

FIFTY-FIRST REPORT
PUBLIC ACCOUNTS COMMITTEE
(1986-87)

(EIGHTH LOK SABHA)

REVIEW ON THE WORKING OF THE
CONTROLLING RATE OF PROCUREMENT

MINISTRY OF DEFENCE



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LOK SABHA SECRETARIAT
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CORRIGENDA TO THE 51ST REPORT (8TH LOK SABHA)
OF PUBLIC ACCOUNTS COMMITTEE

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**PUBLIC ACCOUNTS COMMITTEE
(1986-87)**

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INTRODUCTION

1, the Chairman of the Public Accounts Committee do present on their behalf this Fifty-First Report of the Committee on para 32 of the Report of Comptroller and Auditor General of India for the year 1983-84, Union Government (Defence Services) relating to Review of the working of the Controllerate of Procurement.

2. The Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Defence Services) was laid on the Table of the House on 14 May, 1985.

3. The Controllerate of Procurement (CPRO) was established in 1971 to improve the material management in the Navy. The twin objectives to be achieved by the Organisation were "Prompt supply of required material at minimum cost with fewer occasions for rush purchases and reduced investment in the quick turnover of stocks." However, the Committee have found that both the objectives are yet to be achieved and that all is not well with the functioning of the CPRO.

4. An Expert Team from the Defence Institute of Work Study, Mussorie set up in 1980 had *inter-alia* recommended enhancement of financial limit for placing purchase Orders on the basis of limited tender enquiry, setting up of a full fledged Finance Section headed by a Financial Controller and formation of a Market Survey Team by a Market Survey Officer. Despite acceptance of these recommendations by Naval Standing Establishment Committee, no concrete action appears to have been taken in the matter. The Committee have desired that action on these recommendations should be finalised early.

5. The Committee have found that the Material Superintendent, in his performance appraisal of CPRO dated 28 February, 1985 had brought out *inter alia*, that "(i) the list of registered suppliers and vendors had not been scrutinised and updated for long (ii) no strict yardsticks were followed for registration of suppliers in the past (iii) no formal orders on procedure to be followed for registration of suppliers existed prior to January 1984 and (iv) there was no manual for the guidance of the Controllerate". It is astonishing that even after 13 years of its coming into existence, no procedure has been prescribed by CPRO for registration of suppliers and vendors. The general guidelines issued in August, 1982 for registration of supplies by the Ministry of Defence were not as rigid as those of DGS&D. The Committee have desired that procedure in this respect should as far as possible, be identical to that followed by DGS&D.

6. The Committee have also formed that Material Superintendent, Naval Dockyard, Bombay has stated in its performance Appraisal that "a more selective vendor list had resulted in better response to tender enquiries and more competitive purchase. The prices paid for various products were much lower than the rate at which they were procured in the past. The Saving to the Government on this account has been stated to be about Rs. 2 crores for the year 1984." This statement viewed in the context of price escalation year after year indicates that purchases in the previous years were not made at fair prices. The Committee consider that purchases made since the formation of CPRO need to be gone into thoroughly.

7. The Committee have observed that local purchases made by CPRO during the last couple of years had been very high as compared to Central Purchases. In 1980-81 and 81-82 local purchases were far in excess of the items purchased centrally. Though the value of central purchase viz. Rs. 29 lakhs vis-a-vis local purchase viz. Rs. 16.83 crores as reported in the Audit para for the years 1980-81 have been disputed by the Ministry of Defence, yet the Committee believe that local purchases have been resorted to excessively. The local purchases have shown persistent rise from Rs. 5.24 crores in 1977-78 to Rs. 15.33 crores in 1980-81. During 1981-82 when it started declining it amounted to Rs. 12.58 crores. The Committee have recommended that all out efforts should be made to improve the material management so as to reduce the quantum and need for local purchase to the barest minimum.

8. The Committee have noted that with the growth of Indian Navy, work of inventory control and management has increased manifold with CPRO handling inventories of various types that touch about half a million items. The very range of the items created enormous difficulties in identification and inspection and a lot of paper work. Wide fluctuations in usage rates and difficulties in demand forecasting coupled with untrained personnel handling procurement function besides out-moded procurement procedures had adversely affected the material management and inventory control in the Controllerate of Procurement. Avoidance of (i) large inventory (ii) higher inventory carrying costs (iii) Obsolescence and (iv) frequent deviation from the prescribed procedures for purchase of stores, is a must for efficient store keeping for organisation of the size of CPRO. To achieve these objectives the Committee have recommended the Ministry of Defence to introduce modern office equipment and aids like the latest computer system, besides training the staff put on procurement of stores in modern material management including computer techniques. The Committee trust that with these aids the demand forecast would also be precise, leading to better inventory control and effective material management.

9. The Public Accounts Committee (1985-86) examined the Audit Paragraph at their sittings held on 17 September, 1985 (FN and AN).

10. The Committee considered and finalised this Report at their sitting held on 29 May, 1986 based on the evidence already taken and written information obtained from the Ministry of Defence. The Minutes of the sittings form Part II* of the Report.

11. For reference facilities 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 V to the Report.

12. The Committee place on record their appreciation of the commendable work done by the Public Accounts Committee (1985-86) in obtaining information and taking evidence for the Report.

13. The Committee would like to express their thanks of the officers of the Department of Defence Production and Supplies for the cooperation extended by them in giving information to the Committee.

14. The Committee also 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

Chairman,

Public Accounts Committee

June 20, 1986
Jayaishta 30, 1908(S)

*Not printed. One Cyclostyled copy laid on the Table the House and 5 copies placed in Parliament Library.

REPORT

[Para 32 of the Report of C&AG of India for the year 1983-84 (Defence Services) relating to Review of the Working Controllerate of Procurement on which this Report is based appears as Appendix IV]

Introductory

1.1 The Controller of Procurement (CPRO) was established in 1971 as a result of the merger of two procurement organisations—Naval Stores Organisation (for purchase of naval stores) and Spare Parts Distribution Centre (for purchase of machinery spares) as part of the efforts to improve the material management procedures in the Navy with the objective of procuring stores of the right quality, in the right quantity, at the right prices, at right time and from the right sources. The new Materials Organisation is headed by a Materials Superintendent who is assisted by four Controllers whose designations, functions and responsibilities are broadly as under :—

- (a) **Controller of Warehousing (CWH)—of the rank of Deputy Secretary.**

Responsible for receipt, accounting, custody and issue of stores/spares to ships and establishments.

- (b) **Controller of Material Planning (CMP)—of the rank of Captain, Indian Navy.**

Maintains record and reviews stock, screens demands and authorises various issues.

- (c) **Controller of Procurement (CPRO)—of the rank of Captain, Indian Navy.**

Does direct and local purchase of all Navy/SPDC stores and connected work like payment of bills.

- (d) **Controller of Technical Services (CTS)—Engineer Officer.**

Performs the functions of the Technical Cell at Ghatkopar, pays attention to repairable stores and technical examination of surplus and disposal items/stores. He also does limited functions of inspection.

Performance Appraisal

1.2 According to the 'Report on Material Management and Organisation' of the Administrative Staff College of India, Hyderabad, the con-

sultants on whose recommendations the CPRO was set up, the benefits to be derived from the Organisation were :

Prompt supply of required material at minimum cost with fewer occasions for rush purchases.
Reduced investment in the quicker turnover of stocks.

All the above functions performed at minimum cost.

1.3 The Committee desired to know if any evaluation had been made to ascertain whether these objectives had been achieved. The Ministry of Defence in a note furnished to the Committee stated
A monthly evaluation report has been introduced from 1 January 1983 to show the progress on various types of purchases requisitions made by CPRO. An analysis of these reports shows marked improvement in CPRO's performance in reduced lead time and higher materialisation of stocks against orders placed.

1.4 If any action had been taken to further streamline the functioning of the Organisation for effective achievement of the above objectives. The Ministry of Defence in a note furnished to the Committee stated:

The working of CPRO was subject of study by an expert team from the Defence Institute of works study Mossorie in 1980. This study was undertaken with a view to bring about the constraints of CPRO and further improve the working of the organisation. Among the major recommendations of the team was the enhancement of financial powers of CPRO and various Naval Authorities, use of selective control for items required urgently, use of modern office equipment like Plain Paper Copier for reducing typing work, use of labour-saving devices like Postal Franking Machine and use of window-type of envelopes etc. Except for the use of special Stationary and enhancement of financial powers, all recommendations have been implemented. These two courses have also been put up and are under consideration. The use of special stationary is also being produced. However, selective control of urgently required items is being carried out categorising fast moving items into A category. A copy of the Defence Institute of Work Study recommendations and progress thereon is attached (Appendix I).

In addition to the above a time bound activity chart to reduce lead time of procurement has been drawn out and implemented. To overcome the acute shortage of staff, the proposal for enhancement of staff has been submitted and NSEC has as

recently as Oct. 1983, accepted increase in officer strength from 22 to 33. At present, only 13 officers are borne.

More exhaustive instructions on purchase procedures have been drawn out and issued in the form of Ty Memo/Pmt Memos. These are now in the final stages of consolidation in the form of Standing Orders-Guidance Manual.

1.5 The Material Superintendent's performance appraisal of CPRO dated 28th February, 1985 (Appendix II) has brought out *inter alia* that (i) the list of registered suppliers and vendors had not been scrutinised for long (ii) no strict yardsticks were followed towards registration of suppliers in the past, (iii) no formal orders on procedure to be followed for registration of suppliers existed prior to January, 1984 and (iv) there was no Manual for the guidance of the Controllerate. The appraisal has pointed out that these deficiencies had given access to dubious and unscrupulous suppliers to the Controllerate. In view of the fact, the Committee desired to know why proper procedures were not prescribed even after 13 years of the creation of the CPRO. The Ministry of Defence in a note have stated :

"General Guidelines were issued for registration of suppliers by Ministry of Defence vide Min. of Defence (Directorate of Standardisation) letter No. 86561/1/Coord/Std dated 11 Aug. 1982.

These guidelines were not as rigid as those of DGS&D for reasons explained in the letter and did not call for action as suggested by the audit. Fresh guidelines on the lines of DGS&D were drawn up in 1984. Prior to 1982, NHQ had issued general instructions on the subject vide NHQ letter No. SE/2039 (SQ) dated 26 Feb. 1979.

It is submitted that a number of firms do not sell their products directly but through their stockist and distributors. The firms (many) already registered with DGS&D, AHSP, NSIC, were being treated as suppliers. The guidelines issued by the Ministry of Defence Dt. of Supq vide letter No. 86561/1/Coord/Std dated 11 August 1982 stipulating inclusion of approved suppliers based on their past performance and credentials were being followed. The previous instructions issued from time to time were reviewed in 1984 and were embodied in CPRO's standing orders for guidance for officers and staff."

1.6 Para 1(b) of Material Supdt's Naval Dockyard, Bombay letter dated 28.2.85 (Appendix II), states that the prices paid for various products in 1984 were much lower than the rates paid in the past. The comparative

advantage has been computed at Rs. 2 crores in the year 1984. Pointing out that this information viewed in the background of price escalation year after year, would indicate that all was not well with the purchases, the Committee asked if this issue had been looked into or investigated and if so, with what results. In reply the Ministry of Defence have stated that "the matter is being examined in details separately."

1.8 The Committee have been informed that in pursuance of the recommendation made by the Defence Institute of Work Study Mussorie that the financial limit for placing purchase orders on the basis of limited Tender Enquiry should be enhanced from the present Rs. 50,000 to Rs. 1,00,000, a case for enhancement of Financial Powers has been forwarded by CPRO to Naval Headquarter (DLS) vide MS(B) letter No. DYCP/ADM/29 dated 6 July, 1984. In this context, the Committee asked about the reasons for not implementing the recommendation regarding enhancement of financial powers. In reply, the Ministry of Defence in a note have stated that the existing financial powers were delegated in October 1976. These powers were enhanced in 1982 and are being exercised. The existing financial powers are as detailed below :

Local Purchase Power under Govt. of India, Ministry of Defence letter No. 13/111/76/Redal/D(IFA) dated 29 Oct. 1976 and NI. NI. 1/S/81

		<i>Existing</i>
(a) Local Purchase of stores to meet Operational demands.	(1) FOC-in-C West	Rs. 50,000/-
	(2) ASD (B)	Rs. 50,000/-
	(3) CPRO(B)	Rs. 10,000/-
(b) Local Purchase of Stores & Spares to meet Outstanding demands from Ships & Establishments upto the level of six months requirements.	(1) FOC-in-C West	Rs. 40,000/-
	(2) ASD (B)	Rs. 40,000/-
	(3) CPRO (B)	Rs. 8,000/-

1.8A The Ministry of Defence further stated :

"A case for further enhancement of financial powers and for decentralisation of authority is presently under study at Naval Headquarters. A consolidated proposal will be put up to the Govt. in near future."

1.8 The Audit para has listed certain instances of irregularities detected in test Audit. For example, 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during the years

1980-81 and 1981-82 respectively were procured through local purchase as compared to 1.7 per cent and 23.3 per cent procured through central purchase. In this context, the Committee enquired as to what mechanism/internal controls existed to ensure that the rules/procedures prescribed were not deviated and the corrective and remedial measures taken to avoid recurrence of such irregularities. The Ministry of Defence in a note have stated :

“The personnel being appointed for procurement functions are mostly untrained. Regular lectures on purchase procedures are given to the staff to make them aware of the rules and regulations. In addition, various provisions of Government regulations are circulated to all officers and if found necessary, amplified in Ty/Pmt Orders. Efforts are in hand to post LLMC trained officers who have some material management background. In addition, all orders of the value above Rs. 4,000 are being signed by CPRO himself—even though this is creating a lot of work on CPRO. Officers are also being guided in day to day work and explained the rules position.”

1.9 Commenting on the irregularities pointed out by the Audit a representative of the Ministry of Defence stated in evidence as follows :—

“In examining the irregularities brought out by the Audit in the Audit para, it should be appreciated that material management in a very large organisation has its own inherent difficulties at the micro level. These stem mainly from the areas of the inventory which in the case of the Navy has now touched half a million figure. The very range of the items creates enormous difficulties in identification, inspection and creates paper work. Wide fluctuations in the usage rates are noticed. The demand increased during some period and then drops to a very low level. This uncertainty about the demand as to when it is required and as to what quantity is required makes forecasting difficult.”

1.10 Clarifying the position further, Chief of Logistics, Ministry of Defence added in evidence as under :

“If INS Vikrant is coming for a major repair the quantity of material required would be much larger than in other years when repair of smaller ships are required. This bring an element of uncertainty. This uncertainty about the time when required and the quantity required makes the forecasting difficult and inventory control expensive.

Then there are other problems. To forecast future things an *ad hoc* judgement has to be used as a guide. Although various techniques

as forecasting have been designed yet there is no exact mathematical solution to this problem." On the question of irregularities in the procurement of stores, the Secretary, Ministry of Defence, in his evidence *inter alia* stated:

"We have requested separately the Chief of the Logistic view of the large number of irregularities which have been indicated it is essential that they should identify the existing procedures and for that purpose we have also sent to them a copy of the procedures followed by the Army Supply Organisation because they have the identical system and this has reasonably stood the test of time. But nonetheless we have requested them to put up a comprehensive government letter so that in case, in the government instructions which might have so far been issued, there are any gaps or if they can be reinforced, this can be done and the sort of irregularities which have come up may be reduced, if not totally eliminated."

1.12 The CPRO is responsible for the procurement of stores classified under General, Engineering, Electrical and Electronics required for Naval Units/Ships. The following types of indents/demands are processed by the CPRO:

- All items of stores and machinery spares handled by the Material Superintendent (MS), valuing upto Rs. 0.50 lakh per item.
- All other requirements of Naval ships for meeting their urgent requirements.
- Stores required to replenish stocks costing upto Rs. 0.40 lakh per item.

—Base demands of Naval Headquarters (Naval HQ) and any other to indents projected by them.

1.13 For purchase of items required exclusively by the Navy, a Central Purchase Cell was created at CPRO with effect from 1st June 1976. All recurring requirements were to be purchased centrally and local purchases restricted to only for urgent and essential requirements. Local purchase as opposed to direct purchase is intended to meet the immediate requirements which may arise due to delay in the materialization of supply against normal indent or sudden requirements which could not be anticipated earlier. Analysis of the purchases made by CPRO, however, revealed that during the years 1980-81 and 1981-82 the number of items

purchased locally (LP) was far in excess of that purchased centrally (CP) as shown below:

Year	Number of orders	Items covered	Percentage to total number of 18-0801		Total value of orders (Rs. in crores)
			Orders	Items	
1980-81 CP	223	525	1.3	1.7	0.29
LP	17,194	29,720	98.7	98.3	16.83
1981-82 CP	1,302	5,224	13.2	23.3	1.32
LP	8,546	17,213	86.8	76.7	9.02
1982-83 CP	1,025	16,776	15.8	57.4	10.93
LP	5,462	12,473	84.2	42.6	6.38
1983-84 CP	1,184	11,881	10.8	34.2	10.45
LP	9,855	24,797	89.2	65.8	7.89
1984-85 CP	1,485	11,881	12.6	34.2	9.40
LP	9,855	24,797	87.4	65.8	8.71

1.14. The Committee desired to know the reasons for such a large number of local purchases as compared to Central purchases, the Secretary, Ministry of Defence stated in evidence as under:

I would like to submit that the figures which have been mentioned regarding the central purchase and local purchase, I am afraid, would need some degree of revision. I would like to refer to Para 1.2 (Audit Report). In this context, I would like to submit that the position is rather different from what has been stated. Sir, you would observe that in the year 1980-81, it has been pointed in the last column, that the Central purchase was Rs. 29 lakhs and the local purchase was of the order of Rs. 16.83 crores. This gives the feeling that there was a ratio of almost 1:90 or more between the Central purchase and the local purchase. I would submit that this position has not been found to be correct on verification. In regard to local purchase for which figures have been given, the trend would show that the local purchase went up during certain period and from a certain figure and thereafter they came down. The figures for local pur-

chases are as follows :

1977-78	...	5.24 crores
1978-79	...	6.17 „
1979-80	...	7.91 „
1980-81	...	15.33 „
1981-82	...	12.58 „
1982-83	...	8.26 „
1983-84	...	8.15 „
1984-85	...	6.65 „

Sir, if you kindly plot this on a chart you would give you a bell-shape chart, that is, the figures rise from 1977-78 and touch the peak in the year 1980-81 and then start falling from 1981-82 and factually reach the same level as they were during the period 1977-78, 1978-79 and 1979-80. This is the comment on the trend. Now the question arises as to how this has happened. The reason for this was that in the year 1976, we introduced the computerisation in the Material Superintendent's organisation. On that basis, the Government feel that it should be possible to reduce the formula which has been explained relating to PQ, that is, 'Procurement Quantities' from 3 ACL—to one ACL because it was felt that with computerisation and other facilities and streamlining of procedures, it should be possible to make up with only one ACL. This thing continued and the Naval Headquarters arrived at the conclusion that their bins were emptied with the purchased orders placed on the DGS&D which were not coming through, that the number of denials of the requisition was very large and consequently a modification had to be made in the year 1981 taking it back to 3 ACL. During this period the pressure on the local purchase increased very much. This was precisely the reason why during the year 1980-81, it built up gradually and it came down also gradually because in January 1981, we made it 3 ACL, but we did not find that in the year 1981-82. So, it takes a little time for it to make its impact feel in the year 1982-83, the impact was indeed felt and it came down and finally it settled down. So, this was the reason why the figure of local purchase had to move up."

1.15 He further stated :

"The figure of Central purchase, i.e., Rs. 29 lakhs, I am afraid, is not correct, because this has not taken into consideration the

central purchases made by the Indian Navy by a variety of other sources. It completely ignores the Central purchases made through the DGS&D, CPRO of 56 items, the purchases made from the ordnance factories, the purchases made from the Indian Supply Missions based in London and Washington.

There are 17,194 vouchers mentioned in the Audit para as local purchase. I got a quick survey made of 2,621 local purchase orders on a random basis. On this basis, it was found that of these 2621, 1235 orders amounting to Rs. 1.36 crores were debitable to Central purchase and the rest to local purchase. In short, this quick sample study showed that the ratio between the LP and CP was approximately of the order of 1:1 :—

It is possible that in the initial stages, we were not careful in checking our figures. It is remiss on our part not to check up these carefully and it is only now that we have got this quick sample study done. These figures also do not take into account the exclusive purchase of 56 items amounting to Rs. 3.15 crores, for which indents were placed by the Naval Headquarters. Then, unfortunately, we had one form with the heading 'central purchase' and this was being used both for central as well as direct purchases. There was a tendency for these two things to get mixed up. Realising that, we have amended the situation and we have now two separate forms".

Invitation to tender

1.16. According to prescribed procedure invitation to tender in the case of local purchases under the limited tender system is required to be issued to a minimum of 7 firms for purchases of value upto Rs. 20,000 and 15 firms for purchases of value exceeding Rs. 20,000 and upto Rs. 50,000. Non-observance of these instructions was noticed in 32 cases--of tender enquiries (for purchases exceeding Rs. 20,000) issued during 1978-79 to 1982-83. The Committee desired to know the reasons for non-observance of instructions in respect of these cases mentioned in Audit para. The Ministry of Defence in a note explained the position as below :

"Sri. 5-6-7. Though 15 firms were registered for the supply of the items; not all the firms were considered reliable. The Vendor rating and analysis was being carried out with a view to de-register firms and hence Tender Enquiry to unreliable firms was not sent. Among the firms that were registered for these items, four have already been de-registered for unsatisfactory performance and some are still under consideration for de-registration.

Nevertheless against the requirement of 15 firms Tender Enquiry was floated to 7,7 and 10 firms respectively and the purchase was sufficiently competitive.

Srl. 8-9-10. The situation as mentioned above also existed for this item and tender enquiry was limited to reputed manufacturers. Nevertheless TE was sent to 9,7,7 firms respectively against the requirement of 15; the purchase was however sufficiently competitive.

Sl. 11. The item is of a specialized manufacture nature requiring high precision. Only 8 firms were registered for this item and hence enquiry was sent to those registered only. The purchase was thus competitive.

Srl. 12 & 13. It is stated that only six firms for the item were registered for supply of this item. In view of the fact that the enquiry was sent to six firms shows that the purchase was competitive.

Srl. 14. Though fifteen firms for the product were registered all the vendors registered were not considered reliable and hence tender enquiry was sent to the reliable suppliers only. Notwithstanding the above, the enquiry was still floated to 12 and the purchase was competitive.

Srl. 15. Though fifteen firms for the product were registered all the vendors registered were not considered reliable and hence tender enquiry was sent to the reliable suppliers only. Nevertheless TE was issued to 10 firms and the purchase is considered competitive.

Srl. 16 & 17. Both these items are of foreign origin and the same were being procured through firms holding licence to import ship stores in bond. For item No. 16 only 3 such firms were registered and for Srl 17 only 10 were registered. In both cases the purchase was competitive as TE was sent to 8 & 10 firms respectively.

Srl. 18. The item is of imported nature and only six ship chandlers were dealing with the item at that time. Enquiries were thus sent to six firms. Nevertheless the purchase was competitive.

Srl. 19. Though 15 firms were registered for this item TE was limited to the reliable suppliers only that numbered only 10. It may be mentioned that as Vendor rating had not been carried

out, a number of poor suppliers continued to remain in the vendor list. The floating of TE to 10 firms still made the purchase competitive.

Srl. 21. Same as above. In this case TE was floated to 13 firms. The purchase was nevertheless competitive.

Srl 22-23. Though 15 firms were registered for these item, only 10 firms among them were considered capable to supply the item; hence the TE was limited to that number. The purchase was nevertheless competitive even though TE was sent to 10 firms.

PAINT RFU NAMEL

Srl 24-30. Marine paints are specialised paints requiring high technology and know-how. There are only six firms who are capable of manufacturing this item as per the laid down stringent specifications and hence the tender enquiry to the limited number of firms were appropriate.

Srl. 32-37. PAINT NON SLIP OLIVE GREEN This is also a marine paint and only five firms are considered capable to manufacture this item. The TE to limited number of firms was therefore in order.

It may be mentioned that a number of firms with poor Vendor rating have been de-registered. The process of evaluation of Vendor performance is a continuing process and more firms are likely to be deregistered."

1.18 The Committee have been informed that Tender enquiries are issued to the requisite number of firms as stipulated in Government letter No. SE/2038/NHQ/639/D (N-1) dated 25.2.1981. However, in cases where suppliers registered are large, Tender enquiries are issued in rotation.

Splitting up of requirements

1.19 According to Audit, in respect of the following items for which there were regular and recurring requirements and in considerable quantities, it was found that such requirements, were split so as to bring them within the delegated financial powers of the Admiral Superintendent (ASD)/CPRO. As a result, these purchases escaped the scrutiny of the Tender Purchase Committee (TPC) which had to examine purchases exceeding Rs. 50,000.

Sl. No.	Item	1980-81	1981-82	1982-83			
		Number of orders	Value (Rs. in lakhs)	Number of orders	Value (Rs. in lakhs)	Number of orders	Value (Rs. in lakhs)
1.	Soap laundry	29	8.41	6	3.02	2	0.94
2.	Soap soft Grade II	14	5.53	3	1.04	...	...
3.	Cuprous oxide	33	12.88	...	6.42	...	...
4.	Rope Polypropylene paraprop (of different types)	78	25.46	62	25.79	17	6.26
5.	Paint Admar Chocolate	14	4.32	9	4.52	...	...

1.20 The Committee desired to know as to why no action was taken to place orders for Central purchase for procurement of these items which are required for continuous and regular use by the Navy. The Ministry have stated in reply that indents for Central Purchase of items were raised and the pending indents during the period were as follows :

(i) **Srl. No. Soap Laundry**

- (aa) LS/LG/0474/SD/78/1863 dt. 18.10.78
- (ab) LS/LG/0474/SD/79/2323 dt. 15.10.79
- (ac) LS/LG/0474/SD/79/2265 dt. 14.9.79
- (ad) LS/LG/0474/SD/80/2949 dt. 23.1.81
- (ae) LS/LG/0474/SD/80/1101 dt. 12.9.83

(ii) **Srl. 2 Soap Soft**

- (aa) LS/GS/EX/2108 dt. 28.3.79
- (ab) LS/LG/SD/2693 dt. 14.7.80
- (ac) LS/LG/SD/3056 dt. 28.5.81
- (ad) LS/LG/SD/1030 dt. 20.7.83

(iii) **Srl. 3 Cuprous Oxide**

- (aa) LS/LG/6840/EX/90/2998 dt. 28.11.80
- (ab) LS/LG/6840/SD/82/3840 dt. 15.1.82
- (ac) LS/LG/6840/GEN/1/83 dt. 8.7.83
- (ad) LS/LG/6840/EX/83/A/1006 dt. 11.5.83
- (ae) LS/LG/6840/EX/83/1133 dt. 12.9.83
- (af) LS/LG/6840/EX/84/1578 dt. 20.10.84
- (ag) LS/LG/0473/EX/78/1859 dt. 29.9.78

(outstanding todate 7475 Kg.)

(iv) Srl. 5. Admar Chocolate

- (aa) LS/LG/EX/79/2295 dt. 8.2.80
- (ab) LS/LG/EX/81/3188 dt. 11.6.81
- (ac) LS/LG/EX/83/1015 dt. 28.6.84
- (ad) LS/LG/EX/83/1241 dt. Dec. 83

(v) Srl. 4. Rope Polypropylene

This item was introduced into the service and procured only from 1980 onwards and allocation of Pattern Number promulgation of specification and inclusion of item in the inventory took some time. As the rope was simultaneously being evaluated, no Central purchase indents were raised till Dec. 83. The items have now been standardised and introduced in the inventory in the regular manner with Defence Stores Catalogue Nos. allotted by Ministry of Defence. NHQ Indent LS/LG/0350/EX/83/1206 dated 29 Dec. 83 for a variety of rope is relevant."

1.21 In reply to a question, the Ministry have stated that the prescribed provision procedure for procurement of these items is periodical.

1.22 Asked if the prescribed procedure had been followed in the procurement of these cases and if so, why could not the requirement be reflected in the annual review documents to avoid so many local purchase orders varying from 14 to 78 during 1980-81 alone in reply the Ministry of Defence have stated.

"Yes. Procurement Quantity (PQ) has been calculated as follows :—

PQ—(Dues out+ 3 Acl)—(Dues in+Stock) In certain periodical Reviews the items did not come up for Central Purchase as sufficient Dues in existed in the form of OP indents which has not materialised as scheduled and were awaited at the time of reviews."

1.23 Clarifying the position further, the Additional Secretary, Ministry of Defence in evidence stated as follows :—

"The Audit Para would indicate that there were three main items in all for which the splitting was resorted to. In 1980-81 and 1981-82, there was a decline. A submission has been made on behalf of the Navy about the type of equipments purchased, and where local purchase was resorted to. Till about 1982, the

delegation of powers did not envisage local purchase beyond Rs. 50,000/-. As a result, whenever an occasion arose, when a ship or an establishment wanted something urgently, the alternatives available were two. First, to project it to the Central Purchase Organisation. Our experience with DGS & D is that acceptance of the tender takes 12 to 18 months, and for the supply of materials another 12 to 15 months. The Second way to fulfil the need of the ships which have to go out to the sea is to resort to local purchase. This aspect was discussed locally with the Audit Officer in March 1981, and a working arrangement was arrived at, viz. whatever requisition was received on one day would be treated as a separate item and on that basis, purchases would be made... This was prior to the enhancement of powers in 1981-82. It was felt by the organisation, to meet its requirement of that, there was need for higher powers. Before this could materialise, the interim arrangement was made. I would like to refer to the position obtaining till 1976. The decline in the stock held took place following the changes introduced in 1976."

1.24 The Committee enquired if any attempt was made to find out what was the difference in the prices of the items purchased and whether there was any malafide in local purchase. The representative of the Ministry replied :

"So far as item 2 (soap soft grade II) is concerned, the requirement is that these are to be issued to workers in dockyards in Bombay and Vizag. We have got an analysis done. DGS&D took almost 12 to 18 months. In the meantime every month this requirement arose. So there was a need for purchase when there were no stocks. I will submit the table about the rates paid for the local purchases. I can give instances where the local purchase rate was less than the DGS&D rate.

Item 1 is purchased from Tatas. We purchased it for Rs. 2.74 compared to DGS & D rate of Rs. 3.30".

1.25 To this, the Secretary, Ministry of Defence added :

"We are not defending this. With rare exceptions, local purchases have been made at lessor prices. In regard to this item, the indent was placed in 1979. DGS&D covered in May 1984, at Rs. 3.05. We purchased it at Rs. 2.74. On pay day we have to give the soap cake. If we do not do it, we were not doing our duty."

1.26 It is seen from the statement furnished to the Committee that in the following cases, items were procured at the rates higher than those contracted by the DGS&D.

SOAP SOFT PATT 9150-000143
(0474/5526)

Sl. No.	Indent No. & Date	A/T No. & Date	Qty.	Rate	Date of Receipt	LP Rate
1		3	4	5	6	7
	DYCP/EX/0208/112 dt. 12.12.81		35000 Kg.	Rs. 3.37 per Kg.	10880 dt. 5.3.82 24123 dt. 10.5.82	4.35 A 2241 dt. 10.2.81
	LS/LG/0474/SD/80/2693 dt. 14.7.80	CD-3/106/063 25.7.80/53/PAOD 333 dt. 16.10.80		1.50,000- Kgs. ---	17500 dt. 13.11.81 17122 dt. 7.12.81 10600 dt. 24.12.81 10800 dt. 18.1.82 10500 dt. 17.2.82 21305 dt. 24.2.82 35000 dt. 9.2.82 7500 dt. 14.4.82	3.80 A 1469 dt. 5.11.80
CUPROUS OXIDE PATT 6840--000031						
	LS/LG/6840/EX/80/2998 dt. 28.11.80	DYCP/EX/0389/2 dt. 7.4.81	5000 Kg.	52.00	2000 dt. 12.8.81 1500 dt. 29.9.81 1500 dt. 9.10.81	58.00 August 80

1	2	3	4	5	6	7
LS/LG/6840/SD/82/3840 dt. 15.1.83	CD-1/106/076/ 27.1.83/51/CQAD 908 dt. 19.10.83	8600 Kg.	56.50 per Kg.	2500 dt. 16.12.83 3050 dt. 2.3.84 3050 dt. 9.3.84	66.70	H-4556 dt. 23.12.80
LS/LG/6840/GEN/1/83 dt. 8.7.83	Sanction cancelled and revised issued vide LS/LG/6840/GEN/G,1/83 dt 30.7.83 @ Rs. 72.80 per kg.		65.00 per Kg.	4500 dt. 1.10.81 2500 dt. 8.9.83	68.50	H-4030 dt. 25.11.80
PAINT ANTI-CORROSION CHOCOLATE						
LS/LG/6840/EX/83 A1006 dt. 11.5.83	DYCP/EX/0563/83/G/35 dt. 19.5.83	700 kg.	65.00 per kg.	700 dt. 27.10.83	68.50	H-4030 dt. 25.11.80
LS/LG/0441/EX/81/3188 dt. 11.6.81	DYCP/EX/0028/84/250 dt. 13.7.82	52000 Ltr.	43.00 per Ltr.	8380 dt. 29.7.83 10360 dt. 29.9.83 6500 dt. 25.11.83 5720 dt. 4.1.84 Supply completed	46.00	A 1385 dt. 7.12.80

1.27 When the Committee pointed out that all the five items mentioned in the Audit Para had now been categorised under 56 items of direct purchase for Navy, the Additional Secretary, Ministry of Defence stated :

“Even if they are among these 56 items, the point of Audit remains, viz. when they are centrally purchased, these should not be locally purchased.”

1.28 In reply to a question, about the average lead time for local purchase, the Ministry of Defence have informed the Committee that the average lead time against local purchases by CPRO Bombay is now three months time which has been worked out on the basis of the following :

- (a) Time of receipt of requisition: entering in relevant records; examination of requisition and specification of the item and selection of vendors for floating tender Enquiry and preparation of TE letter to 7-15 firms. —one week
- (b) Time for tender enquiry to reach the supplier by post; and for him to study the prevalent prices and availability of material and then to quote and allow time for postal delays. —four weeks
- (c) Preparation of Comparative Statement of Tenders, giving details of rates, various taxes and study of various terms of offer like payment terms, delivery schedule etc. —one week
- (d) Study of each individual offer/quotation by relevant purchase officer of the following :
 - (i) Item offered and its suitability
 - (ii) Terms and conditions of offer
 - (iii) Price/Rate and taxes
 - (iv) Comparison to past purchase data
 - (v) Checking to record of suppliers on whom the order is proposed
 - (vi) Placement of the order —one week
- (e) Time allowed for the firm to offer the items for inspection—this depends on the delivery scheduled quoted by the firm and varies from 2 to 8 weeks for commercial item and 2 to 12 weeks for manufacturing nature item besides urgency of requirement by the navy i.e. either for operational requirement to maintain minimum inventory level insurance stock or for a ship under refit. —eight weeks

- (f) Time for inspection of stores at the firms premises and issue of inspection note. —two weeks
- (g) Time for firm to supply the material to warehousing after inspection. —one week
- (h) Time for muster of stores and taking on charge by CWH (B) and issue of supply note. —one week

It may be mentioned that 20 weeks in the normal lead time but it fluctuates depending on the nature of the item. For items available off the shelf, the firms offer very short delivery time. In other cases, if the item is a machinery spare which is specially to be manufactured as per Naval Drawings, the delivery time given by firm is longer.

In case of operationally required items, lead time is compressed by resorting to purchase through Fast Transaction Team.

Taking the above factors into consideration the average lead time comes to 3-4 months."

1.29 As desired by the Committee, the Ministry of Defence furnished the following detail regarding the number of purchase orders placed by CPRO during 1982-83 and 1983-84 for local and central purchase under the different monetary limits :

<i>Local Purchase</i>		<i>Order Value Range in Rs.</i>	<i>Central Purchase</i>	
<i>1982-83 LPOS Placed</i>	<i>1983-84 LPOS Placed</i>		<i>1982-83 ORDER Placed</i>	<i>1983-84 ORDER Placed</i>
588	448	UPTO 500	515	615
162	753	501 to 2000	917	879
339	305	2001 to 3000	287	246
743	471	3001 to 8000	777	656
182	152	8001 to 10,000	144	134
959	856	10001 to 40,000	885	727
508	516	40,001 to 50,000	325	197
—	—	50,001 to 1,00,000	74	96
—	—	1,00,001 to 5,00,000	121	139
—	—	5 lakhs and above	2	4

1.30 Asked if the Ministry of Defence and the Integrated Finance were satisfied with these types of splitting up of requirement/purchase resorted to by the CPRO, the Ministry in a note have replied :

“No comments on this aspect at this juncture can be offered. A Board of Enquiry has already been convened to enquire into these cases.”

Extra expenditure on local purchase of soda ash

1.31 Soda ash technical grade is consumed by the Navy in considerable quantities. This item is available on Director General, Supplies and Disposals (DGS&D) rate/running contracts. The Annual consumption of Soda Ash by Navy for 1979-80 to 1984-85 is as detailed below :

<i>Period</i>	<i>Acl</i>	<i>Stock as on</i>	
1979-80	85,195 kgs	01 April 79	14,220 kgs
1980-81	1,64,926 kgs	01 April 80	1,474 kgs
1981-82	39,169 kgs	01 April 81	59,228 kgs
1982-83	84,619 kgs	01 April 82	90,934 kgs
1983-84	40,069 kgs	01 April 83	19,515 kgs
1984-85	78,057 kgs	01 April 83	3,446 kgs
		01 April 85	11,014 kgs

1.32 Audit para points out that under the standing instruction of Government, when items conforming to the prescribed specification are available on the DGS&D rate/running contracts, there should be procured only from the firms enlisted in the DGS&D rate running contracts.

1.33 Although soda ash technical grade was available on the DGS&D rate contracts, yet the CPRO resorted to local purchase from private firms at rates (varying between Rs. 2.80 and Rs. 4.40 per kg.) much higher than the DGS&D rates varying between Rs. 1.05 and Rs. 2.11 per kg. and procured 248 tonnes costing Rs. 7.78 lakhs between November, 1978 and October 1983 resulting in extra expenditure of Rs. 3.09 lakhs.

1.34 The Committee enquired if the lapse had been investigated and if so, with what results. The Ministry of Defence in a note stated as follows :

“The matter has been investigated and a copy of the investigation report is enclosed (Appendix III). It may be observed that as per the DGS&D List of stores on Rate Running contracts of 30 June 1980, no rate contract of Soda Ash existed against which

LPO at Sl. 12-20 during the period could be placed. Hence the purchase was made from the open market after competitive bidding. Also no rate contract for the item existed during 1983 as per DGS&D list and hence the item had to be procured from the open market against LTE.

In regard to the period 1978-80, no copies of the DGS&D rate contract were held in the files and the orders outside the rate contract had been placed in ignorance both of the existence of the rate contract and the chemical name of the product."

1.35 In view of the position stated above the Committee asked if there was not a failure on the part of purchase officers to exercise sufficient care and vigilance. The Ministry stated :

"The item covered under the rate contract was "Soda Ash Technical light grade in 75 kg. gunny bags", whereas the item specification of that required read "Soda Ash (Sodium Carbonate Anhydrous) heavy type in containers for home trade". As such the specification of the requirement differed from what was on rate contract and hence the same was purchased from the open market after competitive bidding."

The Ministry further stated :

".....there are problems faced in equating the specification given in Royal Navy BRs with commercially available item. With experience gained they are equated."

1.36 The Secretary, Ministry of Defence during evidence stated :

"To put a charitable interpretation of this I submit that at some stage at lower level there was some sort of confusion. For the period DGS&D rate contract was available, it should have been purchased through DGS&D."

1.37 Asked as to what action had been taken against the officials responsible for this loss, the Ministry have stated :

"The error has occurred due to the ignorance of the officer in regard to the Chemical name of the product and non-availability of the Rate Contract. The officer was also warned to be more careful in the future "

1.38 Asked further as to what remedial/corrective measures have been taken by the Department to avoid such cases in future, in reply the Ministry have stated :

"DGS&D has been requested to forward copies of rate contract as and when concluded by them. The Liaison Officer (Navy) with DGS&D has also been directed to ensure despatch of the Rate Contract. Further, purchase officers, while putting proposals for placement of orders, are to check if the item is covered under Rate Contract and if not the same is to be so certified".

1.39 Asked if there was no suitable machinery with the CPRO to ensure that copies of all rate/running contracts were invariably received by it and orders were placed under the rate/running contracts. The Ministry have replied as under :

"Rate contracts are concluded by DGS&D progressively but the same are not generally forwarded to CPRO as a matter of routine. The existence of a Rate Contract is only known to CPRO if and when the firm forwards a copy of the RC or the six monthly list of DGS&D is received. To overcome this, DGS&D has recently been requested to forward copy of the RC as a matter of routine."

Irregular procurement of a non-patternised item

1.40 The Audit Para states that in response to a telephonic enquiry on 15th June, 1979, the CPRO obtained quotations on a single tender basis from firm 'A' for supply of raincoats nylon finish of the quality suitable for use by scooter riders at Rs. 45 each and of quality suitable for normal use at Rs. 37 each. This offer was accepted by the CPRO and orders placed on 18 June, 1979 for supply of 7 numbers each of the two qualities of raincoats.

1.41 During November-December 1979, the Naval Command furnished to Naval HQ a detailed report on the raincoats procured from firm 'A' indicating the results of trials and recommended that they would be suitable only for individuals who were not employed on strenuous work. The life of the raincoats was assessed as one year. No orders were, however, issued introducing the item in service as required under the prescribed procedure nor had Naval HQ intimated their decision on the introduction of plastic raincoats into service. Nevertheless, in May 1980, the CPRO placed 5 Local Purchase Orders (LPOs) for the supply of 5,000 numbers of raincoats at Rs. 37 each and 2 LPOs for 5,000 numbers of souvester at Rs. 4 each at a total cost of Rs. 2.05 lakhs from firm 'A'.

1.42 The inspection authorities (Chief Inspectorate of Naval Stores) intimated the CPRO that the quality of stores offered by the firm for inspection being not uniform at all, stores were accepted taking into consideration urgent requirement. They added that the firm be black-listed

and pending orders for 1,068 plastic raincoats and 1,500 souvesters be cancelled. However, the entire lot was accepted, ignoring the Inspector's remarks.

1.43 Asked on what considerations was this item proposed for procurement when it was known that its life was only for one year and that it was suitable only for persons not employed on strenuous work, the the Ministry of Defence in a note stated as under :

“It is confirmed that the plastic raincoats on which users' trial were carried out were not found suitable to permanently replace the existing coats waterproof made of rubberised fabric.

The Controller of Warehousing, Bombay during a planned supplementary Review of Monsoon Gear for 1980 projected a net deficiency of 5000 raincoats and 5000 souvesters. Although adequate dues in existed against Central Purchase (DGS&D) AsTs, the supplies were not forthcoming due to repeated bulk rejections in inspection. Naval Headquarters therefore, permitted local purchase of minimum inescapable requirement of plastic raincoats which were readily available in the local market.”

1.44 The Committee asked about the basis of placing purchase order in this firm. The Secretary, Ministry of Defence stated during evidence as under :

“The basis were that previous year this firm had supplied these items and they were found satisfactory. Rather than going through the exercise afresh, the order was placed on the same firm. Strictly from the propriety point of view I consider this inadequate. Though the items were slightly sub-standard, we accepted them. The system generally followed is that if a certain commodity does not response strictly to the standards, it can be accepted if so certified by the Inspector on a price reduction. The idea is that if they are completely rejected, then you would not be able to get the commodity at the right time. In this case the second supply was accepted under 5 per cent price reduction.”

1.45 It is seen that in reply to an Audit query as to the circumstances leading to the acceptance of rejected stores, the CPRO had stated in October 1983 that “the matter was being investigated”. In this connection, the Ministry of Defence in a written note furnished to the Committee have explained the position as under :

“As the monsoons had already set in and a number of sailors and dockyard workers were without raincoats, which was affect-

ing their work and morale CPRO had no option but to accept the slightly inferior quality of rain coats to meet the demands of the dependent units. The items were accepted under deviation with 5% price reduction—a procedure which is generally followed in cases where there is an urgent requirement and the slight short-fall in quality does not affect the functional utility of the item.

As no formal investigation was carried out, no written report was submitted on the subject.”

Unnecessary Procurement of Stores

1.46 The Audit have pointed out that unnecessary stores valued at Rs. 9.83 lakhs have been procured whose shelf life had already expired or was nearing expiry. Some of these cases are discussed below :

(a) Paint bituminous enamel

1.47 Against the requirement of 12,000 kgs. of this paint projected by the Controllerate of Ware-housing (CWH) on 27th September, 1980 (when there was stock of 14,300 kgs.) the CPRO placed 11 Local Purchase Orders between 30th December 1980 and 10th January, 1981 on a local firm for the procurement of the required quantity at a total cost of Rs. 1.56 lakhs. The quantity ordered against the LPOs was received by the CWH between 6 March 1981 and 12 May 1981. The entire stock remained unissued upto March 1984; the shelf life of this stock expired by May 1982, resulting in a loss of Rs. 1.56 lakhs. The CWH also received 27,425kgs. of this paint during January-April 1981 against pending Central Purchase Orders. Out of this only 682 kgs. could be utilised upto March 1984. The shelf life of the remaining stock of 26,743 kgs. costing Rs. 1.90 lakhs expired by April, 1982.

1.48 The Committee wanted to know on what basis was the local purchase order for 12,000 kgs. of paint raised when there was a stock of 14,300 kgs. of paint in September, 1980 and the quantity of 12,000 kgs. received during March-May, 1981 was stated to be lying in stock as unused even upto March, 1984. The Ministry of Defence stated :

“Annual Consumption Level (ACL) for review in year 1979 was 27,000 Kgs. To cater for the element of procedural delay in physical checking of the consignment and to bring it on charge to meet the further demands another quantity of 12,000 Kgs was ordered to bring the stock closer to ACL to ensure that demands were met in time.”

1.49 Asked about the remedial measures taken to avoid recurrence of such cases in future, the Ministry have stated :

“As a remedial measure, new Local Purchase Requisition (LPR) form has been introduced. This LPR form has columns for details such as stock, dues in Annual Consumption Level and Dues out which did not exist on the LPR forms in use during the period under review. As such, the possibility of over procurement through Local Purchase have been minimised.”

1.50 Commenting on the observations of the Audit, the Defence Secretary informed the Committee during evidence as under :

“Two developments took place in this case. The DGS&D Indent which was placed in May, 1976, materialised in January, 1981. It was pending for a long time. After 5 years it did materialise.”

1.51 The Committee pointed out that time was the essence of the contract and if the supply was not made within the time the contract was voidable at the risk of the party. The Committee, therefore, asked whether time was not made the essence of the contract. The Defence Secretary in reply stated as under :

“Your observation is very valid. In many cases what happens is this: The firms come back and ask for the extension of the delivery period. Orders are all placed through DGS&D. They recommend saying that the firm has problems: they are not able to get the raw material there are labour problems; and so on and so forth. So, extensions are granted.”

1.52 He further stated :

“What happened was this: our own offtake went down. Earlier we were using this particular thing. There was change in the painting scheme: yardcraft changed to Admar Chocolate. Large number of Soviet ships use a silicon-based paint. So, the consumption was reduced. We checked up the life of this. We have been told by our laboratory that this can be gainfully used and is perfectly serviceable. A certificate has been given.”

1.53 The witness further added :

“I would submit that this is not a good provisioning because we have blocked the Government funds for a long time. There are only two mitigating factors: (1) The indent which was very old materialised; and (2) the consumption of this item went down.”

1.54 Asked whether it was a fact that the Ministry had no control over materialisation of the indents, the Defence Secretary replied :

"This is unfortunately true."

1.55 Enquired whether there was any system of monitoring all such contracts. The Defence Secretary stated :

"The DGS&D have a system of monitoring all these contracts. We keep on enquiring from them as to when the quantities are likely to be materialised. There are numerous contracts of this nature which are placed by the DGS&D. These are coming from private firms. The contracts are such that I have innumerable illustrations where they have gone in for arbitration because the provision in the contract is such that the arbitration cases get a long time to settle. I would submit that when the DGS&D appears before you, kindly pose these questions because we are equally harassed in this. There is unnecessary monitoring involved.....I would suggest for your consideration that your recommendation could be that so far as the Defence supplies through the DGS&D are concerned, there should be a separate monitoring system specifically dedicated for this purpose so that Defence supplies come on time."

1.56 According to Audit paragraph, 39425 Kgs. of paint were received during January-May, 1981 and could not be issued at all within the storage life of one year and remained in stock even upto March, 1984. The paint deteriorated with age and the deterioration can be significant after long period in storage even if the containers have remained sealed. These paints have remained in NSD storage for over 3 years or so. In this context the Committee asked whether the storage life of the paint was got tested and its life extended by any laboratory and how was the serviceability of the item issued after the expiry of their storage life, ensured before issued to the units. The Ministry of Defence stated in a note as under :

"The minimum storage life of this paint is not less than one year and it would have been a cause for concern if the paint had failed before that time. Further, although it would be desirable to test the paint before expiry of CSL life the need to do this was not felt since no complaints have so far been received from the users. The observation that paint remained in storage for over three years does not appear to be correct. 28,464 Kgs. had been issued till March, 1984."

1.57 Asked as to what was periodicity of tests done by the CPRO for checking the serviceability/storage life of such items. The Ministry of Defence stated in a note as under :

"No fixed periodicity is laid down but this should be undertaken before the expiry of CSL in case of doubts as to serviceability. However, MS(B) has been advised to initiate action for testing of paints samples before expiry of CSL."

(b) Paint Bituminous Black

1.58 The Audit para points out that the CPRO concluded between June 1980 and September 1981 three contracts with local firms 'E' and 'F' for the procurement of 66,498 litres of this paint at a total cost of Rs. 3.79 lakhs. Out of the total quantity of 57,500 litres of paint received by the CWH (consignee) between April 1981 and December 1981 from the two firms, a quantity of only 36,742 litres could be issued till March 1984 and the balance quantity of 20,758 litres costing Rs. 1.34 lakhs remained in stock upto March 1984 with shelf life of one year already expired.

1.59 Asked if the shelf/storage life of paint Bituminous Black had been extended by laboratory test. The Ministry in a note stated :

"No. This was not considered necessary since the paint had been regularly issued to different customers and no complaints have so far been received. Also, usual warehousing techniques such as rolling/inversion of drums have been resorted to with a view to obtain a longer life."

The Committee were further informed that :

"The Stock of Paint Bituminous Black as on 24 August, 1985 was 24,694.5 Litres. This is expected to meet the requirement of about two years."

1.60 Enquired whether the long storage of two years would not deteriorate the paint the Ministry stated that :

"...This paint is like coaltar which is used in surfacing for roads and no appreciable deterioration is expected to take place within two years."

(c) Syncolite Mosaic Layer and Topping

1.61 The CPRO placed 5 LPOs on a local firm for supply of 30,000 Kgs. of syncolite Base layer, 20,100 Kgs. and 25,300 Kgs. of Syncolite Mosaic Topping 'Yellow' and 'Green' respectively between August, 1980 and November, 1980 at a cost of Rs. 1.41 lakhs. The supplies were received from the firm between February and May 1983. Meanwhile, another IPO for the procurement of 2500 Kgs. of Syncolite Mosaic Topping yellow at a cost of Rs. 0.05 lakh was placed in February, 1983 on the same firm and supplies against this order were received in April 1983. Out of

the stores received, only 1,000 Kgs. of Syncolite Base Layer were issued and the balance valuing Rs. 1.44 lakhs remained in stock (March, 1984). The Committee asked why this item of store was procured through local purchase when the same was not required for immediate use. The Ministry of Defence have stated :

“The stocks of Syncolite Base (Mosaic) Layer and Topping were Nil in September and November 1980 respectively, that is why procurement action was initiated. That supplies against these LPO's materialised only in 1983 is unfortunate and could not have been foreseen at that time.”

(d) Refractory materials

1.62 The Audit Para states that 4905 Kgs. of refractory mortar cement procured from a local firm at the cost of Rs. 0.42 lakhs was issued in July, 1982 to the Naval Dockyard at station 'X' during October and December 1982. This quantity was returned by the Dockyard to the CWH in April 1983 being surplus to requirements. While the stock procured against the LPO was lying with the CWH, requirements of this item in respect of Naval Dockyard and other ships were being met through import. The shelf life of the item was to expire in July, 1984. Further, 19000 Kgs. of plastic Refractory-mix another refractory material procured locally against two more LPOs at the cost of Rs. 0.77 lakh between 15 June 1983 and 10 August, 1983 remained unutilised while the Navy's requirements continued to be met through import. Thus, the entire stock of the refractory materials purchased locally at the cost of Rs. 1.19 lakhs was lying in stocks unused (March 1984).

1.63 The Committee wanted to know as to why was the item supplied to Naval Dockyard while there was no requirement for it and its suitability not known. The Committee also wanted to know as to why this quantity of refractory materials was not issued in its turn. According to the system followed viz. first in and first out. The Ministry of Defence in a note stated as under :

“At the time of procurement of indigenous mortar cement the trials had not been successfully completed. The indigenous variety was procured at that time as the imported variety had not arrived and there was urgent requirement for the same from the Naval Dockyard, Bombay. On receipt of the indigenous variety the same was issued in several lots to the Naval Dockyard between October 1982 to January 1983.

Subsequent to the purchase and issue of 4905 Kgs. of the indigenous variety of mortar cement the imported variety supplies

materialised in March 1983. When the imported variety arrived, the Naval Dockyard, Bombay, demanded the imported mortar cement as the imported product enjoyed greater confidence with the technical experts. The Naval Dockyard thereafter returned the 4905 Kgs. of the indigenous variety in April 1983 which was merged in stock.

It would be seen that the policy of first in and first out was followed, but the item was returned subsequently by the customer."

1.64 Commenting on Audit statement that the shelf life of refractory mortar cement was to expire in July, 1984, representative of the Ministry explained during evidence as follows :

"The shelf life indicated is the minimum acceptable according to specifications. It does not mean that the item would deteriorate thereafter."

1.65 The Committee asked against what specific requirement was 19,000 Kgs. of 'plastic refractory mix' material purchased and why could it not be put to use subsequently. The Ministry of Defence, in a note, stated as follows :

"The stocks of the item remained nil from May 1981, to March 1983. An indent for 45,000 kgs. was pending for materialisation. Due to the uncertainty of the supply against the import indent, action was initiated at different stages to procure the item locally to meet the immediate requirement and to bring depot stock to $\frac{1}{2}$ ACL level. However, simultaneously with the local purchase order materialising the supply of 29,250 kgs, ex-UK also materialised after a period of 2 $\frac{1}{2}$ years from the date of indent. This could not have been foreseen at the time of placing the LPÓ."

Central Purchase

1.66 Audit examination of the procedure followed by CPRO in respect of locating sources of supply and registration of suppliers has revealed the following shortcomings and deficiencies :—

1. Majority of the firms registered were either agents or retailers; 93 out of 176 suppliers registered during 1981 to 1983 were agents/retailers.
2. Banker's Report regarding the financial standing of the firms was not obtained even in a single case.

3. The capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO.
4. Out of the 176 registrations granted during 1981 to 1983, Income Tax Clearance Certificate was not obtained in 56 cases.
5. Sales Tax Certificate was not obtained in 40 cases.
6. Ownership certificate was not obtained in 61 cases.
7. No registers were being maintained in respect of firms black-listed, banned or removed and firms whose registration was under consideration.
8. Firms were allowed to keep the registration beyond 3 years without revalidation.

1.67 Further, separate lists of suppliers for central/direct/local purchase were not maintained in spite of specific instructions by Government. The CPRO stated (October 1983) that all deficiencies in the procedure, pointed out by Audit would be removed in a phased manner.

1.68 The Committee wanted to know whether the reasons for these lapses/deficiencies had been examined to fix responsibility. The Ministry of Defence stated as under :

“No formal orders on procedures to be followed for registration of suppliers existed prior to January 1984. As such suppliers were being registered without reference to any prescribed formalities on specified verifications on the basis of locally improvised procedures. Based on the experience of the department, detailed formal orders have since been issued by CPRO for the guidance of the officers and staff.”

1.69 The Ministry have further stated :

“Since no formal orders were issued to be followed by the officers dealing with registration of suppliers, strictly speaking, they could not be held responsible for the lapses.”

1.70 The Committee have been informed that the procedure detailed in CPRO procurement order Nos. 2/84 and 4/84 dated 10.1.1984 for registration of firms with CPRO has been implemented.

1.71 As regards the eight deficiencies pointed out by Audit in loca-

ting the sources of supply and registration of suppliers, a representative of the Ministry during evidence stated :

“.....We have comprehensive instructions on this subject. Only two points out of eight observed here are not covered by those instructions. One is the report regarding the financial standing of the firms and second, the ownership certificate not obtained. The rest of them are undoubtedly covered and we propose that when we look into this firm, we would go into these items.....”

1.72 The Committee learnt that while accepting the deficiencies, the Ministry have informed the Audit that certain measures have been taken in the light of the audit para and detailed procedure for registration of firms has been laid down. Commenting on Audit observations at the instance of the Committee, the Secretary, Ministry of Defence stated in evidence :

“When the Audit Para was received we had a very close look at the entire observations made in it. First of all, I would like to thank the organisation which has prepared the audit para in as much as they have focussed attention on certain weaknesses of the organisation. While examining each aspect we realised that there were certain procedural requirements and some safeguards which had been prescribed which had not been meticulously applied in a number of cases. We also came across certain instance of irregular procurement of non-patternized items. We also came across cases of over-procurement of a few items through a modified procedure which did not observe some of the essential requirements of local purchase procedures. Here, I would like to submit that some time back we had received certain anonymous complaints and as a sequel to the receipt of those complaints the Flag Officer Commanding in Chief of the Western Naval Command ordered a preliminary investigation into the allegation of malpractices. The preliminary investigation revealed that prima-facie there were irregularities and the matter was handed over to the CBI in June 1981. The CBI registered five cases in which four officers were stated to be involved. The investigation spread over a period of two years but the CBI did not bring out any element of dishonesty. They said the culpability related only to the contravention of standing orders for violation of regular instructions and several procedural lapses. So, the CBI recommended taking of administrative departmental action against the officers which we did. Initially the Western Naval Command recommended a letter of displeasure. The Naval Headquarters did

not agree with this disciplinary action and considered that the officers culpability was serious and they must incur the severe displeasure of the Chief of the Naval Staff. Consequently all these four officers were issued letters of severe displeasure in December 1983.

Notwithstanding all this, after we examined this para we have taken two actions. When we examined this Audit Para we felt that it was necessary that these numerous aspects which have been projected in the Audit Para ought to be looked into carefully. Consequently, I sent a letter to the Chief of the Navy requesting him that he may order a Board of Inquiry to investigate into the working of the Organisation and the recommendations should be sent to the Ministry. I would read them out—

- (1) whether the instructions issued in various Government letters on purchase procedures had been scrupulously complied with ?
- (2) If not implemented, the officers responsible therefor and the extent of culpability;
- (3) disciplinary/administrative action should be taken against them ;
- (4) Naval Headquarters recommendations as regards remedial measures so that that should be adopted to obviate recurrence of such lapses in future.

I have asked the Chief of the Navy that this Court of Inquiry together with his recommendations regarding the improvement in the procedures should be forwarded to the Ministry within a period of six months. We have also requested separately the Chief of the Logistics that in view of the large number of irregularities which have been indicated, it is essential that they should identify the lacunae in the existing procedures and for that purpose we have also sent to them a copy of the procedures followed by the Army Supply Organisation, because they have the identical system and this has reasonably stood the test of time. But none the less, we have requested them to put up a comprehensive Government letter so that in case, the Government instructions which might have so far been issued, there are any gaps or if they can be reinforced, this can be done and the sort of irregularities which have come up may be reduced, if not totally eliminated."

1.73 When asked as to why the essential certificates/documents were not obtained from the supplier firms, the witness stated :—

“It is possible that in many cases it may not be possible to give all the details. However, it is our best effort to get them. A dismal picture is indicated here that so many certificates were not obtained. There might be some cases but the picture should not be so bad. It should be much better than that.”

1.74 The Committee pointed out that according to Audit Para, out of the 176 registrations granted during 1981 to 1983, Income Tax Clearance Certificate was not obtained in 56 cases. Thereupon, the Defence Secretary, stated in evidence :

“This is obviously infringement of instructions.”

1.75 Asked if the responsibility for the lapse had been fixed, the witness stated :

“The Board of Enquiry will certainly go into these things.”

1.76 The Committee pointed out that there were some small people who were producing such things which the CPRO consumed. But those people did not find a place in the CPRO Trade Journal. Asked whether it was not possible for the CPRO to reach these small people in the small scale sector and deal directly with them instead of procuring their goods from middlemen of large scale units, a representative of the Ministry stated in reply as under :—

“There is an authority whose job it is to encourage small scale manufacturers. He has to locate these small scale manufacturers. Such encouragement is being given.”

1.77 Secretary, Ministry of Defence thereupon stated as under :—

“registered suppliers of DGS&D are automatically on our list. Persons cleared by Inspecting authority will be automatically in this list. We have taken note of the suggestions. We can ask the Directorate of small Scale Industries about it.”

Extra Expenditure on Procurement of Waste Cotton Coloured and Rags Cotton Coloured

1.78 Audit para points out that Naval HQ's indent dated 5th May, 1979 for the procurement of 44,344 kgs. of waste cotton coloured and 1,49,995 kgs. of rags cotton coloured, was received by CPRO on 11th May, 1979 with the stipulation that the items would be delivered by the successful bidder on or before 30th September, 1979. But, the CPRO issued tender enquiry on 13th July, 1979 i.e. after two months from the date of receipt of indent. The last date for receipt of tenders was fixed as 6th November

1979, allowing a period of fifteen weeks for the submission of quotations as against the normal time limit of 4-6 weeks.

1.79 Asked about the justification for allowing fifteen weeks time for submission of quotations as against normal limit of 4-6 weeks, the Ministry have stated that due to scarcity of the item in the market there were wide fluctuations of price in the market and the validity of officers for this reason was short. The Ministry have further stated that "However, no formal instructions to allow fifteen weeks for submission of tenders were issued."

1.80 According to Audit Paragraph, the CPRO received 6 quotations, the lowest and the next lowest ones were as under :—

Waste cotton coloured :	Lowest : Rs. 3.86 per kg. from Firm 'A-1.'
	Next lowest : Rs. 3.87 per kg. from Firm 'B-1.'
Rags cotton coloured :	Lowest : Rs. 5.94 per kg. from Firm 'A-1.'
	Next lowest : Rs. 6 per kg. from Firm 'C-1.'

1.81 The Ministry of Defence informed the Audit on 18.1.1985 that the offer of firm 'B-1' was withdrawn and the next lowest firm 'A-1' was not accepted as the performance of the firm on investigations by M/s. Bombay Rags and Waste Supply Co. was not satisfactory. The Ministry subsequently informed the Committee that the firm 'B-1' viz. M/s Abbas and Co. withdrew the offer on account of scarcity of the materials in the market at that time.

1.82 Asked on what basis performance of firm 'A-1' was considered to be unsatisfactory. The Ministry of Defence in a note stated as under :—

"Firm 'A-1' viz M/s Bombay Rags & Waste Supply Co. and M/s Thakar & Co. were sister concerns under the same proprietor. The Firm M/s Thakar & Co. had supplied Cotton Waste against a DGS&D order in the past. The supplies against the said DGS&D was of poor quality in that it contained artificial fibres, objectionable and unhygienic material against which there were several complaints. Since both the firms viz M/s Bombay Rags & Waste Supply Co and M/s Thakar & Co. had the same proprietor, Ms(B) has reason to believe that the product that would be supplied by M/s Bombay Rags would also be sub-standard and similar in content to that supplied against earlier orders.

In view of the foregoing the tender of M/s Bombay Rags & Waste Supply Co. was rejected. The inspection of the firms premises was done by one of the senior members of the market survey team which functioned strictly under MS(B). In this case it was a qualified and experienced senior sailor of Chief Petty Officer rank. The sailor did render a report on loose leaf paper which was seen by the MS(B). Regrettably this sheet of paper is NOT traceable."

1.83 In reply to a further question as to why was the tender issued to the firm A-1 when its performance was not satisfactory, the Ministry stated :

"Item was open tendered and CPRO has no authority to refuse issue of tender to a firm even though its performance is poor."

1.84 Audit Para points out that though the comparative statement of tenders (CST) was prepared (6th November, 1979) and firms A-1, B-1 and C-1 were on the "approved list of Suppliers" of the CPRO, further action to process the case through the Tender Purchase Committee (TPC) was not taken. Instead tenders were reinvited. The Committee asked as to why action to process the tender with the approval of TPC was not taken as required under the rules and whether the Material Superintendent (B) had any discretionary powers for scrapping tenders without reference to TPC. In reply, the Ministry of Defence stated as under :—

"In urgent cases TPC Chairman has the authority to reject a CST provided covering TPC approval is subsequently taken. In the present case, the Chairman TPC exercised his authority in view of the urgency."

1.85 In view of the unsatisfactory condition of the firm A-1 viz., Bombay Rags and Waste Supply Co., a second tender enquiry was floated on the recommendation of TPC. Out of ten replies received, the offer of one company D-1, M/s Eagle Textiles, Calcutta was the lowest but this firm was stated to have no wherewithal to supply the material. The next lowest offer of the firm E-1 viz., M/s A to Z Traders at the rate of Rs. 3.97 per kg. cotton waste coloured and Rs. 6.87 per kg. for rags cotton coloured was accepted and the order was placed on this firm E-1.

According to Audit, non-conclusion of contract against the lowest quotations received in the first tender enquiry in November, 1979 resulted in an extra expenditure of Rs. 1.44 lakhs.

1.86 During evidence, a representative of the Ministry claimed that by re-tendering they had caused a saving to the extent of Rs. 4,963.

Functioning of Fast Transaction Team

1.87 The Audit Para stated that a Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procurement procedure in the following respect :

- Hand delivery of tender enquiries and collection of quotation as against the normal procedure of sending them by post.
- Limited time allowed for submission of quotations.
- Less number of quotations obtained making the tenders less competitive.

1.88 These relaxed procedures made it imperative that procurement of the items by the FTT should be confined to immediate requirements to keep the ships operational. During the years 1981-82 and 1982-83 purchases aggregating Rs. 106.43 lakhs and Rs. 85.83 lakhs respectively were effected by the FTT. A random scrutiny of the procurements made during 1982-83 revealed that stores for entertainment furnishing, etc. were also procured.

1.89 Asked how many occasions did the FTT deviate during 1981-82 and 1982-83 from the normal procurement procedure in respect of all the three items mentioned above. The Ministry in reply stated as under :

“FTT is required to procure items required most urgently by ships. The FTT follows the basic local purchase procedures with minor deviations. The purchases are however competitive and no financial impropriety exists in the entire quantum of purchase.”

1.90 When asked if the Ministry was satisfied that the deviations pointed out were only for the urgency of the requirement and did not in any way work against the interest of the Government, the Ministry replied :—

“Apparently the FTT procedure has been followed since the early seventies. The question raised about this system is being examined.”

1.91 The Committee desired to know the amount of expenditure incurred on procurement of stores (entertainment and furnishing etc.) in connection with the visits of VIP's. The Ministry in a note have stated as under :—

“Expenditure on Recreation and furnishings during the period 1981-82 & 1982-83 is as below :

Year	Recreation	Furnishings
1981-82	Rs. 1,43,858/- (Against Govt. special sanction for Vikrant)	Rs. 4,985/-
1982-83	Rs. 2,900/-	Rs. 13,950/-

“The above items were procured for the visit of VIPs to ships”.

1.92 During evidence, a representative of the Ministry stated that expenditure under the head of recreation and furnishing was about Rs.1,48,350. A major part of this amount spent was on buying T.V sets, cameras, Record Players, Godrej Chairs etc.

The Ministry have informed the Committee that procurement through FTT has been reduced drastically, The quantum of purchase during period 1983-84, 1984-85 and upto August 1985 was as follows :

Year	
1981-82	Rs. 1.0643 Crore
1982-83	Rs. 0.8583 Crore
1983-84	Rs. 0.8415 Crore
1984-85	Rs. 0.5365 Crore
(April 85 to August 85)	Rs. 0.2208 Crore

1.93 The Controllerate of Procurement (CPRO) was established in 1971 with the merger of two procurement organisations—Naval Stores organisation (for purchase of naval stores) and Spare Parts Distribution Centre (for purchase of machinery spares) to improve the material management in the Navy. The new organisation is headed by a Material Superintendent who is assisted by four Controllers—(a) Controller of Warehousing (CWH), (b) Controller of Material Planning (CMP), (c) Controller of Procurement (CPRO) and (d) Controller of Technical Services (CTS). The objectives to be achieved by the Organisation were :

“Prompt supply of required material at minimum cost with fewer occasions for rush purchases.

Reduced investment in the quick turnover of stocks.”

1.94 The Committee have been informed that for the achievement of these objectives a monthly evaluation report has been introduced w.e.f. January, 1983 to evaluate the progress on various types of purchase requisitions made by CPRO. An analysis of these reports show reduced lead time and higher materialisation of stores against orders placed by CPRO.

1.95 The Committee note that the working of CPRO was examined by an Expert Team from Defence Institute of Work-study, Mussorie in 1980 to suggest improvement in the working of the Organisation. The Expert Team recommended enhancement of financial powers of CPRO and various Naval Authorities, use of Selective control for items required urgently, use of modern office equipment like Plain Paper Copier for reducing Typing Work, use of labour saving devices like Postal Franking Machine and use of special stationary etc. Excepting a few, all other major recommendations of the Expert Team are stated to have been implemented. However, the information gathered by the Committee and the facts brought out by the Audit amply brings out that all is not well with functioning of the CPRO and the objectives of setting up of CPRO as enumerated above are not fully achieved. These aspects are discussed in detail in succeeding paragraphs.

1.96 The Expert Team from the Defence Institute of Work Study, Mussorie set up in 1980 had *inter alia* recommended that financial limit for placing Purchase Orders on the basis of limited tender enquiry be enhanced from Rs. 50,000 to Rs. 1,00,000; limit of proforma payment be increased from Rs. 20,000/- to Rs. 50,000/-; a full fledged Finance Section headed by an Accounts Officer designated as Financial Controller be set up under CPRO; A Market Survey Team consisting of experienced clerks and headed by a Market Survey Officer be formed under CPRO. No concrete action appears to have been taken on these important recommendations though these have been accepted by the Naval Standing Establishment Committee since long. The Committee regret to find that action on these recommendations has been pending for long. The Committee desire that action on these recommendations should be finalised and Committee informed within a period of six months.

1.97 The Committee observe that the Material Superintendent, in his performance appraisal of CPRO dated 28 February, 1985 has brought out *inter-alia*, "(i) the list of registered suppliers and vendors had not been scrutinised and updated for long (ii) no strict yardsticks were followed for registration of suppliers in the past (iii) no formal orders on procedure to be followed for registration of suppliers existed prior to January 1984 and (iv) there was no manual for the guidance of the Controllerate." These deficiencies gave access to dubious and unscrupulous suppliers to the Controllerate. It is astonishing that even after 13 years of its coming into existence, no procedure has been prescribed by CPRO for registration of suppliers and vendors. The Committee note that the general guidelines issued in August, 1982 for registration of suppliers by the Ministry of Defence were not as rigid as those of DGS&D. The Committee desire that

procedure in this respect should be, as far as possible, identical to that followed by DGS&D.

1.98 The Committee find that the Project Report of Defence Institute of Workstudy, Mussorie had also recommended setting up of a separate cell consisting of senior experienced sailors to be positioned permanently in CPROs Organisation to establish correct specifications and description for all items, update the information as and when required and progressive computerisation of non-computerised items.

1.99 The Material Superintendent also in his performance Appraisal Report for 1984, while stressing the need for a close monitoring for follow up action against each order placed, has pointed out that it had not been possible due to shortage of man-power. He has stated that "computer can only help in giving the record of pending orders but it cannot expedite the supplies by itself. This is a work area of the Controllerate, which is required to be strengthened by positioning of additional officers. The Committee understand that these recommendations have been accepted, If so, the Committee would like to know the action taken on these recommendations.

1.100 Performance Appraisal of CPRO by Material Superintendent, Naval Dockyard, Bombay states that "a more selective vendor list had resulted in better response to tender enquiries and more competitive purchase. The prices paid for various products were much lower than the rate at which they were procured in the past. This is borne out from the computer data in respect of procurement prices available in computer. The saving to the Government on this account has been stated to be about Rs. 2 crores for the year 1984." This statement viewed in the context of price escalation year after year indicates that purchases in the previous years were not made at fair prices. The Committee consider that purchases made since the formation of CPRO need to be gone into thoroughly. The Committee have been informed that the matter is being investigated in detail by the Ministry of Defence. The Committee would like to be informed, in due course, of the result of investigation and the follow up action taken in this regard.

1.101 Another important recommendation made by the Defence Institute of Workstudy, Mussorie to streamline the functioning of CPRO was with regard to the enhancement of financial powers and for de-centralisation of authority. A proposal in this regard was made to Naval Headquarters on 6 July, 1984. The existing financial powers as enhanced in 1982 were delegated in October, 1976. The Committee have been informed that further enhancement of financial powers, and de-centralisation of authority is presently under study at Naval Headquarters. A considerable delay has already

occured in this case. The Committee trust that the matter will be dealt with utmost urgency and an early decision would be taken in this regard.

1.102 The Committee note that CPRO processes indents/demands for all items of stores and machinery spares required by Naval Units/Ships handled by the Material Superintendent (MS) valued upto Rs. 0.50 lakh per annum; Ad-hoc requirements of Naval ship for meeting their urgent requirements stores required to replenish stocks costing upto Rs. 0.40 lakh per item; Base demands of Naval Headquarters and any other indents projected by them. The Committee further note that a Central Purchase Cell was created at CPRO in June 1976 for purchase of items required exclusively by the Navy. All recurring requirements were to be met centrally and local purchases resorted to only for urgent and essential requirements. Local purchase as opposed to direct purchase is intended to meet the immediate requirements which may arise due to delay in the materialisation of supply against normal indent or sudden requirement which could not be anticipated earlier. However, the Committee find that local purchases made by CPRO during the last couple of years had been very high as compared to Central Purchases In 1980-81 and 81-82 local purchases were far in excess of the items purchased centrally. As pointed out by Audit, 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during 1980-81 and 1981-82 respectively were procured through local purchase as compared to 1.7 per cent and 23.3 per cent procured through Central purchase. Though the value of central purchase viz. Rs. 29 lakhs vis-a-vis local purchase viz. 16.83 crores as reported in the Audit para for the years 1980-81 have been disputed by the Ministry of Defence, yet the Committee have reasons to believe that local purchases have been resorted to excessively. They fail to understand why full facts were not placed before the Audit earlier. The corrected figures of local purchase provided to the Committee amply bears testimony to the fact the local purchases were far in excess. The local purchases have shown persistent rise from Rs. 5.24 crores in 1977-78 to Rs. 15.33 crores in 1980-81. During 1981-82 when it started declining local purchase was far Rs. 12.58 crores. The Defence Secretary has explained the reasons for this rise in local purchases in terms of reduction in "Procurement Quantities from 3 ACL to 1 ACL because it was felt that with computerisation and other facilities and streamlining of procedures it should be possible to make up with only one ACL". Subsequently, "bins were emptied with the purchase orders placed on the DGS&D which not coming through, the number of denials of requisition was very large and consequently a modification had to be made in the year 1981 taking it back to 3 ACL. During this period the pressure on the local purchase increased very much". The Committee are unable to

accept this explanation as they find that volume of local purchases in the years 1982-85 (when the impact of 3 ACL was fully realised) was still very large ranging between Rs. 6 crores to 8 crores a year. The Committee recommend that every efforts should be made to improve the availability of stores through central purchase so as to reduce the quantum and need for local purchase to the barest minimum. The Committee also desire that such factors which make local purchases unavoidable are controlled and purchases are made in a most cost effective manner.

1.103 The Committee note that with the growth of Indian Navy, work of inventory control and management has increased manifold with CPRO handling inventories of various types that touch about half a million items. The very range of the items creates enormous difficulties in identification and inspection and a lot of paper work. Wide fluctuations in usage rates and difficulties in demand forecasting coupled with untrained personnel handling procurement function besides out-moded procurement procedures have adversely affected the material management and inventory control in the Controllerate of Procurement.

Avoidance of (i) large inventory, (ii) higher inventory carrying costs, (iii) Obsolescence, and (iv) frequent deviation from the prescribed procedures for purchase of stores is a must for efficient store keeping for organisation of the size of CPRO. To achieve these objectives the Committee would like the Ministry of Defence to introduce modern office equipments and aids like the latest computer system, besides training the staff put on procurement of stores in modern material management including Computer techniques. The Committee trust that with these aids the demand forecast would also be precise, leading to better inventory control and effective material management.

1.104 The Committee find that though the prescribed procedure of invitation to tender in the case of local purchase under limited tender system was not followed in 32 cases of tender enquiries for purchases exceeding Rs. 20,000 issued during the years 1978-79 to 1982-83, due to unreliability of vendors registered and lesser number of registered vendors than that stipulated in the procedure. This is not at all a convincing explanation. It is in fact a sad commentary on the functioning of such a large and important organisation as CPRO which is entrusted with the procurement of stores of various—kinds for Naval stores to have carried unreliable vendors on its registered list of vendors. It is shocking to note that no vendor rating and analysis has been carried out ever since the inception of CPRO. Equally deplorable is the fact that sufficient number of vendors has not been registered even to comply with the procedural requirements. The Committee take

serious view of these lapses and would like the whole issue to be probed into in depth to find out if it was a deliberate failure on the part of someone with malafide intentions. The Committee expect that Ministry of Defence would take expeditious action to carry out vendor rating early with a view to eliminate the unreliable vendors from the registered list and review the position periodically. The Committee recommends that suitable periodical inspection procedure for vendor list should be instituted immediately to avoid recurrence of such lapses. They would also like that sufficiently large number of reliable vendors are enlisted with a view to get competitive bids when tender enquiries are floated in future.

1.105 The Committee find that there were regular and recurring requirements in considerable quantities of "laundry soap", "soap soft grade II", "cuprous oxide," "rope polypropylene parapro" (of different types) and "paint admar chocolate" by the Navy. The Committee note with concern that local purchase orders of these requirements and also of other items which should have been procured through central purchase were split up as to bring them within the delegated financial powers of Admiral Superintendent (ASD)/CPRO. Part and frequent purchase of each of these items ranging between 14 to 78 numbers during the year 1980-81 escaped scrutiny of the Tender Purchase Committee (TCP) which had to examine the purchases exceeding Rs. 50,000. Similar splitting of orders were also resorted to in 1981-82, 1982-83 and 1983-84.

1.106 The Committee also note with concern that no orders for Central purchase of "laundry soap," "soap soft grade II," "cuprous oxide" and "rope polypropylene parapro" were placed during the years 1980-81 to 1982-83 as sufficient dues-in existed from of Central Purchase indents which had not materialized and were awaited at the time of reviews. The Committee are informed that DGS&D with whom indents are placed, take a very long time ranging from 12 to 18 months for tender acceptance and for supply of indented material another 12 to 15 months are taken. To mitigate the situation a working arrangement was arrived at by considering demands received on a single day for a particular item as a separate item and effect local purchase therefor separately. The Committee view this situation with grave concern. They gain the impression that working arrangements in violation of the prescribed procedure were arrived at without bringing the matter to the notice of higher authorities. The Committee strongly deprecate the tendency of splitting of purchase orders in order to escape scrutiny by Tender Purchase Committee. The Committee would like the Ministry to ensure that this practice was not resorted to with ulterior motives by the unscrupulous officials. The Committee also recommend that the actual requirements for these items over a period should be reflected in the annual review document

to avoid local purchase orders as far as possible. As a Board of Enquiry to enquire into these cases is already seized of the matter the Committee would like to know its findings and the follow up action taken by the Ministry in the matter.

1.107 The Committee also deplore the unduly long time ranging from 12 to 18 months taken by DGS&D for tender acceptance and another 12 to 15 months taken for supply of materials. In the instant case the position is more disquieting. Indent for laundry soap was placed with them in March 1979 and the supply materialised in February to April, 1984, i.e. after 5 years. In the interregnum, no fresh orders were placed with them for Central Purchase of items which were required in considerable quantities on regular basis. The unduly prolonged delay in the supply of material led to procurement of materials through local purchase often at a considerable higher prices. Besides, as brought out in the subsequent paras old indents, materialised at a time when indenter had procured the supplies from other sources resorted to between November 78 to May 80 because neither a copy of rate contract nor the DGS&D publications for list of items covered under rate contract were stated to be available with the CPRO at that time. The Ministry have pleaded ignorance of both the existence of the rate contract and the chemical name of the product. The Committee cannot believe that the officers dealing with stores purchase were oblivious of both the facts mentioned above. They do not consider it an insurmountable obstacle to obtain a copy of the DGS&D rate contract when the same was not available with the CPRO. Again, the problem of equating the specification given in Royal Navy BRs with commercially available items could have also easily been tackled by CPRO. As such, resort to local purchase because of ignorance and non-availability of DGS&D rate list can hardly be justified. The Secretary, Ministry of Defence admitted during evidence "I submit that at some stage at lower level there was some sort of confusion. For the period DGS&D rate contract was available, it should have been purchased through DGS&D." Unless proved otherwise, the Committee are inclined to suspect the bonafide of purchases of this item at much higher rates locally by CPRO. The Committee desire that if it is reasonably possible to identify the personnel responsible for purchase, they may be called upon to explain their conduct with a view to institute disciplinary action, if necessary. They also desire that commercial nomenclature of various items required by the Navy should be inserted into Royal Navy BRs to remove any ambiguity in the specifications for purchase and procurement.

1.108 The CPRO had obtained quotations from a firm on a single tender basis for supply of raincoats of nylon finish quality suitable for use by scooter riders at Rs. 45 each and the quality suitable for normal use at Rs. 37 each in response to a telephonic enquiry and had purchased 7 number

each of the two qualities of raincoats for trial purposes. In May, 1980 instead of going through the normal procedure afresh of inviting quotations from prospective bidders, the Local Purchase Orders were placed on the same firm for supply of 5000 numbers of raincoats at Rs. 37 each and 5000 numbers of souvesters at Rs. 4/- each at a total cost of Rs 2.05 lakhs. The Committee consider it highly objectionable particularly in view of the high value of the purchase order. The explanation that "previous year this firm had supplied these items and they were found satisfactory" is not at all convincing. The Committee would like the Ministry of Defence to ensure that prescribed procedure is scrupulously adhered to in indenting requirements. The tendering process should also be modernised.

1.109 The Committee are distressed to find that in the cases mentioned below due to excess purchases unnecessary stores valued at Rs. 9.83 lakhs were held in stock by the CPRO though its shelf life had already expired or was nearing expiry. Paint bituminous enamel was indented against the projected requirement of 12,000 kgs. when stock of 14,300 kgs. was already held. The indent was covered by 11 local Purchase Orders placed between 30 December 1980 and 10 January 1981 on a local firm at a total cost of Rs. 1.56 lakhs. The supplies materialised during March and May 1981. The entire stocks remained unutilised upto March 1984. Its shelf life expired in May 1982 resulting in a loss of Rs. 1.56 lakhs. Another supply of 27,425 kgs. of this paint was received during January-April, 1981 against pending Central Purchase Orders. Out of this, only 682 kgs. could be used upto March 1984. The shelf life of the remaining quantity of 26,743 kgs. of print stock expired in April 1982 and the paint deteriorated in quality. Similarly in March 1984, the CPRO was maintaining a stock of 20754 ltrs. of paint bituminous black costing Rs. 1.34 lakhs with shelf life of one year already expired. The stock instead of depletion, swelled to 24694 litres, in August, 1985 and was expected to meet the requirements of next two years. The plea that no complaint has been received from customers about the deterioration of its quality is not convincing as the deterioration in the quality of paint is a slow process and cannot be detected easily. The contractual shelf life for these items is 12 months and the actual shelf life of marine paints are stated to be three years or even more. But the optimum gain from its use is derived only when its use is close to the date of manufacture.

1.110 Again, the Committee find that large quantities of syncolite mosaic layer and topping and refractory materials procured at enormous cost through local purchase orders have remained unutilised for long time. This unnecessary procurement of stores has resulted in not only blocking of large stores space and funds for considerable period, but also deterioration of its quality. This can only be termed as bad provisioning. The Committee feel that with better material management, this position could have been avoided. Deliveries of stores against local purchase orders could have been

rescheduled and suppliers advised to hold the supplies for the time being when central purchases of an item materialised unexpectedly after a long period of indenting.

1.111 The Committee are deeply perturbed to find that indents of paint bituminous black and paint bituminous enamel placed as early as May 1976 with the DGS&D materialised after five years in 1981. The Committee have already commented on this aspect of indents materialising after long intervals in preceding paragraphs. The long unjustified delays in supplying the materials leads to local purchase which itself takes a considerable time and building of unnecessary and avoidable inventories which are not consumed during their shelf life besides locking of large funds. The Committee note that there is total absence of system of reviewing supplies likely to materialise against pending indents and to cancel pending over-due indents against which supplies have not materialised on due time and the stores no more required. The Committee recommends suitable procedural measures to mitigate such situation should be devised immediately.

1.112 The Committee view with serious concern the total absence of examination of the credentials of the suppliers before enlistment viz. majority of firms registered were either agents or suppliers; Banker's reports regarding their financial standing was not obtained even in a single case; the capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO. Basic requirement of production of Income-tax clearance, sales-tax and ownership certificates were also not complied in a large number of cases. The Defence Secretary informed the Committee that he has recommended to Naval Chief to constitute a Board of Enquiry to investigate into the working of Controllerate of Procurement to ensure:

- (a) Whether the instructions issued in various Government letters on purchase had been meticulously complied with;
- (b) If not implemented, the officers responsible therefor and the extent of their culpability;
- (c) Disciplinary/administrative action to be taken against them;
- (d) Naval HQ recommendations as regards remedial measures that should be adopted to obviate recurrence of such lapses in future.

1.113 The Naval Chief is reported to have been requested to furnish to the Ministry investigations made by the Board of Enquiry alongwith his recommendations regarding the improvement in the procurement procedure within six months. Besides, the Chief of Logistics has also been asked to identify the lacunae in the existing procedure. The Committee would like to know, in due course, the outcome of the investigations made by the Board

of Enquiry and the action taken by the Ministry of Defence in pursuance thereof to plug the lacunae that are found in the existing procedure.

1.114 The Committee are surprised to find that majority of the firms registered as suppliers with the Controllorate of Procurement are either agents or retailers. In 1981-83, out of 176 suppliers registered, 93 were either agents or retailers. The Controllorate is not dealing directly with the manufacturers in small scale sector though a fair number of items required by it are manufactured by them. The Committee would like the Controllorate of Procurement to encourage and register small scale manufacturing units also as suppliers of various items required by them as it would be beneficial to the Controllorate. The Committee feel that by procuring goods directly from the small scale manufacturers, not only the middlemen's margins will be eliminated but also the price will be more competitive and the delays in supplies will also be curtailed. Such a measure would give impetus to the Government policy to encourage small scale units.

1.115 The Committee are perturbed to find that CPRO has incurred extra expenditure of Rs. 1.44 lakhs on procurement of waste cotton coloured and rage cotton coloured due to non-acceptance of lowest tender and resorting to retendering. The Ministry of Defence have stated that the lowest tenderer withdrew his offer and tender of the next lowest tender was not acceptable as the performance of this firm was not found satisfactory. This decision is stated to have been based on the poor performance of its sister concern on an earlier occasion when substandard and unhygienic material was stated to have been supplied by that firm. In view of this fact, a market survey team had inspected the premises of this firm and submitted a report. It is strange that this report of the survey team is not available with the CPRO and the same was not furnish to the Committee when they asked for it. The Committee take a serious note of it. They are also concerned to find that suppliers with unsatisfactory and poor performance continued to be registered with the CPRO. The Ministry owe an explanation to the Committee on this account. It is equally a matter of concern that normal procedure of getting approval of Tender Purchase Committee to the decision not to process the tender of this firm was done away with in this case on the plea of urgency which is also not convincing.

1.116 The Committee note that Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procedure in handling tender enquiries and collection of quotations by hand delivery as against the normal procedure of sending them by post; allowing limited time for submission of quotations; and obtaining lesser number of quotations thereby making the tenders less competitive. These deviations from the prescribed procedure make it imperative that procurement of items by the Fast Transaction Team should be confined to immediate

Requirements to keep the snips operational. However, the Committee find that during the years 1981-82, 1982-83 and 1983-84, the aggregate purchases effected by Fast Transaction Team amounted to Rs. 106.43 lakhs, Rs. 85.83 lakhs and Rs. 84.15 lakhs respectively and the procured stores included items of entertainment and furnishing. Volume of purchases through Fast Transaction Team is indicative of the failure of the CPRO to cater to the needs of the indentors through normal stores provisioning methods. The Committee desire that concerted steps should be taken to resort to purchases through Fast Transaction Team only in cases of the dire necessities.

NEW DELHI :

20 June, 1986

30 Jyastha, 1908 (S)

E. AYYAPU REDDY

Chairman,

Public Accounts Committee

APPENDIX I

Extracts From Workstudy Project Report Institute of Workstudy Mussorie

Recommendations

Policies & Regulations

176. Financial Powers to sign purchase orders be enhanced as follows :

- (a) ACPRO—From Rs. 500/- to Rs. 2,000/-
- (b) DCPRO—From Rs. 200/- to Rs. 8,000/-
- (c) CPRO (i) From Rs. 8,000/- to Rs. 40,000 in ordinary cases.
(ii) From Rs. 40,000/- to Rs. 50,000/- in urgent cases.
- (d) ASD—From Rs. 40,000/- in ordinary cases.
and
Delegated From Rs. 50,000/ in urgent
to MS cases. } to
Rs.
1 lakh
for
all cases.

177. Financial limit for placing purchase orders on the basis of limited tender enquiry to be enhanced from the present Rs. 50,000/- to Rs. 1,000,000/-.

178. Penalty clause regarding supply of items should be strictly adhered to.

Organisation

179. A full fledged Finance Section headed by an Accounts Officer designated as Financial Controller, to be set up under CPRO.

180. A Market Survey Team consisting of experienced clerks and headed by a Market Survey Officer be formed under CPRO.

181. A separate cell consisting of senior experienced sailors be positioned permanently in CPRO's organisation to establish correct specifications and description for all items, update the information as and when required, and progress computerisation of non computerised items.

182. Processing of requisitions/x-slip in central registry to be eliminated. This would necessitate receipt of requisition on x-slips from CMP in three distinct folders by the senior superintendent of the three sections viz. General Stores, Engineering and Electrical.

183. Clerk code on requisitions to be given by section Registration clerk whereas clerk code for x-slip can be given by senior supdt. of the section.

184. Registration Clerks should accord priority in registering the requisitions and x slips and forwarding it to the concerned and sub section's supdt.

185. Only operational requisitions are to be sent to DCPRO for his perusal in a red folder. Remaining requisitions should be sent to only ACPRO for perusal.

186. There should be an 'Immediate Tray' on the file Rack of DCPRO and ACPRO where folders requiring priority attention will be placed.

187. Dak-sheets are to be dispensed with and supdt. should maintain Distribution Registers for recording distributions of requisitions/X-slips and CSTs to clerks.

188. Attending to visiting suppliers, visiting suppliers in the market, and carrying out a market survey should be removed from the duties of purchase clerks. Market survey and visiting suppliers should be entrusted to Market Survey Team as per para 180 above. Suppliers should not be allowed to contact the clerks on any account.

189. Purchase clerks should be required to prepare 3 TEs, 2 Purchase Orders and 5 letters as per revised norms.

190. Supdts. of sections should sit facing the clerks. Officer's cabins except CPRO should have transparent partition so that the clerks and officers are in each others view.

191. A Daily Progress Board maintained by supdt. of each section should be displayed at prominent places in the section.

192. Typewriters be reallocated to improve the utilisation.

193. Plain paper copier machine be procured for making copies of tender enquiries and purchase orders. With this machine TEs and purchase orders will have to typed only once.

194. Red, green and yellow folders be introduced for Purchase Orders, Tender Enquiries and CSTs respectively to accord them priority at various stages.

195. Possibility of entrusting each purchase clerk with only a particular activity like for example one clerk will prepare only TEs, another only purchase orders etc., be studied in detail. It is felt that this set up will facilitate better adherence to laid down norms.

196. TEs of only operational requisitions/X-slips should be sent to DCPRO for his perusal for despatch to Vigilance Section.

197. Vigilance officer should receive TEs from all the sections on all the six days in a week and only random check be carried out instead of 100% as at present.

198. TEs for operational requisitions after the signature of ACPRO should be sent to DCPRO directly rather than routing through supdt.

199. Envelopes for despatch of TEs and purchase orders should be of the window type and have the sender's name and 'OIGS' printed on them.

200. Postal Frankers should be used for printing postal stamps on the envelopes.

201. Tenders should be opened on all six days of the week and the tenders opened on any one day should not be restricted to one particular section.

202. Preparation of CSTs for quotations, the purchase order for which is likely to be within the financial powers of DCPRO should be eliminated. In this case, quotations will be required in duplicate from the suppliers.

203. While preparing CSTs, in lieu of names of supplying companies/firms, only A,B,C,...coding be written. This coding will also have to be written on each quotation covered in a particular CST.

204. CSTs from the vigilance section should be received directly by supdts instead of DCPROs.

205. Proposal forms should be prepared by clerks at the first instance itself and put up to ACPRO alongwith the CSTs. Writing of separate minutes can thus be deleted.

206. Distribution of copies of purchase orders be controlled by using different coloured forms for different authorities.

207. A case should be taken up with the Government, for elimination of inspection of items covered by purchase orders of value less than Rs. 500/-. If not possible for all items this should be taken up for atleast proprietary items costing less than Rs. 500/-

208. Limit for payment from imprest in normal cases be raised from Rs. 1000/- to Rs. 2000/- and in urgent cases from Rs. 2000/- to 3000/-. Accordingly CPRO's imprest holding at any time should be raised from Rs. 1.5 lakhs to 3 lakhs.

209. Action to payment to suppliers should be initiated as soon as inspection is completed, and should not wait for the items to be taken on charge.

210. Limit of proforma payment be increased from Rs. 20,000/- to 50,000/-

211. In case when an item is issued to a demanding authority from SE-1 even before inspection is carried out, a certificate from the user certifying the serviceability of the item should be considered as the inspection note and no separate inspection note need be prepared.

Redelegation of Financial Powers : Proposals against Sr. No. (a) to (c) have been brought in force locally vide ASD (B) name memo 01/83 (Appendix 'A'),* and CPRO (B) Internal Administrative Order No. 2t/83 dated 16 May 83 (Appendix 'B') .

177. **Enhancement of ASD's financial powers** : A case for enhancement of financial powers with justification has been forwarded to Naval Headquarters vide enclosure 'A' to ASD (B) letter DYCP/ADM/9656 dated 02 April 82. CDA (N) letter S/02/DP dated 001 July 82 is also relevant in this respect.

178. **Penalty Clause** : As per rules, no penalty clause exists for local purchases. However, Security deposit, of 5% is being recovered from firms against CP/DP orders above Rs 50,000/-. Though risk purchase clause also exist on central purchases, the same has never been evoked in absence of any judicial expertise in the purchase organisation.

179. **Finance Section** : A case for full fledged finance section with justification has been forwarded to the Naval Headquarters vide enclosure 'E' to ASD (B) letter DYCP/ADM/9656 dated 02 Apr 82. CDA (N) letter S/02/DT dated 01 July 82 is also relevant in this respect. As an interim measure, the Administrative Officer is doing the duties of the Officer in-Charge, Bill Section.

180. **Market Survey Team** : A case for establishment of Market Survey Team is pending with the Naval Headquarters vide enclosure 'F' of ASD (B) and CDA (N) letters quoted above. An immediate formation of this team is considered most essential for this Organisation.

181. **Technical Information Cell** : The Borne strength of senior sailors with M.S. (Organisation) is far below the sanction strength. Moreover, no separate saction for sailors exists for Procurement Organisation. However, efforts are in hand to create the cell with our own resources for

*Not verified in Audit.

the present. On approval of the case against para 180 above and attachment of sailors to this Organisation, the cell would be fully geared up.

182. 'X' Slips in Central Registry : Proposal already implemented.

183. Clerk Code : Proposal already implemented.

184. Registration Clerk : Proposal already implemented.

185. Operational Requisitions : Due to shortage of Officers in the Organisation (sanction strength 22; borne strength 10), only one officer is attached to each section, irrespective of the fact whether he is designated as DCPRO or ACPRO. As such the proposal is not valid for implementation at present.

186. Immediate Tray : Action is in hand to implement the proposed

187. Distribution Registers : Proposal already implemented.

188. Discussion with Venders : These duties are presently being carried out by the Officers of various purchase sections including CPRO. Purchase clerks are neither permit to visit market nor to speak to the visiting suppliers in this Organisation.

189. Output for each purchase clerk : Efforts are in hand to maintain optimum output from the staff.

190. Para non-existent in the report.

191. Daily progress board : Action in hand to implement the proposal.

192. Implementation of Typewriters : Proposal already implemented.

193. Plain paper coping : Action is being initiated to procure the same.

194. Coloured files : Action is in hand to implement the proposals for Tender Enquiring and CST. An purchase ex orders are required to be put-up along with old cases, the main file is normally used for the same. Thus coloured coded files for purchase orders are not considerable essential.

195. One clerk one activity concept : This system is considered unsuitable for present set up. The system will be reconsidered on introduction of new generation computer.

196. Operational requisition : The proposal is not applicable in the present set up as only one officer is attached to each section.

197. Vetting of TEs : Proposal already implemented.

198. Routing of Operational requisition: Proposal is not applicable in the present set up as only one officer is attached to each section.

199. Window type envelopes : Introduction of such envelopes under study.

200. Postal Frankers : It is understood that postal Frankers "SERVICL" marking do not exist. This proposal, therefor is not considered feasible.

201. Opening of Tenders : Proposal already implemented.

202. Preparation of CSTs : In view of enhancement in the Power of LPLCPRO, the proposal is not considered feasible.

204. Modification of CSTs : The proposal of the study group cannot be implemented as the suggestion is not acceptable to the requirements of CDA(N). If implemented a decoding statement has to be forwarded to the CDA alongwith the CST, thus increasing work.

205. Routing of CSTs : Proposal already implemented.

206. Preparation of proposal form : The proposal is being introduced.

207. Coloured CPO form : The proposal is not being considered for implementation as it would result in loss of manhours thus counter productive.

208. Waiving of Inspection : Further to para 2 of the Naval Headquarters letter under reference, it is recommended that inspection should be waived in respect of Proprietary Articles against firms guarantee for items valued upto Rs. 500/- irrespective of the total cost of the purchases order. The Naval Headquarters may like to reconsider the case.

209. Imprest holding : Proposal already implemented.

210. Proforma Payment : This office letter DYCP/ADM/29 dated 31 May, 83 regarding "Modification of Terms of Payment—Purchase Orders" is relevant.

211. Inspection Note : Proposal is under study for procedural implications.

IMPLEMENTATION OF RECOMMENDATIONS OF DIWS REPORT

S. No.	<i>Recommendations of DIWS</i>	<i>Progress Report of Implementation</i>
1	2	3
177.	Financial limit for placing Purchases orders on the basis of limited Tender enquiry to be enhanced from the present Rs. 50,000/- to Rs. 1,00,000/-	A case for enhancement of Financial Powers with justification has been forwarded to NHQ (DLS) vide MS(B) letter DYCP/ADM/29 dt. 06 July 84* latter S/02/OP dt. 01 July 82 is relevant.
179.	A full fledged Finance Section headed by an Accounts Officer designated as Financial Controller to be set up under CPRO.	A case for full fledged Finance Section with a justification has been projected to NHQ in April 82. The case has been accepted by the NSEC.
186.	Immediate Tray—There should be an "Immediate Tray" on the file rack of DOPRO and ACPRO where folders requiring priority attention will be placed.	The proposal has already been implemented.
192.	A daily Progress Board maintained by Supdt. of each section should be displayed at prominent place in the section.	Five in No. Prestograph Sign Boards have been procured for this purpose and the recommendation is being implemented.
194.	Plain Paper Copier machine be procured for making copies of tender enquiries and purchase orders With this machine TEs and Purchase Orders will have to be typed only once.	A Plain Paper Photo-copier machine—Make Logic System 316L has been procured under DGS&D rate contract and is now in use in CPRO(B).
200.	Envelopes for despatch of TEs and Purchase Orders should be of the window type and have the sender's name and "OIGS" printed on them.	A case for introduction of window type envelopes has been projected to DMR&F New Delhi. On receipt of supply of item from Government of India Stationery Officer, Calcutta, the recommendations will be implemented.

1	2	3
201.	Postal Frankers should be used for printing postal stamps on the envelopes.	A postal Franking Machine Kilburn 9999 has been procured under DGS&O da rate contract from M/s. Machneill & Magor Ltd. Bombay and is now in use in CPRO(B).
206.	Proposal Forms should be prepared by clerks at the first instance itself and put up to ACPRO alongwith the CSTS. Writting of separate minutes ocan be deleted	The proposal has now been introduced.
211.	Limit of Proforma payment be increased from Rs. 20,000/- to Rs. 50,000/-	A case for increase of Proforma payment from existing Rs. 20,000/- to Rs. 50,000/- was put up to NHQ (DLS) vide MS (B) letter DYCP/ADM/29 dt. 06 July 84 which is under scrutiny of CDA (N) Bombay.

*In this connection CDA(N)

APPENDIX II

(Vide para 1.5)

Telephone : 5127018

Office of the Material Superintendent
Nagal Store Depot, Ghatkoper West
PO Bombay—400 086

INCP/ADM/97/16

28 February, 1985

The flag Officer Commanding-in-Chief
Headquarters Western Naval Command
Bombay.

Performance Appraisal on CPEO(B) for the year Ending 1984

It is well known that the Logistic Management has brought in new awareness in Logistic Organisations towards optimum utilisation of resources and meeting the requirement of customers in time at most economic cost possible. The performance of Material Organisation depends a great deal on the availability of items in bins as per stocking policy. Strictly speaking, if the procurement of all items can take place in time whether against Central Purchase or Direct Purchase, major problem of ships and Dockyard can be overcome automatically. But, it is not so, as, procurement has its own peculiar problems and constraints which have persisted despite the same being brought to the notice of higher authorities. However, notwithstanding the constraints, the Controllerate of Procurement has made commendable strides towards solving problems in many related areas to ensure improvement both in procurement and compliance. As a result, availability of items today is far better than what it was in past. It is in this context that it is considered necessary to highlight some of the steps and measures, this Controllerate has taken to streamline the system to meet the challenging task of procurement. The various steps taken and changes brought about are as under :—

- (a) **Training :** As is known that procurement is a specialised job, which needs application of rules and regulations of financial nature and thorough knowledge of procedure of procurement. A concerted efforts has been made to impart in-house training to staff by organising lectures on different subjects like awareness and importance of computer in Logistics Management and detailed procedures of procurement etc. on a regular basis. This has opened the horizon and outlook of the personnel working in the Controllerate.

(b) **Registration and De- registration .** The Controllorate had a mix of all kind of suppliers and vendors, majority of them traders, the list of which had not been scrutinised for long. Besides, no strict yardstick were followed towards registration of suppliers in past. This had given access to **dubious and unscrupulous suppliers** to the Controllorate. In any purchase organisation, it is of utmost importance to have the correct list of approved suppliers which was lacking. It was from this point of view that new rules and regulations were framed for registration *vide* CPRO letter DYCP/VIG/84/01 dated 03 February, 1984 and complete vender list has scrutinised. All suppliers who were inactive and did not secure a single order during the last three years have been deregistered. Dossiors of suppliers on the active list but with dubious records and poor anticidents were also examined and an appreciable number deregistered. In total approximately 2100 suppliers have been deregistered since January 1984. Action has also been taken to register fresh suppliers, especially manufacturers after thorough scrutiny of their documents and verification of their capacity/capability. Over 50 new suppliers have been registered in 1984 and action is in hand to induct more and more reputed manufacturers.

A more selective vendor list has resulted in better response to tender enquiries and more competitive purchase. The prices paid for various products today are much lower than the rate at which they were procured in the past. This is borne out from the computer data in respect of procurement prices available in computer. The saving to the state on account of this is about Rs. 2 crores for the year 1984.

- (c) **Tender Enquiries :** Strict adherence to the procedure laid down by Naval Headquarters in respect of tendering is being enforced. The following qualitative improvement in tendering have also been introduced.
- (i) Forwarding of tender enquiries to correct type of vendors/ suppliers.
 - (ii) Incorporation of correct drawing/specifications details.
 - (iii) Incorporation of firm delivery schedule.
 - (iv) Incorporation of liquidated damages and risk purchase clause in TE.
 - (v) Ensuring despatch of all tender enquiries through registered post or certificate of posting.

- (d) **Local Purchase Orders** : At the time of placement of order, thorough scrutiny is carried out of all the tenders and only the one which is considered fit in all respect including favourable delivery schedule is selected for placement of orders. Further the following changes have been effected during the last one year :—
- (i) Allotment of registration number centrally to all types of orders to keep the correct and systematic record of orders.
 - (ii) Despatch of all orders by registered post.
 - (iii) Forwarding of PAC to Naval Headquarters at the time of placement of order.
 - (iv) Feeding of if Order to computer within one week and rate correction thereof.
 - (v) Stipulation of delivery by a particular date.
- (e) **Standardisation of Lead Time** : Standardisation of leadtime against Naval Headquarters Indents and local purchase requisitions did not exist in the past and a time bound activity chart could not be framed to monitor progress against requisitions. This has since been done and is as given below. This is being adhered to. This has helped in better monitoring of purchase orders and finally better materialisation of stores.
- (i) Lead time against Local/Direct purchase 3-4 months
 - (ii) Lead time against Central Purchase 6-8 months
Lead time chart is placed at enclosure 1 for perusal
- (f) **Monitoring** : A very close monitoring is required for follow up action against each order placed to ensure 100% compliance. This has not been possible due to shortage of manpower. It is stated that the computer can only help in giving the record of pending orders but it cannot expedite the suppliers by itself. This is a work area of the Controllerate, which is required to be strengthened by positioning of additional officers.
- (g) **Inspecting** : Inspection is a pre-requisite before the item is accepted. Considerable delay in inspection was being accepted as a matter of routine in the past. This has been overcome by the following :
- (i) Close liaison with all the Inspecting agencies in Bombay :
 - (ii) Progress of inspection being monitored and watch being kept for delay.

- (iii) Inspecting agencies being requested for early inspection wherever necessary.
- (iv) Firm being asked to replace the defective material at the earliest possible.

A close liaison with Inspecting agencies has resulted in positive response and thus higher rate of compliance of orders.

- (h) **Clearance of Bills** : Expedious clearance of bills is a good gauge to the efficiency of any procurement organisation as any delay in payment is likely to result in firms quoting higher prices. During the last one year, close attention is being paid to early clearance of firms bills. Concerted effort has been made to clear the backlog of proforma payments which exceeded 40% nos. This figure has been brought down to 217 and a dedicated team has been formed to clear even this backlog. Following measures have been taken to ensure expeditious clearance of bills :
 - (i) All the bills are being despatched within seven days from the date of receipt of supply note.
 - (ii) A close liaison is being kept with CTS and CWH for early issue of supply note.
 - (iii) Proforma payment is being made only against Inspection Note and delivery challan as against delivery in the past.
 - (iv) Out and out issues to ships have been restricted against pre-receipted demands.
- (j) **Technical Information Centre** : Technical Information is also catalogue of products received from various agencies was lying dumped in the sample room. This has recently been catalogued and stocked systematically. As a result of the above, availability and retrievability of specifications has been improved considerably. Action to procure urgently required specifications has also been initiated. With the availability of additional office this technical base of information can be further strengthened.
- (k) **Compliance Rate against Orders** : Owing to various measures taken by CPRO the materialisation of items against orders has considerably improved. This is evident from the figures placed at enclosure 2. It will be noticed that the compliance rate has touched an average on all time high of 80.41% against 17th, 18th and 19th reviews after initiating recent rejuvenating actions.
- (l) **NHQ Indent** : There was a backlog of over 6000 items against Naval Headquarter Indents in June 83. With dedicated efforts, this has been brought down to Nil and the Controllerate has a

clear slate today. The materialisation of stores against indents have also shown unprecedented improvement. A graph indicating performance is placed at enclosure 3.

- (m) **Liquidated Damages :** The contracts concluded by CPRO against local purchases did not include a "risk purchase or recovery of liquidated damages against delayed delivery" clause with the result that CPRO had little control over suppliers to ensure timely supply. This clause has now been incorporated in LPO contracts and liquidated damages are being recovered at the rate of 2% per month subject to a maximum of 10% on delayed supplies. This has disciplined suppliers appreciably who are now delivering supplies as per delivery schedule.
- (n) **Updating of Computer :** The reliability of computer records about two years ago was as low as 20%. By constant checking and updating records as also creating computer consciousness amongst the staff, the reliability of computer data is now over 95%. Machinery spares which were not computerised have also now been put on CPRO computer tapes. Correct dated retrieval has enabled monitoring of LPO through the computer.
- (o) **CAT 'A' Items and Introduction of ARS Systems :** Timely procurement of Cat 'A' items has enabled the successful implementations of the ARS system by CMP (B). This has been possible to a large extent owing to the dedicated effort made by the Controllerate of Procurement.
- (p) **Procurement through Shipchandlers :** Purchase of items of foreign origin through shipchandlers at an exorbitant price had been the normal practices in the past. However, the purchase through shipchandlers has now been restricted to selected critical items only & that too at a very reasonable price. It is now a practice to scrutinise firms import documents and original telexes to ensure reasonableness of prices. This has started paying dividends as the price quoted by shipchandlers has shown downward trend in the recent past.

It is pertinent to mention that some of the shipchandlers had monopoly on certain imported items for years. M/s. Mohobhoy & Sons supplying Pyrotechniques and M/s. Basoo supplying METCO wires for years at exorbitant prices are only few examples to quote. The same items are now being procured from other sources at almost half of the price paid in the past. Likewise, monopoly of many other firms has been challenged and broken.

- (q) **Procurement against PAC :** The Controllerate of Procurement has not been authorised to procure items of proprietary nature on a single tender basis beyond Rs. 1000/- and hence CDA (N) has been objecting to such purchases in the past. This objection though raised is as far back as 1980 had remained unpersued and unresolved. By concerted effort, via media to satisfy the audit has been found and the same successfully implemented with concurrence of Naval Headquarters. The case for delegation of powers for such purchases upto Rs 50,000/- is in the final stage of approval of the Ministry of Defence (Finance).
- (r) **Market Survey and Vigilance :** Market survey though a vital function for ascertaining prevalent prices, was not carried out in the past. This has been introduced to a limited extent durin the last one year. Market survey has enabled detection of syndicate bidding by suppliers as also enabled reduction in prices of a number of items. Regretably owing to acute shortage of officers and lack of adequate transport, area and scope of the market survey cannot be increased; though this activity would give large pay offs.

The Vigilance cell which was working prefunctorily has been rejuvenated. This has resulted in detection of malpractices. Disciplinary cases have also been initiated against staff members, and firms adopting unethical practices have been de-registered.

By constant vigil, malpractices have considerably reduced. An indicator of this has been a sharp drop in receipt of anonymous letter from 2-3 per week to one two a quarter. These anonymous letters were invariably against unfair practices being adopted by firms/CPROs staff. The biggest gain on account of the strict vigilance has been the eradication of malpractices and the improvement of the image of the organisation. Firms who earlier stayed away from dealing with this organisation are now coming forward for fresh registration among commercial firms, it is considered a privilege to be registered with CPRO.

- (s) **Implementation of Recommendations of DIWS Report :** Various recommendations made by the Defence Institute of Work Study in 1980 remained unimplemented till late 1983. By dedicated effort, all measures, within the purview of CORP have been implemented. A number of measures for which approval of DMRF/NHQ was required have also been introduced; the remainings are in the final stages of approval of the competent authority.
- (t) **Pending Cases of Crash Local Purchase :** Over 4700 cases of the crash local purchases were referred to CPRO for finalisation. The cases were more than two years old and needed dedicated effort

on part of CPRO for clearance. As of today, only 83 cases are pending which are also being pursued vigorously for finalisation.

- (u) **Progress against Review** : The compliance rate for order issued against successive reviews has improved progressively reaching on all time high. This can be gauged from the graph in respect of Reviews and *Adhoc* procurement placed at Encl. 4.

2. From the foregoing it will be seen that the efficiency of the Controllerate of Procurement has increased considerably by streamlining and revision of purchases procedures, improving the support functions of purchase like market survey, vendor selection/analysis and maintaining a constant vigil against malpractices. The materialisation of stores against LPO have reached an all time high. The organisation now projects a 'clean' image and firms now consider it privilege to deal with this organisation. Further improvements in market survey, vendor selection, introduction of new and improved products can be brought about by making more officers and transport available to the organisation.

Encl : *As above*

(AK GHOSE)
Commodore
Material Superintendent

Copy to :

The Chief of the Naval Staff
Naval Headquarters (RLS)
New Delhi.

Enclosure 2 to MS (D) letter DVCP/ADM/97/16 of 28 FEB 86

1. **17th Review** : All orders placed against 17th review have either materialised or cancelled. There is nothing pending as on today. Compliance rate is as under:

(a) Engineering	—	94.87%
(b) Electrical	—	93.65%
(c) General	—	86.47%

2. **18th Review** : It is stated that 100% orders have been placed against 18th review and the compliance rate against orders placed is as under as on today :

(a) Engineering	—	82.67%
(b) Electrical	—	80.60%
(c) General	—	86.25%

3. **19th Review :** Orders placed 100% and compliance rate is as under as of todate:

(a) Engineering	—	70.33%
(b) Electrical	—	75.23%
(c) General	—	74.64%

4. **20th Review :** Most of the orders have been placed except for a few, which are in the final stage of placement of orders.

Compliance rate against orders placed is as under :

(a) Engineering	—	57%
(b) Electrical	—	60%
(c) General	—	36%

5. **21st Review :** Final print out of 21st review was forwarded to this Controfferate for procurement during October 1984, which is being progressed. The pace of placement of orders had not been as fast as it was desired, on account of shifting of the Controfferate from Naval Store Depot, Sawri to Naval Store Depot, Ghatkoper In November/December 1984. However, all efforts are being made to complete the tender action and placement orders by March 1985.

APPENDIX III

(Vide Para 1.34)

Telephone 5127093

Controller of Procurement
Naval Store Depot
Ghatkopar, West
Bombay 400086
04 February, 1985

DYCP/G3A/605
The Joint Director
Audit

Ref. to audit para No.156/F-8/C&AG Rep/84 of 14 June 84.

Sir,

The case of Soda Ash have been examined and the findings furnished below :—

- (i) The LP Orders between November 1978 to May 1980 (S. No. 1 to S. No. 11) were resorted to, because neither copy of R/C nor the DGS&D publications for list of items covered under rate contract seems to be available in the office at that time.
 - (ii) LP Orders between July 1980 to February 1981 (S. No. 12 to S. No. 20) were placed, as the item was not reflected in the publication of DGS & D on 30 June 1980. The publication of 31 December 1980 is not held.
 - (iii) LP Orders between February 1983 to October 1983 (S. No. 21 to S. No. 24) placed as the item was not reflected in the publication of 31 December, 1982 and in the publication of 30 June 1982, though the item was reflected but it was to be centrally operated by DGS & D during the period 01 November 1981 to 31 October 1982 R/C No. CD-1/RC-0486/82-83/51/764 & 765 dated 25 November 1981.
2. Only during 01 July 1981 to 31 January 1982, Soda-Ash vide publication of 31 December 1981 under R/C No. CD-1/RC-0237/80-81/Saurashtra/COAB/706 dated 30 January 1981 was to be operated by D.D.O. But it can be seen that during this period no LPO was placed for the same.
 3. It is also mentioned that, in the recent publication of 31 December 1984, the item Soda-Ash is not covered by any rate contract.

Yours faithfully,

Sd/—

(K. GHOSH) NSO

DY. CONTROLLER PROCUREMENT
For CONTROLLER PROCUREMENT

Details of soda ash as reflected in DGS & Ds Publication against Orders mentioned below

Sl. No.	Order No. and date	Remarks
1.	A1673 dt 13.11.78	
2.	A1739 dt 23.11.78	
3.	A1993/78 dt 23.12.78	
4.	A2071/78 dt 3.1.79	
5.	A2224/78 dt 20.1.79	
6.	A2253/78 dt 7.3.79	
7.	A0183/79 dt 7.5.79	
8.	A0632/79 dt 24.7.79	
9.	A0820/79 dt 9.8.79	
10.	A0876/79 dt 18.8.79	
11.	A0274/80 dt 12.5.80	
12.	A0620/80 dt 4.7.80	
13.	A1187/80 dt 25.9.80	
14.	A1479/80 dt 13.11.80	
15.	A2035/81 dt 23.1.81	
16.	A1764/80 dt 22.12.80	
17.	A2009/81 dt 17.1.81	
18.	A2011/81 dt 20.1.81	
19.	A2201/80 dt 5.2.81	
20.	A1703/80 dt 16.12.80	
21.	A1317/82 dt 3.2.83	
22.	H1728/83 dt 2.8.83	
23.	H2931/83 dt 3.10.83	
24.	H2930/83 dt 8.10.83	

DGS & D's Rate Contract
Pub-publication was not avail-
able with this Contollerate.

In publication of 30.6.80,
this item is not reflected.

Not reflected in publication of
30.6.80

Not reflected in 31.12.81
publication

Not reflected in 30.6.80
publication

Not reflected in publication
of 30.6.83

APPENDIX IV
(*vide* Para 18 Introduction)

32. Review on the working of the Controllerate of Procurement

1. Introduction

1.1 The Controllerate of Procurement (CPRO) came into being in 1971, as part of the efforts to improve the material management procedures in the Navy, with the objective of procuring stores of the right quality in the right quantity, at the right price, at the right time and from the right source.

The CPRO is responsible for the procurement of stores classified under General, Engineering, Electrical and Electronics required for Naval units/ships. The following types of indents/demands are processed by the CPRO;

- All items of stores and machinery spares handled by the Material Superintendent (MS), valuing upto Rs. 0.50 lakh per item.
- Ad-hoc requirements of Naval ships for meeting their urgent requirements.
- Stores required to replenish stocks costing upto Rs. 0.40 lakh per item.
- Base demands of Naval Headquarters (Naval HQ) and any other indents projected by them.

1.2 For purchase of items required exclusively by the Navy a Central Purchase Cell was created at CPRO with effect from 1st June 1976. All recurring requirements were to be purchased centrally and local purchases resorted to only for urgent and essential requirements. Analysis of the purchases made by CPRO, however, revealed that during the years 1980-81 and 1981-82 the number of items purchased locally (LP) was far in excess of those purchased centrally (CP) as shown below :-

Year	Number of orders	Items covered	Percentage to total number of		Total value of orders (Rs. in crores)	
			Orders	Items		
1980-81	CP	223	525	1.3	1.7	0.29
	LP	17,194	29,720	98.7	98.3	16.83
1981-82	CP	1,302	5,224	13.2	23.3	1.32
	LP	8,546	17,213	86.8	76.7	9.02
1982-83	CP	1,025	16,776	15.8	57.4	10.93
	LP	5,462	12,473	84.2	42.6	6.38

2. A test check of local purchases made by the CPRO (selected at random), revealed the following irregularities :

2.1 Invitation to tender

Invitation to tender in the case of local purchases under the limited tender system is required to be issued to a minimum of 7 firms for purchases of value upto Rs. 20,000 and 15 firms for purchases of value exceeding Rs. 20,000 and upto Rs. 50,000. Non-observance of these instructions was noticed in 32 cases of tender enquiries (for purchases exceeding Rs. 20,000, issued during 1978-79 to 1982-83.

2.2 Splitting up of requirements

In respect of a few items selected for scrutiny for which there were regular and recurring requirements and in considerable quantities, it was found that such requirements were split so as to bring them within the delegated financial powers of the Admiral Superintendent (ASD)/CPRO. As a result, these purchases escaped the scrutiny of the Tender Purchase Committee (TPC) which had to examine purchases exceeding Rs. 50,000. In these cases, orders were split and placed repeatedly as indicated below :—

Sl. No.	Item	1980-81		1981-82		1982-83	
		Number of orders	Value (Rs. in lakhs)	Number of orders	Value (Rs. in lakhs)	Number of orders	Value (Rs. in lakhs)
1.	Soap laundry	29	8.41	6	3.02	2	0.94
2.	Soap soft Grade II	14	5.53	3	1.04	...	...
3.	Cuprous oxide	33	12.88	...	6.42	...	...
4.	Rope Polypropylene Parapro (of different types)	78	25.46	62	25.79	17	6.26
5.	Paint Admer Chocolate	14	4.32	9	4.52	...	...

Note : No orders were placed for central purchase of items at Sl. No 1, 2, 3, and 4 during 1980-81 to 1982-83.

3.1 Extra expenditure on local purchase of soda ash

Soda ash technical grade is consumed by the Navy in considerable quantities. This item is available on Director General, Supplies and Disposals (DGS&D) rate/running contracts. Under the standing instructions of Government, when items conforming to the prescribed specifications are available on the DGS&D rate/running contracts, these should be procured only from the firms enlisted in the DGS&D rate running contracts. Although soda ash technical grade was available on the DGS&D rate contracts, yet the CPRO resorted to local purchase from private firms at rates (varying between Rs. 2.80 and Rs. 4.40 per kg.) much higher than the DGS&D rates (varying between Rs. 1.05 and Rs. 2.11 per kg.) and procured 248 tonnes costing Rs. 7.78 lakhs between November 1978 and October 1983, thereby resulting in extra expenditure of Rs. 3.09 lakhs.

3.2 Irregular procurement of a non-patternised item

In April 1979, Naval HQ instructed the Flag Officer Commanding-in-Chief (FOC-in-C) of a Naval Command to obtain a few numbers of commercial rain-coats for issue to sailors during the monsoon season for trial purposes with a view to replacing the existing rubber raincoats. The FOC-in-C in turn instructed (May 1979) the CPRO to procure 14 numbers of commercial raincoats from the market and issue them to ten different ships/establishments for trial purposes. In response to a telephonic enquiry on 15th June 1979, the CPRO obtained quotations on a single tender basis from firm 'A' for supply of raincoats nylon finish of quality suitable for use by scooter-riders at Rs. 45 each and of quality suitable for normal use at Rs. 37 each. This offer was accepted by the CPRO and orders placed on 18th June 1979 for supply of 7 numbers each of the two qualities of raincoats.

During November-December 1979, the Naval Command furnished to Naval HQ a detailed report on the raincoats procured from firm 'A' indicating the results of trials and recommended that they would be suitable only for individuals who were not employed on strenuous work. The life of the raincoats was assessed as one year. No orders were, however, issued introducing the item in service as required under the prescribed procedure nor had Naval HQ intimated their decision on the introduction of plastic raincoats into service. Nevertheless, the CPRO placed (May 1980) 5 Local Purchase Orders (LPOs) for the supply of 5,000 numbers of rain coats of Rs. 37 each and 2 LPOs for 5,000 number of souvesters at Rs. 4 each at a total cost of Rs. 2.05 lakhs from firm 'A'.

The inspection authorities intimated the CPRO that the quality of stores offered by the firm for inspection being not uniform at all, stores were accepted taking into consideration urgent requirement. They added that the firm be black-listed and pending orders for 1,068 plastic raincoats and 1,500 souvesters be cancelled. However, the entire lot was accepted, ignoring the Inspectors's remarks and the CPRO asked (September 1980) the Inspector to review his inspection reports. In reply to an audit query as to the circumstances leading to the acceptance of rejected stores, the CPRO stated (October 1983) that the matter was being investigated. Results of the investigation were awaited (April 1984).

4. Unnecessary procurement of stores :

(a) Paint bituminous enamel

4.1 The annual requirement of this paint was 10,000 kgs. as per the records of the Controllerate of Warehousing (CWH)/Controllerate of Material Planning (CMP). Against the requirement of 12,000 kgs. of this paint projected by the CWH on 27th September 1980 (when there was stock of 14,300 kgs.), the CPRO placed 11 LPOs between 30th December 1980 and 10th January 1981 on a local firm for the procurement of the required quantity at a total cost of R. 1.56 lakhs. The quantity ordered

against the LPOs was received by the CWH between 6th March 1981 and 12th May 1981. The entire stock remained unissued upto March 1984; the shelf life of this stock expired by May 1982, resulting in a loss of Rs. 1.56 lakhs.

The CWH also received 27,425 Kgs. of this paint during January-April 1981 against pending COPs. Out of this, only 682 Kgs. could be issued upto March 1984. The shelf life of the remaining stock (26,743 Kgs.) costing Rs. 1.90 lakhs expired by April 1982.

(b) Refractory materials :

4.2 With a view to indigenisation of one of the items of refractory materials viz., 'refractory mortar cement', an indigenous development order was placed by the Department of Defence Supplies on firm 'C' in July 1980. The firm supplied (February 1982) 400 Kgs. of this item at a total cost of Rs. 964 and the same was under users' trials (March 1984). The CPRO had, however, placed an LPO on a local firm for procurement of 4.905 Kgs. of this item at a total cost of Rs. 0.42 lakh. The item supplied (July 1982) by the firm was issued to the Naval Dockyard at station 'X' during October and December 1982. The entire quantity was returned by the Dockyard to the CWH in April, 1983, being surplus to requirements. While the stock procured against the LPO was lying with the CWH, requirements of this item in respect of Naval Dockyard and other ships were being met through import. The shelf life of the item would expire in July 1984.

Further, the CPRO also placed (March and May 1983) two more LPOs for the procurement from firm 'D' of 23,000 Kgs of 'Plastic Refractory-Mix'—another refractory material at a cost of Rs. 0.92 lakh. Against these LPOs, the firm supplied 19,000 Kgs. of the material (total cost : Rs. 0.77 lakh) between 15th June 1983 and 10th August 1983. No issues were made out of the material procured locally and the Navy's requirements continued to be met through import.

Thus, the entire stock of the refractory materials purchased locally at a cost of Rs. 1.19 lakhs was lying in stock unused (March 1984).

(c) Paint bituminous black :

4.3 Against three exclusive indents raised by Naval HQ in February 1979, April 1979 and October 1979, the CPRO concluded (between June 1980 and September 1981) three contracts with local firms 'E' and 'F' for the procurement of 66,498 litres of this paint at a total cost of Rs. 3.79 lakhs. Out of the total quantity 57,500 litres of paint received by the CWH (consignee) between April 1981 and December 1981 from the two firms, a quantity of only 36,742 litres could be issued till March 1984 and the balance quantity of 20,758 litres (costing Rs. 1.34 lakhs) remained in stock (March 1984) with shelf life (of one year) already expired.

(d) Paint sky blue :

4.4 A quantity of 10,900 litres of paint sky blue (cost : Rs. 2.86 lakhs) procured against 5 LPOs placed by the CPRO during July 1981 - March 1982 and against the DGS&D contract of April 1981 was received by the CWH between December 1981 and October 1982. This quantity was despatched to a Naval Stores Depot (NSD) at station 'Y' between January and December 1982. The NSD returned (July 1983) 9,000 litres of the paint "being excess to requirement". The shelf life of this paint had already expired in October 1983. The unnecessary procurement of this paint, its despatch to the NSD and its return to the CWH resulted in a loss of Rs. 2.40 lakhs.

(e) Syncolite Mosaic Layer and Topping

4.5 Between August 1980 and November 1980, the CPRO placed 5 LPOs on a local firm for supply of 30,000 kgs. of Syncolite Base Layer, 20,100 Kgs. and 25,300 Kgs. of Syncolite Mosaic Topping 'Yellow' and 'Green' respectively at a total cost of Rs. 141 lakhs. The supplies were made by the firm between February and May 1983. Meanwhile, in February 1983 another LPO was placed by the CPRO on the same firm for the procurement of 2,503 Kgs. of Syncolite Mosaic Topping 'yellow' at a total cost of Rs. 0.05 lakh. Supplies against this order were made by the firm in April 1983. Out of the stores received, only 1,000 Kgs. of Syncolite Base Layer were issued and the balance valuing Rs. 1.44 lakhs remained in stock (March 1984).

5. Procurement of paper labels at exorbitant rate

5.1 In September 1980, the CPRO placed an LPO in firm 'G' for supply of 7 lakh numbers of label Manila (paper labels) at the rate of Rs. 63 per thousand. The rate was justified by the CPRO on the ground that the previous purchase rate was Rs. 71 per thousand. The previous LPO dated 16th May 1979 (quantity 50,000) was for supply of cloth labels and not for paper labels. Audit scrutiny also revealed that the demand, based on which the procurement of 7 lakh labels was made, added upto 3 lakh only and that in the limited tender enquiry floated for placement of the LPO, tender enquiries were not issued to any of the previous suppliers.

Five more LPOs were placed on private firms by the CPRO between November 1980 and January 1981 for the procurement of 18.30 lakh of this item at prices ranging from Rs. 50 to Rs. 62.70 per thousand. Compared to the prevailing market rate of Rs. 22.25 per thousand the extra expenditure due to local purchase of paper labels at exorbitant rates worked out to Rs. 0.92 lakh. The CPRO had not produced the documents relating to these LPOs for audit scrutiny (March 1984).

At the end of March 1984, the CWH held 28 lakh numbers of paper labels which would be sufficient to meet requirement of the next 7 years.

The CPRO stated (October 1983) "The Group Officer and the dealing Clerk have already resigned from service and no more in Indian Navy. Hence no clarification can be given".

6: Central Purchase

Location of sources of supply and enlistment of suppliers :

6.1 An examination of the procedure followed by the CPRO in respect of locating sources of supply and registration of suppliers revealed the following deficiencies :

- Majority of the firms registered were either agents or retailers; 93 out of 176 suppliers registered during 1981 were agents/retailers.
- Banker's Report regarding the financial standing of the firms was not obtained even in a single case.
- The capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO.
- Out of the 176 registrations granted during 1981 to 1983, Income Tax Clearance Certificate was not obtained in 56 cases.
- Sales Tax Certificate was not obtained in 40 cases.
- Ownership certificate was not obtained in 61 cases.
- No registers were being maintained in respect of firms black-listed, banned or removed and firms whose registration was under consideration.
- Firms were allowed to keep the registration beyond 3 years without revalidation.

Further, separate lists of suppliers for central/direct/local purchase were not maintained in spite of specific instructions by Government. The CPRO stated (October 1983) that all deficiencies in the procedure, pointed out by Audit would be removed in a phase manner.

6.2 Extra expenditure on procurement of waste cotton coloured and rags cotton coloured.

Naval HQ raised on the CPRO exclusive indent dated 5th May 1979 for the procurement of 44,344 Kgs. of waste cotton coloured and 1,49,995 Kgs. of rags cotton coloured at a total estimated cost of Rs. 8.56 lakhs (at the rate of Rs. 2.90 per Kg. for waste cotton coloured and Rs. 4.85 per Kg. for rags cotton coloured) with the stipulation that the items should be delivered by the successful bidder on or before 30th September 1979. The CPRO received this indent on 11th May 1979 and issued tender enquiry on 13th July 1979. The last date for receipt of tenders was fixed as 6th November 1979, allowing a period of over 15 weeks for the submission of quotations as against the normal time limit of 4-6 weeks. The CPRO received 6 quotations; the lowest and the next lowest ones were as under :

Item	Quotation
Waste cotton coloured	Lowest : Rs. 3.86 per Kg. (Rs. 3.90 per Kg. less 1 per cent discount) from Firm 'A-1'. Next Lowest : Rs. 3.87 per Kg. (Rs. 3.75 per Kg. plus 3 per cent tax) from Firm 'B-1'.
Rags cotton coloured	Lowest : Rs. 5.94 per Kg. (Rs. 6 per Kg. less 1 per cent discount) from Firm 'A-1'. Next Lowest : Rs. 6 per kg. from Firm C-1.

Though the comparative statement of tenders (CST) was prepared (6th November 1979) and firms 'A-1'- 'B-1' and 'C-1' were on the "approved list of suppliers" of the CPRO, further action to process the case through the TPC was not taken. Instead tenders were reinvited and in response to the tender enquiry of 20th February 1980 opened on 2nd May 1980, the CPRO received 10 quotations. The lowest among them was from firm 'D-1' which ranged from Rs. 2.18 to Rs. 3.05 per Kgs. for different types of waste cotton coloured and from Rs. 2.75 to Rs. 4.20 per Kg. for rags cotton coloured. Since the CPRO doubted the credibility of firm 'D-1' offer, he made enquiries with the Naval Inspectorate at station 'Z' (where firm 'D-1' was located) about the capability of this firm to meet the Navy's requirements within the stipulated delivery period and according to the prescribed specifications. On receipt of the report of the Naval Inspectorate which confirmed the apprehensions of CPRO, the for the procurement of the items was processed through the TPC. The TPC recommended the placement of order on firm 'E-1', the next lowest tenderer whose rates were Rs. 3.97 per Kg for waste cotton coloured and Rs. 6.87 per Kg for rags cotton coloured and the same was approved by the competent authority. On 31st July, 1980 the CPRO concluded the contract with firm 'E-1' and the supplies were received between September 1980 and December 1980. During the period May 1979 to the date of receipt (11th September 1980) of first supply against this contract, the CPRO purchased locally 97,000 Kgs. of waste cotton coloured and 1,05,850 Kgs. of rags cotton coloured. The local purchase rates for these items varied from Rs. 3.72 to Rs. 4 per Kg. for waste coloured and Rs. 5.60 to Rs. 6.87 per Kg. for rags cotton coloured. The bulk of the local purchases (62,000 Kgs. of waste cotton coloured at the rate of Rs. 4 per Kg. and 60,550 Kgs. of rags cotton coloured at the rate of

Rs. 6 87 per Kg.) was from firm 'E-1' to whom the contract was eventually awarded (July 1980).

Non-conclusion of contract against the lowest quotations received in the first tender enquiry (November 1979) resulted in an extra expenditure of Rs. 1.44 lakhs.

6.3 Avoidable extra expenditure in procurement of sandals PVC

Naval HQ raised on the CPRO an exclusive indent dated 14th January 1981 for the procurement of 80,000 pairs of sandals PVC straps in different sizes, out of which 40,000 pairs were operational requirement. The estimated cost of the purchase was Rs. 9.60 lakhs (at the rate of Rs. 12 per pair). The indent contained *inter alia* the following stipulations :

- The CPRO would issue tenders to all registered suppliers, allowing sufficient time to enable the firms situated outside to submit their quotations.
- Tenders would submit, alongwith their quotations, two pairs of sandals as tender samples, conforming to the prescribed specification and the test particulars of the item from a recognised/registered laboratory.
- Naval AQ would scrutinise the CST and approve the samples to guide the procurement and inspection.
- The CPRO would process the procurement through the TPC under the procedure prescribed for the direct purchase of stores/spares, etc. required exclusively by the Navy.
- The successful bidder would commence supply from 15th March 1981 at a monthly rate of 20,000 pairs of sandals.

The CPRO issued tender enquiry on 4th February 1981, specifying the last date for receipt of tenders as 14th May 1981. On 11th April 1981, the CPRO reported to Naval HQ that since the finalisation of the contract would take time, 40,000 pairs of sandals PVC would be procured through local purchase to meet the operational requirement. Between April 1981 and June 1981, 31,000 pairs costing Rs. 3.70 lakhs were thus procured by the CPRO from two local suppliers at Rs. 11.95 per pair. Against the tender enquiry of 4th Feb. 1981 opened on 14th May 1981, the CPRO received 8 quotations, the lowest three among them being Rs. 10.50 (plus Central Sales Tax at 4 per cent), Rs. 10.95 and Rs. 11.00 per pair quoted by firms 'A-2', 'B-2' and 'C-2' respectively. After scrutiny, these quotations were forwarded (May-June 1981) to Naval HQ alongwith the CST etc. with the following remarks :

- Only one firm 'D-2' (not among the three lowest) had forwarded the samples alongwith the test certificate and the sandals. PVC of this firm were made out of virgin material whereas those of other firms were made of reprocessed scrap.
- 40,000 pairs of sandals required on operational basis had already been procured under local purchase powers on urgent basis.

Naval HQ which examined the case, communicated the following remarks to the CPRO on 25th June 1981 :

- The offer of firm 'D-2' (viz. Rs. 19.77 per pair) alone fulfilled all the conditions of tenders enquiry.
- Except for the quotations of firms 'A-2', 'C-2' and 'D-2', who are the manufacturers of the items, the other quotations were from the agents of manufacturers and hence had to be ignored.
- After taking into account the terms and conditions of the tender and the operational nature of half the quantity of the indent, the case be taken up with the TPC for the placement of order for 40,000 pairs of sandals PVC on firm 'D-2'.
- Firms 'A-2' and 'C-2' whose quotations were lower should be advised to send their test reports from a recognised laboratory alongwith two pairs of samples and also to extend the validity of their offers until August 1981.

After obtaining necessary approval of the TPC/competent authority, the CPRO placed (July 1981) an order on firm 'D-2' for 40,000 pairs at a total cost of Rs. 7.91 lakhs (at the rate of Rs. 19.77 per pair). The supplies materialised during November 1981.

On receipt of samples and test reports furnished by firms 'A-2' and 'C-2' through the CPRO, Naval HQ advised (November 1981) the CPRO to procure the balance quantity of 40,000 pairs of sandals PVC from firm 'A-2' at the rate of Rs. 11.35 per pair. The requirement was, however, subsequently cancelled (June 1982) by Naval HQ.

Thus, procurement of 40,000 pairs of sandals PVC from firm 'D-2' at a higher rate resulted in an avoidable extra expenditure of Rs. 3.64 lakhs.

7. Other interesting points

7.1 Procurement of stores on proprietary article certificates

The procurement of stores on single tender basis was resorted to by the CPRO on the basis of proprietary article certificates even in cases where the brand name of a particular product was indicated as the require-

ment and the same was treated as proprietary product of the manufacturers of that product though there were other manufacturers of producing the items bearing different brand names, vide instances given below :

(1) Rope Polypropylene

The requirement of this item was specified as "Polypropylene Parapro" being the brand name of the polypropylene rope treating it as a proprietary product of firm 'XX' whereas other firms 'XA', 'YA', 'ZA', etc. were also manufacturing polypropylene rope. During September 1980 to October 1983, purchases of the item amounting to Rs. 64.01 lakhs were effected from firm 'XX' against 173 LPOs.

(2) Foam Rubber products

The CPRO placed (February and may 1980) 5 LPOs for foam rubber items (costing Rs. 0.45 lakh) of brand name 'MM Foam' on firm 'AD' (an authorised dealer of the manufacturer) without inviting tenders on the ground that the items were proprietary products and were required urgently by the users (though such products of equally good quality were marketed by several other manufacturers).

7.2 Functioning of Fast Transaction Team

A Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procurement procedure in the following respects :

- Hand delivery of tender enquiries and collection of quotations as against the normal procedure of sending them by post.
- Limited time allowed for submission of quotations.
- Less number of quotation obtained making the tenders less competitive.

These relaxed procedures made it imperative that procurement of the items by the FTT should be confined to immediate requirements to keep the ships operational. During the years 1981-82 and 1982-83, purchases aggregating Rs. 106.43 lakhs and Rs. 85.83 lakhs respectively were effected by the FTT. A random scrutiny of the procurements made during 1982-83 revealed that stores for entertainment furnishing, etc. were procured.

8. Summing up : The following points emerge from the review :

- 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during the years 1980-81 and 1981-82 respectively were procured through local purchase.

- In respect of fast moving items where procurement should have been made through Central Purchase the requirements were split and procurement made through LPOs within the delegated powers of lower competent financial authority.
- Piecemeal procurement through local purchase of soda ash despite the item being covered by the DGS&D rate contract resulted in extra expenditure of Rs.0.09 lakhs.
- Irregular procurement of a non-patternised item (plastic raincoat) costing Rs. 2.05 lakhs against requirement of patternised item.
- Unnecessary procurement of stores valued at Rs. 9.83 lakhs, shelf life of which had already expired or was nearing expiry.
- Irregular procurement of paper labels at exorbitant rates resulting in extra expenditure of Rs. 0.92 lakh.
- Extra expenditure of Rs. 1.44 lakhs in procurement of waste cotton and rags cotton due to non-acceptance of lowest tender and resorting to retendering.
- Avoidable extra expenditure of Rs. 3.64 lakhs in procurement of sandals PVC due to non-acceptance of lowest offer.
- Incorrect procurement of stores such as rope polypropylene, foam rubber products, etc. (being marketed by several manufacturers) on single tender basis on the basis of proprietary article certificates.
- Large scale procurement of stores (costing Rs. 192.26 lakhs during 1981-82 and 1982-83) by the FTT of the CPRO created for procurement of stores for operational requirement in violation of laid down guidelines.

The review was issued to the Ministry in July 1984; their reply is awaited (November 1984).

APPENDIX V

Statement of Observations and Recommendations

Sl. No.	Para No.	Ministry concerned	Observations/Recommendations
1	2	3	4
1.	1.93, 1.94 and 1.95.	Defence	<p>The Controllerate of Procurement (GPRO) was established in 1971 with the merger of two procurement organisation—Naval Stores organisation (for purchase of naval stores) and Spare Parts Distribution Centre (for purchase of machinery spares) to improve the material management in the Navy. The new organisation is headed by a Material Superintendent who is assisted by four Controllers—(a) Controller of Warehousing (CWH), (b) Controller of Material Planning (CMP), (c) Controller of Procurement (CPRO) and (d) Controller of Technical Services (CTS). The objectives to be achieved by the Organisation were :</p> <p style="padding-left: 40px;">“Prompt supply of required material at minimum cost with fewer occasions for rush purchases.</p> <p style="padding-left: 40px;">Reduced investment in the quick turnover of stocks.”</p> <p>The Committee have been informed that for the achievement of these objectives a monthly evaluation report has been introduced w. e. f. January, 1983 to evaluate the progress on various types of purchase requisitions made by CPRO. An analysis of these reports show reduced lead time and higher materialisation of stores against orders placed by CPRO.</p>

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The Committee note that the working of CPRO was examined by an Expert Team from Defence Institute of Work-study, Mussorie in 1980 to suggest improvement in the working of the Organisation. The Expert Team recommended enhancement of financial powers of CPRO and various Naval Authorities, use of selective control for items required urgently, use of modern office equipment like Plain Paper Copier for reducing Typing Work, use of labour saving devices like Postal Franking Machine and use of special stationery etc. Excepting a few, all other major recommendations of the Expert Team are stated to have been implemented. However, the information gathered by the Committee and the facts brought out by the Audit amply brings out that all is not well with the functioning of the CPRO and the objectives of setting up of CPRO as enumerated above are not fully achieved. These aspects are discussed in detail in succeeding paragraphs.

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1.96

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The Expert Team from the Defence Institute of Work Study, Mussorie set up in 1980 had *inter-alia* recommended that financial limit for placing Purchase Orders on the basis of limited tender enquiry be enhanced from Rs. 50,000 to Rs. 1,00,000; limit of proforma payment be increased from Rs. 20,000/- to Rs. 50,000/-; a full fledged Finance Section headed by an Accounts Officer designated as Financial Controller be set up under CPRO; A Market Survey Team consisting of experienced clerks and headed by a Market Survey Officer be

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formed under CPRO. No concrete action appears to have been taken on these important recommendations though these have been accepted by the Naval Standing Establishment Committee since long. The Committee regret to find that action on these recommendations has been pending for long. The Committee desire that action on these recommendations should be finalised and Committee informed within a period of six months.

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1.97

Defence

The Committee observe that the Material Superintendent, in his performance appraisal of CPRO dated 28 February, 1985 has brought out inter alia, "(i) the list of registered suppliers and vendors had not been scrutinised and updated for long (ii) no strict yardsticks were followed for registration of suppliers in the past (iii) no formal orders on procedure to be followed for registration of suppliers existed prior to January 1984 and (iv) there was no manual for the guidance of the Controllerate". These deficiencies gave access to dubious and unscrupulous suppliers to the Controllerate. It is astonishing that even after 13 years of its coming into existence, no procedure has been prescribed by CPRO for registration of suppliers and vendors. The Committee note that the general guidelines issued in August, 1982 for registration of suppliers by the Ministry of Defence were not as rigid as those of DGS&D. The Committee desire that procedure in this respect should be as far as possible, identical to that followed by DGS&D.

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4	1.98	Defence	<p>The Committee find that the Project Report of Defence Institute of Workstudy, Mussorie had also recommended setting up of a separate cell consisting of senior experienced sailors to be positioned permanently in CPROs organisation to establish correct specifications and description for all items, update the information as and when required and progressive computerisation of non-computerised items.</p>
5.	1.99	—do—	<p>The material Superintendent also in his performance Appraisal Report for 1984, while stressing the need for a close monitoring for follow up action against each order placed, has pointed out that it had not been possible due to shortage of man-power. He has stated that "computer can only help in giving the record of pending orders but it cannot expedite the supplies by itself. This is a work area of the Controllerate, which is required to be strengthened by positioning of additional officers. The Committee understand that these recommendations have been accepted. If so, the Committee would like to know the action taken on these recommendations.</p>
6.	1.100	—do—	<p>Performance Appraisal of CPRO by Material Superintendent, Naval Dockyard, Bombay states that "a more selective vender list had resulted in better response to tender enquiries and more competitive purchase. The prices paid for various products were much lower than the rate at which they were procured in the past. This is borne out from the computer data</p>

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7.	1.101	Defence	<p>in respect of procurement prices available in computer. The saving to the Government on this account has been stated to be about Rs. 2 crores for the year 1984." This statement viewed in the context of price escalation year after year indicates that purchases in the previous years were not made at fair prices. The Committee consider that purchases made since the formation of CPRO need to be gone into thoroughly. The Committee have been informed that the matter is being investigated in detail by the Ministry of Defence. The Committee would like to be informed, in due course, of the result of investigation and the follow up action taken in this regard.</p> <p>Another important recommendation made by the Defence Institute of Workstudy, Mussorie to streamline the functioning of CPRO was with regard to the enhancement of financial powers and for de-centralisation of authority. A proposal in this regard was made to Naval Headquarters on 6 July, 1984. The existing financial powers as enhanced in 1982 were delegated in October, 1976. The Committee have been informed that further enhancement of financial powers, and de-centralisation of authority is presently under study at Naval Headquarters. A considerable delay has already occurred in this case. The Committee trust that the matter will be dealt with utmost urgency and an early decision would be taken in this regard.</p>
8.	1.102	—do—	<p>The Committee note that CPRO processes indents/demands for all</p>

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			<p>items of stores and machinery spares required by Naval Units/Ships handled by the Material Superintendent (MS) valued upto Rs. 0.50 lakh per annum; Ad-hoc requirements of Naval ships for meeting their urgent requirement; stores required to replenish stocks costing upto Rs. 0.40 lakh per item; Base demands of Naval Headquarters and any other indents projected by them. The Committee further note that a Central Purchase Cell was created at CPRO in June 1976 for purchase of items required exclusively by the Navy. All recurring requirements were to be met centrally and local purchases resorted to only for urgent and essential requirements. Local purchase as opposed to direct purchase is intended to meet the immediate requirements which may arise due to delay in the materialisation of supply against normal indent or sudden requirement which could not be anticipated earlier. However, the Committee find that local purchases made by CPRO during the last couple of years had been very high as compared to Central Purchases. In 1980-81 and 1981-82 local purchases were far in excess of the items purchased centrally. As pointed out by Audit, 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during 1980-81 and 1981-82 respectively were procured through local purchase as compared to 1.7 per cent and 23.3 percent procured through central purchase. Though the value of central purchase viz. Rs. 29 lakhs <i>vis-a-vis</i> local purchase viz. Rs. 816.3 crores as reported</p>

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in the Audit para for the years 1980-81 have been disputed by the Ministry of Defence, yet the Committee have reasons to believe that local purchases have been resorted to, excessively. They fail to understand why full facts were not placed before the Audit earlier. The corrected figures of local purchase provided to the Committee amply bears testimony to the fact that the local purchases were far in excess. The local purchases have shown persistent rise from Rs. 5.24 crores in 1977-78 to Rs. 15.33 crores in 1980-81. During 1981-82 when it started declining local purchase was far Rs. 12.58 crores. The Defence Secretary has explained the reasons for this rise in local purchases in terms of reduction in "Procurement Quantities from 3 ACL to 1 ACL because it was felt that with computerisation and other facilities and streamlining of procedures it should be possible to make up with only one ACL". Subsequently, "bins were emptied with the purchase orders placed on the DGS&D which were not coming through, the number of denials of requisition was very large and consequently a modification had to be made in the year 1981 taking it back to 3 ACL. During this period the pressure on the local purchase increased very much. The Committee are unable to accept this explanation as they find that volume of local purchases in the years 1982-85 (when the impact of 3 ACL was fully realised) was still very large ranging between Rs. 6 crores to 8 crores a year. The Committee recommend that every efforts should be

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made to improve the availability of stores through central purchase so as to reduce the quantum and need for local purchase to the barest minimum. The Committee also desire that such factors which make local purchases unavoidable are controlled and purchases are made in a most cost effective manner.

9. 1.103

—do—

The Committee note that with the growth of Indian Navy, work of inventory control and management has increased manifold with CPRO handling inventories of various types that touch about half a million items. The very range of the items creates enormous difficulties in identification and inspection and a lot of paper work. Wide fluctuations in usage rates and difficulties in demand forecasting coupled with untrained personnel handling procurement function besides out-moded procurement procedures have adversely affected the material management and inventory control in the Controllerate of Procurement.

Avoidance of (i) large inventory (ii) higher inventory carrying costs (iii) Obsolescence and (iv) frequent deviation from the prescribed procedures for purchase of stores is a must for efficient store keeping for organisation of the size of CPRO. To achieve these objectives the Committee would like the Ministry of Defence to introduce modern office equipments and aids like the latest computer system, besides training the staff put on procurement of stores in modern material management including com-

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puter techniques. The Committee trust that with these aids the demand forecast would also be precise, leading to better inventory control and effective material management.

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1.104

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The Committee find that though the prescribed procedure of invitation to tender in the case of local purchase under limited tender system was not followed in 32 cases of tender enquiries for purchases exceeding Rs. 20,000 issued during the year 1978-79 to 1982-83, due to unreliability of vendors registered and lesser number of registered vendors than that stipulated in the procedure. This is not at all a convincing explanation. It is in fact a sad commentary on the functioning of such a large and important organisation as CPRO which is entrusted with the procurement of stores of various kinds for Naval stores to have carried unreliable vendors on its registered list of vendors. It is socking to note that no vendor rating and analysis has been carried out ever since the inception of CPRO. Equally deplorable is the fact that sufficient number of vendors has not been registered even to comply with the procedural requirements. The Committee take serious view of these lapses and would like the whole issue to be probed into in depth to find out if it was a deliberate failure on the part of someone with malafide intentions. The committee expect that Ministry of Defence would take expeditious action to carry out vendor rating early with a view to eliminate the unreliable vendors from the registered list and

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review the position periodically. The Committee recommends that suitable periodical inspection procedure for vendor list should be instituted immediately to avoid recurrence of such lapses. They would also like that sufficiently large number of reliable vendors are enlisted with a view to get competitive bids when tender enquiries are floated in future.

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1.135

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The Committee find that there were regular and recurring requirements in considerable quantities of "laundry soap" "soap soft grade II" "cuprous oxide" "rope polypropylene parapro" (of different types) and paint admar chocolate by the Navy. The Committee note with concern that local purchase orders of these requirements and also of other items which should have been procured through central purchase were split up so as to bring them within the delegated financial powers of Admiral Superintendent (ASD)/CPRO. Part and frequent purchase of each of these items ranging between 14 to 78 numbers during the year 1980-81 escaped scrutiny of the Tender Purchase Committee (TCP) which had to examine the purchases exceeding Rs. 50,0000. Similar plitting of order were also resorted to in 1981-82, 1982-83 and 1983-84.

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1.1.106

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The Committee also note with concern that no orders for Central purchase of "laundry soap" "soap soft grade II", "cuprous oxide" and "rope polypropylene parapeo" were placed during the years 1980-81 to 1982-83 as sufficient dues-in exist-

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ed from of Central Purchase indents which had not materialised and were awaited at the time of reviews. The Committee are informed that D.G.S.&D 21 with whom indents are placed, take a very long time ranging from 12 to 18 months for tender acceptance and for supply of indented material another 12 to 15 months are taken. To mitigate the situation a working arrangement was arrived at by considering demands received on a single day for a particular item as a separate item and effect local purchase therefor separately. The Committee view this situation with grave concern. They gain the impression that working arrangements in violation of the prescribed procedure were arrived at without bringing the matter to the notice of higher authorities. The Committee strongly deprecate the tendency of splitting of purchase orders in order to escape scrutiny by Tender Purchase Committee. The Committee would like the Ministry to ensure that this practice was not resorted to with ulterior motives by the unscrupulous officials. The Committee also recommend that the actual requirement for these items over a period should be reflected in the annual review documents to avoid local purchase orders as far as possible. As a Board of Enquiry to enquire into these cases is already seized of the matter the Committee would like to know its findings and the follow up action taken by the Ministry in the matter.

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The Committee also deplore the unduly long time ranging from 12 to

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18 months taken by DGS&D for tender acceptance and another 12 to 15 months taken for supply of materials. In the instant case the position is more disquieting. Indent for laundry soap was placed with them in March 1979 and the supply materialised in February to April 1984, i.e. after 5 years. In the interregnum, no fresh orders were placed with them for Central Purchase of items which were required in considerable quantities on regular basis. The unduly prolonged delay in the supply of materials through local purchase often at a considerable higher prices. Besides, as brought out in the subsequent paras old indents, materialised at a time when indentor had procured the supplies from other sources resorted to between November 78 to May 80 because neither a copy of rate contract nor the DGS&D publications for list of items covered under rate contract were stated to be available with the CPRO at that time. The Ministry have pleaded ignorance of both, the existence of the rate contract and the chemical name of the product. The Committee cannot believe that the officers dealing with stores purchase were oblivious of both the facts mentioned above. They do not consider it an insurmountable obstacle to obtain a copy of the DGS&D rate contract when the same was not available with the CPRO. Again, the problem of equating the specification given in Royal Navy BRs with commercially available items could have also easily been tackled by CPRO. As

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14	1.108	Defence	<p>such, resort to local purchase because of ignorance and non-availability of DGS&D rate list can hardly be justified. The Secretary, Ministry of Defence admitted during evidence "I submit that at some stage at lower level there was some sort of confusion. For the period DGS&D rate contract was available, it should have been purchased through DGS&D." Unless proved otherwise, the Committee are inclined to suspect the bonafide of purchases of this item at much higher rates locally by CPRO. The Committee desire that if it is reasonably possible to identify the personnel responsible for purchase, they may be called upon to explain their conduct with a view to institute disciplinary action, if necessary. They also desire that commercial nomenclature of various items required by the Navy should be inserted into Royal Navy BRs to remove any ambiguity in the specifications for purchase and procurement.</p> <p>The CPRO had obtained quotations from a firm on a single tender basis for supply of raincoats of nylon finish quality suitable for use by scooter riders at Rs. 45 each and the quality suitable for normal use at Rs. 37 each in response to a telephonic enquiry and had purchased 7 number each of the two qualities of raincoats for trial purposes. In May, 1980 instead of going through the normal procedure afresh of inviting quotations from prospective bidders, the Local Purchase orders were placed on the same firm for supply of</p>

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			<p>5000 number of raincoats at Rs. 37 each and 5000 numbers of souvesters at Rs. 4/- each at a total cost of Rs. 2.05 lakhs. The Committee consider it highly objectionable particularly in view of the high value of the purchase order. The explanation that "previous year this firm had supplied these items and they were found satisfactory" is not at all convincing. The Committee would like the Ministry of Defence to ensure that prescribed procedure is scrupulously adhered to in indenting requirements. The tendering process should also be modernised.</p>
15	1,109	Defence	<p>The Ccommittee are distressed to find that in the cases mentioned below due to excess purchases unnecessary stores valued at Rs. 9.83 lakhs were held in stock by the CPRO though its shelf life had already expired or was nearing expiry. Paint bituminous enamel was indented against the projected requirement of 12,000 kgs. when stock of 14,300 kgs. was already held. The indent was covered by 11 local Purchase Orders placed between 30 December 1980 and 10 January 1981 on a local firm at a total cost of Rs. 1.56 lakhs. The supplies materialised during March and May 1981. The entire stocks remained unutilised upto March 1984. Its shelf life expired in May 1982 resulting in a loss of Rs. 1.56 lakhs. Another supply of 27,425 kgs. of this paint was received during January-April, 1981 against pending Central Purchase Orders. Out of this, only</p>

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16	1.110	Defence	<p>682 kgs. could be used upto March 1984. The shelf life of the remaining quantity of 26,743 kgs. of paint stock expired in April 1982 and the paint deteriorated in quality. Similarly in March 1984, the CPRO was maintaining a stock of 20,754 ltrs. of paint bituminous black costing Rs. 1.34 lakhs with shelf life of one year already expired. The stock in stead of depletion, swell to 24694 litres, in August, 1985 and was expected to meet the requirements of next two years. The plea that no complaint has been received from customers about the deterioration of its quality is not convincing as the deterioration in the quality of paint is a slow process and cannot be detected easily. The contractual shelf life for these items is 12 months and the actual shelf life of marine paints are stated to be three years or even more. But the optimum gain from its use is derived only when its use is close to the date of manufacture.</p> <p>Again, the Committee find that large quantities of sincolite mosaic layer and topping and refractory materials procured at enormous cost through local purchase orders have remained utilised for long time. This unnecessary procurement of stores has resulted in not only blocking of large storage pace and funds for considerable period, but also deterioration of its quality. The can only be termed as bad provisioning. The Committee feel that with better material management, this position could have been avoided. Deliveries</p>

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			of stores against local purchase orders could have been rescheduled and suppliers advised to hold the supplies for the time being when central purchases of an item materialised unexpectedly after a long period of indenting.
17	1.111	Defence	<p>The Committee are deeply perturbed to find that indents of paint bituminous black and paint bituminous enamel placed as early as May 1976 with the DGS&D materialised after five years in 1981. The Committee have already commented on the aspect of indents materialising after long intervals in preceding paragraphs. The long unjustified delays in supplying the materials leads to local purchase which itself takes a considerable time and building of unnecessary and avoidable inventories which are not consumed during their shelf life besides locking of large funds. The Committee note that there is total absence of system of reviewing supplies likely to materialise against pending indents and to cancel pending over-due indents against which supplies have not materialised on due time and the stores no more required. The Committee recommends suitable procedural measures to mitigate such situation should be devised immediately.</p>
18.	1.112	—do—	<p>The Committee view with serious concern the total absence of examination of the credentials of the suppliers before enlistment viz. majority of firms registered were either agents or suppliers; Banker's reports regarding their financial standing was not ob-</p>

tained even in a single case: the capability and capacity of the firms as manufacturers/stockists were not assessed by competent inspection authority or by the CPRO. Basic requirement of production of Income-tax clearance, sales tax and ownership certificates were also not complied in a large number of cases. The Defence Secretary informed the Committee that he has recommended to Naval Chief to constitute a Board of Enquiry to investigate into the working of Controllerate of Procurement to ensure :

- (a) Whether the instructions issued in various Govt. letters on purchase had been meticulously complied with.
- (b) If not implemented, the officers responsible therefor and the extent of their culpability;
- (c) Disciplinary/administrative action to be taken against them;
- (d) Naval HQ recommendations as regards remedial measures that should be adopted to obviate recurrence of such lapses in future.

19. 1.113 Defence

The Naval Chief is reported to have been requested to furnish to the Ministry investigations made by the Board of Enquiry alongwith his recommendations regarding the improvement in the procurement procedure within six months. Besides, the Chief of Logistics has also been asked to identify the lacunae in the existing procedure. The Committee would like to know, in due course, the outcome

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of the investigations made by the Board of Enquiry and the action taken by the Ministry of Defence in pursuance thereof to plug the lacunae that are found in the existing procedure.

20. 1.114 Defence

The Committee are surprised to find that majority of the firms registered as suppliers with the Controllerate of Procurement are either agents or retailers. In 1981-83, out of 176 suppliers registered, 93 were either agents or retailers. The Controllerate is not dealing directly with the manufacturers in small scale sector though a fair number of items required by it are manufactured by them. The Committee would like the Controllerate of Procurement to encourage and register small scale manufacturing units also as suppliers of various items required by them as it would be beneficial to the Controllerate. The Committee feel that by procuring goods directly from the small scale manufacturers, not only the middlemen's margins will be eliminated but also the price will be more competitive and the delays in supplies will also be curtailed. Such a measure would give impetus to the Government policy to encourage small scale units.

21. 1.115 —do—

The Committee are perturbed to find that CPRO has incurred extra expenditure of Rs. 1.44 lakhs on procurement of waste cotton coloured and rag cotton coloured due to non-acceptance of lowest tender and resorting to retendering. The Ministry of Defence have stated that the

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lowest tenderer withdrew his offer and tender of the next lowest tenderer was not acceptable as the performance of this firm was not found satisfactory. This decision is stated to have been based on the poor performance of its sister concern on an earlier occasion when substandard and unhygienic material was stated to have been supplied by that firm. In view of this fact, a market survey team had inspected the premises of this firm and submitted a report. It is strange that this report of the survey team is not available with the CPRO and the same was not furnished to the Committee when they asked for it. The Committee take a serious note of it. They are also concerned to find that suppliers with unsatisfactory and poor performance continued to be registered with the CPRO. The Ministry owe an explanation to the Committee on this account. It is equally a matter of concern that normal procedure of getting approval of Tender Purchase Committee to the decision not to process the tender of this firm was done away with in this case on the plea of urgency which is also not convincing.

22. 1.116 Defence

The Committee note that Fast Transaction Team (FTT) headed by a Technical Officer functioning under the direct control of the CPRO was created to procure operationally required stores and machinery off the shelf. In keeping with the urgency of the requirements, the FTT deviated from the normal procedure in handling tender enquiries and collection

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			<p>of quotations by hand delivery as against the normal procedure of sending them by post; allowing limited time for submission of quotations; and obtaining lesser number of quotations thereby making the tenders less competitive. These deviations from the prescribed procedure make it imperative that procurement of items by the Fast Transaction Team should be confined to immediate requirements to keep the ships operational. However, the Committee find that during the years 1981-82, 1982-83 and 1983-84, the aggregate purchases effected by Fast Transaction Team amounted to Rs. 106.43 lakhs, Rs. 85.83 lakhs and Rs. 84.15 lakhs respectively and the procured stores included items of entertainment and furnishing. Volume of purchases through Fast Transaction Team is indicative of the failures of the CPRO to cater to the needs of the indentors through normal stores provisioning methods. The Committee desire that concerted/ steps should be taken to resort to purchases through Fast Transaction Team only in cases of dire necessities.</p>

