 29th September, 1983 was Rs. 1,566 crores. Faced with such a large amount remaining unrecovered, the DDS decided in December 1982 not to pay any 'on account' payments or advances in its future contracts save in exceptional cases to be approved by the Raksha Mantri.</p>
7.	L.180	<p>Defence (Deptt. of Defence Production and Supplies).</p>	<p>The Committee feel that effective development of local industry is essential for meeting the requirements of the Defence Forces and for that reason all possible assistance is very necessary for creating skills and quality consciousness. The Committee consider that the virtual stopping of the practice of granting 'on account' payments or advances in December 1982, Government have virtually discontinued for all practical purposes the principle of sharing with the manufacturer the cost of development. It is not unlikely that manufacturers may not show much interest in effectively executing developmental orders. The Secretary of the Department assured the Committee during evidence that they were examining various pros and cons in this regard. The Committee desires that suitable mechanism which may be helpful for effective and early execution of the developmental supply orders, should be evolved without delays.</p>
8.	L.181	<p>Defence (Deptt. of Defence Production and Supplies).</p>	<p>The Committee find that out of the advances on Account Payment of Rs. 1,566 crores outstanding against 28 firms as on 29 September, 1983, a sum of Rs. 47.57 lakhs was not covered by Bank Guarantee and recovery of such advances became difficult in the absence of any safeguards. The Committee trust that while working out the mechanism for sharing the</p>

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9.	L.182	Defence (Deptt. of Defence Production and Supplies).	<p>developmental cost with the manufacturers as recommended in the preceding paragraph, suitable safeguards for recovery of advance in the event of failure or cancellation of the supply orders, will also be provided.</p> <p>The Committee would like to draw attention to a supply order placed on firm 'A' for 20-ton low deck trailers at a cost of Rs. 1.05 crores. The firm, which was required to submit the pilot sample within the scheduled delivery date i.e. by 31-5-1975, actually submitted it on 13-7-1977 and this was later found to be unacceptable. Even the modified sample submitted in March 1978 was found to be not free from defects of serious nature. The Committee are concerned to note that inspite of the repeated failure of the firm to develop a satisfactory sample even within a period of more than 3 years, the Department failed to cancel the contract at the risk and cost of the firm immediately after March, 1978, when the modified sample was found to be defective. While the Committee entirely supports the policy of giving every assistance, encouragement and support to those who undertake to produce defence equipment, the Committee are of the view that the reasons advanced by the Department for not taking a stricter action in not actually cancelling the order after the unsuccessful user trials because of the subsequent interest shown by the firm to execute the order, are not wholly convincing.</p>
10.	L.183	Defence (Deptt. of Defence Production and Supplies).	<p>In 1980 the matter regarding cancellation of the order by the Department was examined in consultation with the Legal Adviser (Defence) who opined that since the contract had been kept alive after the delivery period, it would not be possible to cancel the contract at that stage without giving further notice-cum-extension for submission of pilot sample.</p>

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11.	1.184	Defence (Deptt. of Defence Production and Supplies).	<p>According to the Audit Paragraph the supply order had not been cancelled till as late as September, 1983. According to the Department, the Supply Order was finally cancelled at the risk and cost of the firm. The Committee consider that in this case excessively generous view has been taken of the continued failure of the supplying firm.</p> <p>A disquieting feature of the aforesaid supply order on firm 'A' is that a sum of Rs. 13.80 lakhs paid to the firm in June 1976 and February 1977, for purchase of raw materials, without any bank guarantee has not been recovered so far. It is surprising that the last instalment of advance of Rs. 3,35,684/- was paid to the firm in February, 1977, inspite of the fact that the firm had failed to submit the sample within the scheduled delivery date of 31 May, 1975. The Committee have been informed by the DDS that the matter for recovery of advance of Rs. 13.80 lakhs has been referred to Bureau of Public Enterprises on 29-6-1984. It has been stated that the Ministry of Railways have withheld an amount of Rs. 13.80 lakhs, which will be released only after the advanced payment received by firm 'A' is refunded to the Ministry of Defence. The Committee would like to know the latest position about the recovery of this amount of Rs. 13.80 lakhs as also the recovery of risk and cost expenses from the firm.</p>
12.	1.185	Defence (Deptt. of Defence Production and Supplies).	<p>The Committee note that in two cases failure on the part of the Department of Defence Supplies to enforce the contract conditions regarding cancellation of contract and to effect risk and cost purchase within 6 months of the date of breach of contract, resulted in an infructuous additional expenditure of Rs. 10.91 lakhs regarding purchase of Ammunition boxes and Trailer Fire Fighting. According to the Ministry of Defence, in the case of purchase of</p>

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			<p>ammunition boxes, the legal advice was that because of the abnormal increase in the cost of raw material by Government action, impossibility of performing the contract had occurred under the Contract Act and as such no valid risk purchase could be made. Similarly in the case of Trailer fire fighting, non-availability of engine from the single approved source, due to lock out in their premises, was accepted as a case of impossibility of performance by the Legal Adviser. However, when a second legal opinion was obtained in the case for the purchase of trailer fire fighting, the Legal Adviser (Defence) advised on 7-8-1984 that general damages should be claimed from the defaulting firm on the basis of the market rate on or about the date of the breach. Consequently, a claim of Rs. 4,57,329.60 was raised against the defaulting firm. It would appear the first legal advice was given without a judicious appraisal of all the connected facts. The Committee would like to know the latest position about the realisation of the claim for general damages amounting of Rs. 4,57,329.60.</p>
13.	1.186	Defence (Deptt. of Defence Production and Supplies).	<p>The Department of Defence Supplies, which is mainly concerned with development of items in the private sector claims that they are faced with many difficulties in effecting valid risk purchase. The Department has set up a Committee under the Chairmanship of the Legal Adviser (Defence) to review the procedure in regard to the risk purchase. If this Committee has submitted its recommendations the Public Accounts Committee would advise that if these recommendations are acceptable, they should be made generally known in the Department.</p>
14.	1.187	Defence (Deptt. of Defence	<p>The Committee note that against the Navy's requirements for indigenous development of high pressure air compressors, supply order</p>

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	<p data-bbox="341 321 471 413">Production and Supplies).</p> <p data-bbox="185 1517 303 1544">15. 1.188</p>	<p data-bbox="332 1517 448 1609">Defence (Deptt. of Defence</p>	<p data-bbox="501 321 1049 1480">for development and manufacture of 25 number of portable air compressors at a total cost of Rs. 26.25 lakhs was placed by the Department of Defence Supplies on firm 'R' in September 1977. The firm was required, in the first instance, to manufacture 2 prototype complete with indigenous components and materials for test and trials. The remaining 23 numbers were to be supplied after issue of bulk production clearance based on satisfactory performance of the prototype. On 25th March, 1979, the firm submitted the prototypes. They were found on inspection to be defective. After rectifying the defects the prototypes were re-submitted by the firm in October, 1979. The bulk production clearance was given in November, 1979, without testing the rectified prototypes. The Department have admitted that the grant of Bulk Production clearance even before carrying out the users trials were carried out was not prudent on the part of the concerned officers of the Directorate of Production and Inspection (Navy). Later when these prototypes were put to trials, the Directorate of Production and Inspection (Naval) pointed out in April, 1980 that the firm had used imported components (retrieved out of the old imported compressors lying with it) instead of indigenous ones. Consequently the bulk production clearance accorded in November, 1979 without proper verification was withdrawn and the firm was asked to prepare a detailed set of revised manufacturing design drawings for approval by the inspection authorities and to produce two fresh prototypes using indigenous materials/components.</p> <p data-bbox="501 1517 1049 1609">The Committee are constrained to observe that the inspection staff had no excuse for not complying with the obvious norms of</p>

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		Production and Supplies).	inspection and accepting the equipment only on visual inspection in respect of an order which related to developmental production. This is a serious failure and the Ministry should take appropriate disciplinary action against those responsible.
16.	1.189	Defence (Deptt. of Defence Production and Supplies).	By no stretch of imagination can it be held that it was only a case of procedural and conceptual technical lapse on the part of the Inspecting Officers. The Committee are unable to agree with the findings of the Board of Investigation. The Committee would like the Department to review the matter and take more stern action so that such lapses may not recur in future.
17.	1.190	Defence (Deptt. of Defence Production and Supplies).	The Committee note that out of a supply order for procurement of 230 generating sets of 2 KVA capacity at the total cost of Rs. 27.25 lakhs, placed on firms 'S' in August, 1975, the firm supplied only 192 sets during June, 1978 September 1980 and failed to make further supplies thereafter despite grant of extension upto 30 September, 1981. In December, 1981, the Department short-closed the order at the risk and cost of the defaulting firm. The risk purchase could not be effected as the users wanted the remaining sets with the revised specification. The Committee further note that 25 sets costing Rs. 2.96 lakhs out of the 192 generating sets, were found to be defective, though in repairable condition. It is a matter of serious concern that these 25 generating sets received early in 1980 should not have been put to any use as they could not be got repaired till September, 1983. The Committee can only record their dissatisfaction and displeasure.
18.	1.191	Defence (Deptt. of Defence	The Committee note that the Department of Defence Supplies issued on 29 June 1979 a single tender enquiry to firm 'T' for supply of

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Production and Supplies).	<p>one lakh shells of an ammunition 'ZA'. The firm 'T' quoted on 3 July 1977 the rate of Rs. 498 per shell for the entire quantity of one lakh shells with its own materials. On 6 July 1979, firm 'T' intimated that if raw materials for 50,000 shells were supplied by the Ordnance Factory the cost thereof could be reduced. The Department failed to place any order on firm 'T' before expiry of the validity date (31 July 1979) of its offer. According to the Department, the order could not be placed before the expiry of the validity date of 31 July 1979 because <i>prima facie</i> the offer of the firm of Rs. 498 per shell appeared to be on the high side compared to the developmental order of Rs. 370 per shell placed on 28 February 1979. Besides this, certain conditions like demand for 10 per cent advance etc. needed to be thrashed out.</p> <p>Firm 'T' revised on 9 August 1979 its quotation from Rs. 498 to Rs. 596 per shell on the plea that it had erred in calculating the original rate. At the meeting held in DDS on 17 August 1979, it was decided that a quantity of 25,000 shells would be covered at Rs.540 per shell with escalation clause. Accordingly, on 10 December 1979, the DDS placed a supply order on firm 'T' for 25,000 shells at the enhanced rate of Rs. 540 per shell.</p> <p>Strangely enough 4 separate supply orders for the balance quantity of 75,000 shells were placed in May and June 1980 on four firms 'T', 'U', 'V' and 'W' at the rate of Rs. 615, Rs.610, Rs.610, and Rs. 615 per shell respectively. While firm 'T' completed delivery of 25,000 shells against supply order of December 1979 by March 1981 and supplied 26,82 shells upto September 1982 against the supply order of May 1980, firms 'U', 'V' and 'W' failed to</p>	

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			<p>adhere to the delivery schedule prescribed in the respective supply orders placed on them. According to the Department, separate supply orders were placed on firms 'T' and 'U', 'V' and 'W' with a view to developing additional sources to meet anticipated recurring large demands in future. The Committee consider it as only a partially valid argument. Failure on the part of the Department to place a substantially large supply order on firm 'T' before the expiry of the validity period resulted in a large additional expenditure in procuring supplies 9 months later. The Committee are of the view that if the order for additional 75,000 shells was also placed on firm 'T' alongwith the order for 25,000 shells placed on 10 December, 1979 at the rate of Rs. 540 per shell, quite a lot of infructuous expenditure would have been saved.</p>
19.	1.192	Defence (Deptt. of Defence Production and Supplies)	<p>Similarly in another case, delay in placing order for the procurement of 46,370 tail units required to put a large amount of ammunition 'ZB' from repairable to serviceable condition, on the established supplier firm 'Z' resulted in an avoidable additional expenditure of Rs. 4.25 lakhs. Initially, the Department placed in December, 1977 supply order for 23,185 tail units each on firms 'X' and 'Y' inspite of the observation made by the Technical Committee (Armament Stores) that the firms were inexperienced and lacked the capacity to undertake manufacture of the stores. According to the Department the orders on these firms were placed since the firms had shown confidence to develop and manufacture these items and had also quoted the lowest price of Rs. 6.95 each. As the firms 'X' and 'Y' failed to develop acceptable samples, it was decided to cancel the orders on them. Mere price advantage offered by the concerned firms when there was doubt</p>

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			<p>about in their own competence ought not to have been accepted as sufficient justification for placing order on the firms in the face of Technical Committees' clearly expressed opinion about their in-competence.</p>
20.	1.193	Defence (Deptt. of Defence Production and Supplies)	<p>On cancellation of the orders for tail units on firms 'X' and 'Y', the Technical Committee decided in June 1978 to place an order for entire quantity on an established firm 'Z'. The firm had agreed in June, 1978 to accept the order for 93,370 numbers at the rate of Rs.8.50 and requested the Department to issue a letter of intent immediately to enable it to commence planning and procurement of raw materials. According to the Department no letter of intent could then be issued as there was a considerable quantity on order on the firm and there was also a deliberate decision to develop an alternative source. The former argument is on the face of it unjustifiable as no attempt had been made to ascertain the firm's capacity while the latter argument would have had force if they had already discovered any suitable firm willing to undertake the task. The delay in placing order for the full quantity only resulted in a higher price having to be paid. The Committee take a very serious view of the entire transaction.</p>
21.	1.194	Defence (Deptt. of Defence Production and Supplies)	<p>The Committee observe that for development of additional sources of supply of railway equipment the Ministry of Transport (Department of Railways—Railway Board) follow the system of placement of educational, developmental orders at a preferential price on new entrepreneurs besides placing order for the major portion of supplies on established suppliers. The Committee commend the system followed by the Ministry of Transport (Department of Railways) for acceptance by the Department of Defence Supplies.</p>

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22.	1.195	Defence (Deptt. of Defence Production and Supplies)	In yet another case, for the procurement of plant dry air charging sets, the non-acceptance of firm "AC's" offer of Rs. 1.39 lakhs per set within the validity period resulted in an extra expenditure of Rs.1.68 lakhs on procurement of 13 sets out of 31. According to Audit, firm "A's" offer of Rs. 1.39 lakhs was kept open upto 25 June 1980. In the meantime, requirement for the equipment was increased in May 1980 to 31 sets. The DDS failed to place supply order on the firm before the validity period. Firm "AC" revised the price of the equipment to Rs. 1.78 lakhs per set and also extended the validity of its offer upto July 1980. Finally a supply order for 31 sets was placed on the firm on 4 September 1980 at the rate of Rs.1.52 lakhs.
23.	1.196	Defence (Deptt. of Defence Production and Supplies)	The Committee note that the Department of Defence Supplies placed in October, 1978 after the question of price negotiation was discussed in a meeting in December 1977, two supply orders one on a private firm 'AD' and the other on a public sector undertaking 'AE' for development and supply of 50,000 shells each at the rate of Rs. 324 and Rs. 356 per shell, respectively. These shells were required for producing a particular type of ammunition 'ZC' in the Ordnance Factories. According to the Department although a meeting for price negotiation was held in December 1977 to place an order on firm 'D', the order could not be placed immediately on them in view of their critical financial position.
24.	1.197	Defence (Deptt. of Defence Production and Supplies)	Both the firms 'AD' and 'AE' were required to complete delivery of the shells by the middle of 1980. Both the firms failed to submit defect-free samples in time—firm 'AD' submitted the samples in time—firm 'AD' submitted the samples at the end of one year and seven months, while firm 'AE' did so by about 2 years. Bulk

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			<p>production clearance was granted only on 12 December, 1980 to firms 'AD' and on 29 October, 1980 to firm 'AE'. There was abnormal delay on the part of firms 'AD' and 'AE' in making the supply of shells in as much as firm 'AD' supplied only 20,186 out of 50,000 shells so far and firm 'AE' could supply 38,208 shells by March 1983. It is surprising that inspite of such an inordinate delay on the part of these firms, enhancement of price per shell was sanctioned for both the firms, 'AD' from Rs. 324 to Rs.533 and 'AE' from Rs.365 to Rs. 565. The Committee do not find any justification for agreeing to such a generous increase in both the cases.</p>
25.	1.198	Defence (Deptt. of Defence Production and Supplies)	<p>In yet another case the Committee find that two supply orders for 134 trailers (without panels) were placed by the Department in July, 1979 on two firms 'AF' and 'AG' for 34 and 100 trailers, respectively. These trailers were required for mounting generating sets. The Inspectorate of Vehicles (North-Zone) from whom the capacity of firm 'AF' was ascertained had reported that the firm had only limited capacity with regard to manufacture, and its financial resources were also limited. The Inspectorate had further stated that the firm "AF" would not be able to give more than 5 trailers per month. The Committee are therefore surprised to find that an order for 34 trailers was placed on the firm for delivery at the rate of 8-10 numbers per month. The firm could supply only 20 trailers after grant of 3 extension till 31st December, 1982. Firm 'AC' completed the supply order placed on it within the extended date of May 1981. Similarly, in order to procure generating sets for mounting on the trailers to be supplied by the firms 'AF' and 'AG', the Department placed the</p>

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26.	1.199	Defence (Deptt. of Defence Production and Supplies)	<p>supply orders in November and December 1979—one on firm 'AH' for 145 generating sets and the other on firm 'AI' for 50 sets. The trailers were to be supplied to these firms by the Department. The delivery of generating sets mounted on trailers was to commence after two months by firm 'AH' and after 3 or 4 months by firm 'AI' depending on the receipt of trailers. As there were not sufficient trailers, there was some delay in supplying them to the firms AH and AI with the result that they could not complete the supplies. The delay in issuing the trailers resulted in a delay of more than a year in completing the orders. Consequently both these firms claimed price escalation to the extent of Rs. 22.24 lakhs in terms of the price variation clause. It is obvious that the Department should have taken care to ensure that the availability of generating sets on the one hand and of trailers on the other coincided as it is this one failure which resulted in a large avoidable expenditure.</p> <p>The Committee note that an indent was placed by Director of Ordnance Services on the Department of Defence Supplies in February, 1978 for procurement of 4,06,000 litres of paint RFU in 3 different packing viz. 20 litre drums, 5 litre packs and 1 litre packs. Although the paint was urgently required by the DOS during June 1978 to December 1978, a part order for 2,50,000 litres of paint in 3 different packs was placed by the Department in March, 1979 on firm 'AL' at the rates of Rs. 8.80 per litre for 20 litre drums, Rs.10.08 per litre for 5 litre packs and Rs. 12.00 for 1 litre pack. Strangely enough no orders were placed on firm 'AJ', which had quoted the lowest rate of Rs. 8.80 per litre for 20 litre drums and Rs.10 per litre for 5 litre packs. Firm 'AL' was required to submit acceptable advance samples by 31st March, 1979. The</p>

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			supply order on firm 'AL' was cancelled in February 1980 without financial repercussions on either side, as the firm failed to submit acceptable samples till that period. The item was already being procured by the DGS&D through established indigenous sources on rate contract.
27.	1.200	Defence (Deptt. of Defence Production and Supplies)	Subsequently, in March 1979, Director of Ordnance Services placed on DDS another indent for 8,20,300 litres of paint requiring immediate procurement of this quantity by June 1980. As a result of the fresh tender enquiries floated in August 1979, the Department of Defence Supplies placed 9 supply orders in January-February 1980, on different firms for a total quantity of Rs.12.15 lakh litres of paint in different packs at the rate of Rs.12.91 to Rs.13.50 per litre for 20 litre drums, Rs.15.10 to Rs. 15.30 per litre for 5 litre packs and Rs.16.75 to Rs.17.00 for 1 litre pack. According to the Department, the paint in question was procured by DGS&D for Defence Department at the rates of Rs. 9.40 to Rs. 9.80 per litre in 20 litre packing against the orders placed on 25-1-1979. The Committee are not satisfied with the explanation of the Department that there was some confusion as to who should deal with the purchase, being the first purchase after it was made an exclusive defence item. The Committee regret that failure of the Defence Department to hold consultation with DGS&D before placing the order led to avoidable loss to the Department. If 4,06,000 litres of paint indented in February 1978 had been procured through the established source of supply, it would have cost Rs. 40.84 lakhs, as against the cost of Rs. 59.17 lakhs, under the supply orders placed in January-February 1980. The Committee desire that the responsibility for the lapses be fixed and action taken against the defaulters. The Committee also recommend

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			<p>that procurement action in respect of common utility items should in future as far as possible, if not invariably be taken in consultation and co-ordination with the DGS&D and other concerned agencies.</p>
28.	1.201	<p>Defence (Deptt. of Defence Production and Supplies)</p>	<p>The Committee note that 497 number of tyres BLR (for imported tractors) beyond local repair were got retreaded by a firm 'AZ' during May 1976—October, 1977 at a total cost of Rs. 6.23 lakhs. These tyres were got retreaded in spite of the fact that an adequate stock of new tyres was already available and the imported tractors in question were likely to be phased out in the near future. The Committee note with surprise that retreading of 497 tyres was completed during May 1976-October 1977 and the Ordnance Dte. was not aware of the phasing out of the tractor at that time. It was only in April 1984 that the decision to declare the tractors in question obsolete was taken. The incorrectness of the decision to get these tyres retreaded is further corroborated by the fact that till March, 1983, out of the 497 retreaded tyres, only 26 had been issued to user units, 370 had been transferred to two other ordnance depots and 101 held in stock. Even at present, as many as 113 of these retreaded tyres are held in stock at Central Ordnance Depot. The Committee are distressed to note that an expenditure of Rs. 5.90 lakhs on retreading of 471 out of 497 tyres when adequate stock of serviceable tyres was already available and the tractors for which the retreaded tyres were to be used, were being phased out in the near future, has proved infructuous. The Committee consider it to be yet another instance of complete lack of planning coordination and foresight on the part of the Department, which has resulted in avoidable loss to the Government.</p>

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29.	1.202	Defence (Deptt. of Defence Production and Supplies)	<p>The Committee find that an amount of Rs. 37.83 lakhs was recoverable as liquidated damages from suppliers of stores in respect of 92 supply orders placed by the Department during the period 1977-78 to 1980-81. Of this, an amount of Rs.18.78 lakhs involving 44 supply orders was waived fully by the Department. Out of the balance amount of Rs. 19.05 lakhs, only a sum of Rs. 1.57 lakhs was recovered. The Committee trust that incorporation of a liquidated damages clause in the supply contracts is meant for ensuring timely execution of the contracts and to guard against the propensity for delay. Though the Committee agree that in development-cum-production supply orders, the strict enforcement of this clause may not to some extent be possible but they feel that the very purpose of this clause is defeated if the suppliers know from their past experience that such damages would finally be waived. Further, the use of free and uncontrolled discretion by the concerned officers with regard to the waiving of liquidated damages may lead to its misuse. The Committee recommend that comprehensive guidelines for the concerned departmental officers should be issued so that this discretion is very judiciously exercised. The Committee note that some guideline were issued on 20-9-1985 to bring about uniformity in regard to the levy of liquidated damages for delayed supplies and to minimise areas of discretion. The Committee recommend that the question of further revamping these guidelines should be periodically reviewed.</p>
30.	1.203	Defence (Deptt. of Defence Production and Supplies)	<p>From the facts mentioned above, the Committee have reached the firm conclusion that the Deptt. of Defence Supplies, which was created in 1965 for the purpose of indigenisation, development and production of imported defence items and to achieve self-reliance in the procure-</p>

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ment of defence equipment and stores required by the Armed Forces has not been able to achieve what was expected of them. Despite the fact that the Department has been functioning for the past twenty years, it does not appear yet to have succeeded in establishing many reliable producers of defence stores and equipments *pari passu* with the industrial development of the country. The failure is the more disappointing in as much as Government appears to have followed a liberal policy with regard to development expenses. The Committee trust that the Department will examine the various suggestions made in the foregoing paragraphs designed to improve its working. The Committee recommend that Government should appoint a High Level Committee to go into the entire question of indigenisation and production of defence stores in the country.

