

**PUBLIC ACCOUNTS COMMITTEE
(1971-72)**

(FIFTH LOK SABHA)

SEVENTH REPORT

[Audit Report (Civil), 1970 and Appropriation Accounts (Civil), 1968-69 relating to the Ministries of Food, Agriculture, Community Development & Cooperation (Department of Food) and Supply]



**LOK SABHA SECRETARIAT
NEW DELHI**

July, 1971/Asadha, 1893 (Saka)

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CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1971-72).	(iii)
INTRODUCTION	(v)
CHAPTER I—Ministry of Food, Agriculture, Community Development and Co-operation (Department of Food).	1
CHAPTER II—Ministry of Supply.	22
APPENDICES	
I. Copy of the notice given to the Government on 20th April, 1967 by the Contractor	70
II. Statement showing the claims preferred by the Contractor	72
III. Recovery of differential cost consequent upon the revision of issue prices	74
IV. Statement showing details of the outstanding cases involving amounts of Rs. 50,000/- and above	76
V. Chronological statement of action taken by DGS & D to meet the requirements of Defence	97
VI. Copy of the minutes of the meeting held on 16th December, 1966	100
VII. Summary of main conclusions/Recommendations of the Committee	103

PART M*

Minutes of the sitting of the Public Accounts Committee held on—

19-9-70 (A.N.)

27-8-70 (A.N.)

28-8-70 (A.N.)

6-7-71 (A.N.)

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(1971-72)

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Shri B. B. Tewari—*Deputy Secretary*

Shri T. R. Krishnamachari—*Under Secretary.*

*Since resigned from the Committee w.e.f. 17-6-1971.

INTRODUCTION

I, the Chairman, of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventh Report of the Public Accounts Committee (Fifth Lok Sabha) on Audit Report (Civil), 1970 and Appropriation Accounts (Civil), 1968-69 relating to the Ministry of Food, Agriculture, Community Development and Cooperation (Department of Food) and Ministry of Supply.

2. The Appropriation Accounts (Civil), 1968-69 and Audit Report (Civil), 1970 were laid on the Table of the House on the 14th April, 1970.

3. The Committee of 1970-71 examined paragraph relating to the Ministry of Food, Agriculture, Community Development and Cooperation (Department of Food) at their sitting held on the 19th September, 1970 and the Ministry of Supply at their sitting held on the 27th and 28th August, 1970. Consequent on the dissolution of the Lok Sabha on the 27th December, 1970, the Public Accounts Committee (1970-71) ceased to exist with effect from that date. The Committee of 1971-72 considered and finalised the Report at their sitting held on the 6th July, 1971 based on the evidence taken and the further information furnished by the Ministry|Department concerned. The Minutes of the sittings form Part II* of the Report.

4. A statement containing summary of the main conclusions|recommendations of the Committee is appended to this Report (Appendix VII). For facility of reference these have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the commendable work done by the Chairman and the Members of the Public Accounts Committee (1970-71) in taking evidence and obtaining information for this Report which could not be finalised by them because of the sudden dissolution of the Fourth Lok Sabha.

6. The Committee place on record their appreciation of the assistance rendered to them in the examination of these accounts and Audit paragraphs by the Comptroller and Auditor General of India.

*Not Printed. One copy laid on the Table of the house and five copies placed in the Parliament Library.

7. The Committee would like to express their thanks to the officers of the Ministries of Food, Agriculture, Community Development and Cooperation and Supply for the cooperation extended by them in giving information to the Committee.

ERA SEZHIYAN,
Chairman,
Public Accounts Committee.

NEW DELHI;
July 8, 1971.

Asadha 17, 1893 (Saka).

CHAPTER I

MINISTRY OF FOOD, AGRICULTURE, COMMUNITY DEVELOPMENT AND COOPERATION (DEPARTMENT OF FOOD)

Dues from transport contractors

Audit Paragraph

The contract for clearance and transport of foodgrains (Bombay port) from 14th April, 1962 to 30th July, 1964 placed with contractor 'C' was terminated in August, 1964. On the finalisation of the accounts of the contractor in November 1966, it was noticed that Rs. 9.71 lakhs were recoverable from the contractor on account of demurrage, loss of foodgrains in transit, loss of gunny bags etc. After adjusting security deposit of Rs. 2 lakhs, the Department served a notice on the contractor in December, 1966 for payment of Rs. 7.71 lakhs within one month, failing which legal steps were proposed to be taken for recovery of the amount. This was subsequently reduced to Rs. 7.19 lakhs due to withdrawal of certain liabilities earlier fixed on the contractor.

1.2. While the Department is still (October 1969) contemplating initiation of legal proceedings, the contractor filed (in July, 1967) a suit in the High Court, Bombay, claiming Rs. 42.12 lakhs from the Department; broad details of his claims are given below:—

	(Rs. in lakhs)
(i) Bills of various types due but not paid by Government	28.59
(ii) Recoveries illegally effected by Government	9.69
(iii) Security deposit including interest accrued	2.44
(iv) Interest	1.40
	<hr/>
	42.12

1.3. Government stated (October 1969) that "the result of litigation cannot be foreseen but in case the Government is required to pay any amount, the question of adjusting Government dues against the same would be considered". They have further stated (December 1969) that the delay in filing the suit had been due to "com-

plexities and voluminous nature of the problems involved" and was unavoidable.

[Paragraph 38(A) Audit Report (Civil) 1970].

1.4. The Committee were given to understand by Audit that the contract for the clearance and transport of foodgrains at Bombay Port was placed with contractor 'C' for two years from 14th April, 1962. This was later on extended by further one year under the terms of the contract. The contract should, therefore, have run upto 13th April, 1965 but on account of a decision to do the clearance and handling work departmentally, the contract was terminated from 1st August, 1964.

1.5. During the evidence, the Committee were informed that the decision to handle departmentally was taken by the end of June, 1964 after watching the performance of the contractor.

1.6. The Committee wanted to know why the contract was extended for a period of one year from 14th April, 1964. The Secretary, Department of Food stated: "We invited tenders in March, 1964, as the contract was due to expire. We did not, however, get any acceptable tender at all. Therefore, we had to continue this gentleman..." The witness added: "It was given in April, 1964 and before that the matter was examined and it was decided that extension should be given for one year..." Asked for the reasons for taking a decision to terminate the contract within two months of its renewal, the witness stated: "... it was because of the labour trouble and other difficulties that his performance from May onwards became worse." The witness added: "... labour trouble began from the date we extended his contract on the 14th April and went on till the 12th May. It was settled and we expected that the work would start in right earnest and his performance would improve, but this did not happen and the labour continued to be uncooperative." The witness further added: "... he was not able to give higher wages in order to get the work done. We do not know exactly what wages he was paying to the labour." The witness further pointed out that the contract could be terminated giving 30 days' notice.

1.7. Asked about the position regarding labour trouble after taking up the work departmentally, the witness stated: "We were able to negotiate with the labour and to manage the work all right. Apparently the position was like this. This is a fixed rate contract and the labour was asking for higher wages and this gentleman was

not able to deal with the situation and hence the labour started making trouble. But since we took over we arrived at a settlement with the labour and the work was done satisfactorily after that."

1.8. The Committee wanted to know whether there was increase or decrease in per tonne cost of work done by the Department when compared to the work done by the contractor. The witness stated: "We have been trying to work it out roughly in this short time. It was about 2.30 per tonne and after departmentalisation it comes to about 2.75. The main thing is that the wage rise during this period was of the order of 59 per cent and output per worker went up by 30 per cent."

1.9. The Committee desired to know why it took two years to finalise the accounts and whether it was not possible to pass these accounts ship-wise as and when the goods arrived. The Secretary, Department of Food stated: "... Normally, each account is settled ship-wise as and when it comes. But after termination, the consolidated accounts had to be compiled. The accounts are kept ship-wise but they have to be totalled up and consolidated and thereafter adjustments have to be made." The witness added: "... the preliminary total was worked out in April, 1965 when we served the first notice." Explaining further the witness said: "... this was a preliminary intimation to them about the amounts due to us and afterwards, we served a formal notice on the party. To be more definite, the party refused to pay Rs. 7.71 lakhs and thereafter we served a formal notice on the Insurance Company in November, 1966." Asked about the amount for which notice in 1965 was given, the witness replied, "at that time it was Rs. 7.75 lakhs."

1.10. According to the information furnished by the Ministry, the dues pertained to the period 14th April, 1962 to 30th July, 1964. The category-wise break-up of the dues of Rs. 9.71 lakhs (without taking into the adjustment of security deposit of Rs. 2 lakhs) is as follows:

S. No.	Nature of Liability	Amount
1	2	3
		Rs. P.
1.	Ship demurrage	35,772. 96
2.	Loss on despatch money	8,628. 50
3.	Shed demurrage	2,50,881. 70
4.	Shed/Gate/Weigh Bridge charges	5,851. 54
5.	Wagon demurrage	20,686. 38

1	2	3
		Rs. P.
6.	Time barred survey	91,229. 57
7.	Survey charges	2,834. 21
8.	Damage to foodgrains	86,804. 30
9.	Damage to Property	4,326. 93
10.	Loss of full bags.	8,235. 73
1.	Loss of gunnies.	3,15,494. 56
2.	Burst bags.	32,770. 00
13.	Loss of gunny wrappers	60,244. 79
14.	Grane detention charges	5,909. 41
15.	Idle gang charges.	3,313. 75
16.	Scales/Hand cart hire.	27,331. 00
17.	Transit Loss Foot/Fert.	10,080. 49
18.	Shed Watching	274. 13
19.	Mixed delivery	277. 34
20.	Miscellaneous items.	410. 69
	TOTAL	<u>9,71,357. 98</u>

1.11. The Ministry further informed the Committee that after taking into account certain further amounts due to/from the contractor, the net amount recoverable was finally assessed as Rs. 9.19 lakhs. After adjusting the security deposit of Rs. 2 lakhs paid by the contractor, the balance due from him was Rs. 7.19 lakhs. A revised notice to this effect was given on 21st January, 1970. A suit for the recovery of Rs. 7.19 lakhs was also filed in the Bombay High Court on 13th March, 1970.

1.12. Explaining how the claim against contractor arose, the witness stated during evidence: "Some of the bills he (contractor) had to pay directly... such as demurrage. But because he failed to pay, we had to pay directly." The witness added, "these bills arose afterwards. Normally during the pendency of the contract he has to pay everything. But there was delay. We terminated his contract. These bills came to us after the termination of the contract and we had to pay those." As regards the delay in finalising the claim, the witness deposed, "... these bills came later on and that delayed the thing—demurrage bills and detention charges that came

from the Port Trust and the Railways. Unfortunately, the Railways and the Port Trust have taken a long time." The Committee desired to know when these bills were received and the period to which they pertained. The Department of Food furnished the following statement in respect of the bills received from the Bombay Port Trust after 9th November, 1966, i.e., the date of the first formal notice to the contractor:

S. No.	Amount of claim.	Nature of claim	Date of receipt of claim of BPT	Period to which the claim relates.
1	2	3	4	5
	Rs.			
1	2,339.53	Shed demurrage	21-3-68	Feb., 1963
2	50.67	Gate opening charges. . . .	8-11-68	August, 1963
3	383.50	Shed demurrage	11-12-68	April, 1964
4	4,935.56	Do. . . .	8-12-68/ 18-12-68	April, 1964
5	778.43	Do. . . .	21-1-69	June, 1964
6	400.00	Do. . . .	10-4-69	May, 1964
7	110.67	Shed gate opening charges. . . .	23-8-69	Aug. 1963
8	88,236.81	Shed demurrage	23-8-69	April, 1964
9	2,124.25	Do	6-12-69	July, 1969.
10	110.67	Shed gate opening charges. . . .	6-1-70	Aug. 1963
11	151.22	Shed demurrage	22-1-79	April, 1964.

No claims were received from the Railways.

1.13. At the instance of the Committee, the Department of Food furnished the following information with regard to the payments made or adjusted against dues to Government before and after termination of the contract:

"...bills of the contractors for a total amount of Rs. 156.04 lakhs were passed, but payment was made for a total amount of Rs. 146.86 lakhs. The balance amount of Rs. 9.18 lakhs was retained and adjusted against Government dues. The entire payment of Rs. 146.86 lakhs was made prior to the termination of the contract and no pay-

ment was made thereafter. Amounts of all the bills passed after termination of the contract were adjusted against the claims of the Government on the contractor. The payment of Rs. 146.86 lakhs was spread over the entire period of the contract—the payments having been made practically every day.”

1.14. Under a Deed of Indemnity executed in June, 1963 at the request of the contractor, Government was indemnified by the insurer to the extent of Rs. 8 lakhs. The Committee understood from Audit that the Insurance Company rejected the claim of Government when notice was given to them in November, 1966. Asked about the grounds for rejection the witness stated during evidence: “They (Insurance Company) stated that their clients had a claim against us of a large sum of money i.e. Rs. 25.0 lakhs mentioned at that time and there was a dispute over the amount and unless the amount was finalised they were not in a position to pay any claim.”

1.15. An extract of clause 5 (xxxii) of the Agreement executed with the contractor regarding liability of the contractor is given below:—

“The contractors shall be liable for all costs, charges and expenses suffered or incurred by Government due to the contractors negligence and unworkmanlike performance of any service under this contract or breach of any terms of the agreement or their failure to carry out the work with a view to avoiding incurrence of demurrage etc. and for all damages or losses occasioned to the Government or in particular to any property or plant belonging to the Government due to any act whether negligent or otherwise of the contractors themselves or their employees. The decision of the Regional Director (Food) Bombay regarding such failure of the contractors and their liability for the losses etc., suffered by Government will be final and binding on the contractors.

The Government shall be at liberty to reimburse themselves of any damages, losses charges, costs or expenses suffered or incurred by them due to contractors negligence and unworkmanlike performance of service under this contract or breach of any terms of agreement. The total sum claimed and recoverable as such shall be deducted from any sum then due or which at any time hereafter may become due to the contractors under this or any other

contract with the Government. In the event of the sum which may be due from the Government as aforesaid being insufficient the balance of the total sum claimed and recoverable from the contractor as aforesaid shall be deducted from the security deposit, furnished by the contractor as specified in clause 11 thereof. Should this sum all be not sufficient to cover the full amount claimed and recoverable by the Government the contractors shall pay to Government on demand remaining balance of the aforesaid sum claimed."

1.16. The Committee understood from Audit that while the Department was considering in consultation with the Ministry of Law, the question of initiating legal action, a notice was served by the firm on the Department in April, 1967, claiming Rs. 42.12 lakhs. The broad details of its claims were as given below:—

	(Rs. in lakhs)
(i) Bills of various types due but not paid by Government	28.59
(ii) Recoveries illegally effected by Government	9.69
(iii) Security deposit including interest accrued	2.44
(iv) Interest	1.40
	42.12

The contractor filed a suit against Government in July, 1967. The notice served on Government in April, 1967 and the statement showing claims of the firm against Government as furnished by the Ministry are reproduced at Appendices I and II.

1.17. During evidence the Committee desired to know the nature of claim of Rs. 23.94 lakhs put forward by the firm on account of 'Bills for detention of truck at Government godowns and Rail heads'. The witness said: "As I mentioned that was the main claim of the party and that was untenable. Bill for detention of trucks in Government godowns—there is no provision in the contract and he is not justified at all. He has put a lump figure. No details have been given." In reply to another question, the witness stated that the Government had filed a written statment in February, 1968 in respect of suit filed by the firm in July, 1967. Earlier when the notice was received in April, 1967, a reply was given repudiating the claims in June, 1967.

1.18. The Committee note that after the termination of the contract for the clearance and transport of foodgrains in Bombay Port in August, 1964, it took nearly six years for the Government to finalise the claims against the contractor. The net liability of the contractor initially fixed at Rs. 7.75 lakhs in April, 1965 underwent revision twice—once in November, 1966 as Rs. 7.71 lakhs and again in January, 1970 as Rs. 7.19 lakhs for the recovery of which a suit has been filed in March 1970. This is stated to be partly due to delay in consolidating the amounts relating to the contractor and making necessary adjustments and partly due to late receipt of bills from the Bombay Port Trust for the demurrage and detention charges payable by the contractor. The Committee are surprised that these matters were not attended to before serving a final notice on the contractor in April, 1965.

1.19. The Committee are distressed to find from the particulars furnished to them that some of the claims pertaining to the period August 1963 to May, 1964 were received from the Bombay Port Trust only during March, 1968 to January, 1970. This shows that there was no coordination between the food Department and the Port Trust and reflects adversely on the working of the concerned offices. They would, therefore suggest that Government might examine how it took such inordinately long time for the Port Trust to prefer claims. The procedure in this regard needs to be streamlined to avoid any delay in future.

1.20. The Committee were informed that the Insurance Company had rejected the claim of Government in part discharge of an indemnity bond executed by them on the ground that the contractor had disputed the claim. The Government have since filed a suit in the Bombay High Court in March, 1970 for the recovery of the dues. While the contractor has filed a suit against Government in July, 1967 for payment of Rs. 42.12 lakhs alleged to be due to him. The Committee would like to be apprised of the outcome of these cross suits.

Audit Paragraph

1.21. For handling and transport of foodgrains at Manmad for the period 20th February, 1964 to 19th February, 1966, the Regional Director of Food, Bombay, entered into a contract with contractor 'A' in February, 1964. On the failure of the contractor to do the work, the contract was terminated on 30th June 1965 at his risk and cost and a fresh contract was entered into with another contractor 'B'.

1.22. After adjusting the security deposit furnished by contractor 'A' etc., the amount due from him including the risk and cost liability has been assessed by the Department to be Rs. 0.93 lakh.

1.23. Government stated (December, 1969) that "a demand was made on the contractor on 29th August, 1969 to deposit the requisite amount within a month of receipt of notice. A reply was received from him on 26th September, 1969 that he was making an appeal to the Department against fixation of aforesaid liability" and that on the advice of the Ministry of Law, "the case was referred on 12th November, 1969 to the Sole Arbitration." [Paragraph 38(B) Audit Report (Civil) 1970].

1.24. During the evidenc, the Secretary, Department of Food stated that Rs. 1.29 lakhs was the amount due from the contractor which was reduced to Rs. 93 thousands after adjusting certain bills and the amount deposited by the contractor as security deposit. In a written note, the Department of Food had furnished the following details in this regard:

(a) Total amount due from the contractor.	1,29,909. 77
(b) <i>Adjustments made</i>	
(i) Security deposit relating to Manmad contract itself	25,503. 00
(ii) Security deposit relating to Morena depot contract with the party	1,000. 00
(iii) Adjustment of pending bills found due for payment	9,926. 45
Total deduction/adjustment.	Rs. 36,429. 45
(c) Net Liability	Rs. 93,480. 32

1.25. The Committee wanted to know the date on which the Department assessed the liabilities of the contractor 'A' to be Rs. 93 thousands. In their written note the Department of Food had stated, "the Department assessed the net liability of the contractor 'A' at Rs. 0.93 lakhs on 12th August, 1969.

1.26. The Committee pointed out that the contract was terminated in 1965 while the contractor was served with a demand in August, 1969. The witness stated, "We gave formal notice to him on 28th October, 1966 for sum of one lakh and odd.... On 7th August, 1967, we asked him to pay the amount and informed the Pay and Accounts Officer on 11th October, 1967. After adjustments, we finally gave him a demand notice on 29th August, 1969 before referring the matter to arbitration."

1.27. The Committee wanted to know the reasons for terminating the contract. The Secretary, Department of Food stated, "his out-turn became very low because of poor labour supply, poor loading of wagons, poor unloading of wagons. He left the work for sometime and this resulted in heavy demurrage and we, therefore, terminated his contract." Ask the grounds on which the contractor contested his liability the witness replied, "He repudiated our claim and furnished no reason..."

1.28. The Committee desired to know the present position of the case. In their written note the Department of Food have stated: "the case is still under arbitration. The Government's written statement was filed in February, 1970. The contractor's statement was, however, not filed in time. The contractor has been seeking extension of time on one ground or the other (including illness). The Arbitrator has now fixed 15th September, 1970 as the final date by which the contractor must file his statement. With the consent of both parties the time for publishing the award has been extended upto 31st December 1970."

1.29. In their further communication (26th June 1971) the Department of Food have stated "As the hearing of the case is still not over, the Arbitrator has not given the award yet. The Contractor has been seeking adjournments from time to time on grounds of illness. A joint application has, however, since been filed before the Arbitrator by the Regional Director (Food), Bombay and the Contractor for extension of time for making and publishing the award by 31st December, 1971".

1.30. This is yet another case of inordinate delay in finalising the dues of the contractor after the termination of his contract. The contract for handling and transport of foodgrains at Manmad was terminated in June, 1965, but the extent of liability of the contractor could not be finally determined until August, 1969.

1.31. The Committee note that the contractor has repudiated the claim of Government for Rs. 0.93 lakh which has been referred for arbitration. They would like the results of the arbitration proceedings to be intimated to them.

Non-assessment of dues

Audit Paragraph

1.32. For foodgrains supplied to State Governments from Central stock, the unsold stock of foodgrains with them and that in transit to them on the dates of price revision by the Ministry are required to be revalued and the difference in the cost is to be adjusted with the Department of Food.

1.33. It has, however, been noticed that information about the quantity of stock required to be revalued has not so far been received by the Department from some State and Union Territory Governments, as mentioned in Appendix to this report, for price increases on certain occasions between January 1965 and December 1968. Consequently, the amount due from these State/Union Territory Governments on account of price revisions between January, 1965 and December, 1968 has remained unassessed and unrealised so far (February, 1970).

1.34. Government stated (February 1970) that "out of 425 returns due only 78 returns are still to be received" and that "unless the State Governments furnish information regarding the stocks held by them as on the dates of revision of issue price, they would not be able to raise debits against them. However, all necessary action is being taken to get these outstanding returns also."

[Paragraph 39—Audit Report, (Civil) 1970].

1.35. The Committee wanted to know the procedure followed in regard to submission of the stock returns by the State Government/ Union Territories. The Secretary, Department of Food stated: "normally on the first of every month, we get stock returns from the States. These returns give us the stocks which are held by the State Governments. But so far as fair price shops are concerned, under the normal practice they would also be sending returns to the State Government but the stocks held by them are not reported to the Government of India. Now whenever there is a price

revision, we ask the State Governments to value the stocks as on the date with the State Governments as also with the fair price shops. They collect the information and send us the returns."

1.36. The Committee desired to know the position with regard to the outstanding returns and the amounts realised from the State Governments. In their written note, the Department of Food had stated, "Out of the remaining 78 returns in the audit para, 66 returns have since been received as on 19th November, 1970.... The amount to be recovered from the State Governments depends on the quantity of foodgrains held in stock by them on the dates of revision of issue price. As this information is still due in 12 cases, the amount to be recovered from the State Governments will be known only after the stock particulars are intimated by them....".

1.37. In a further note the Department of Food have stated: "the total amount to be recovered from the State Governments as a result of further receipt of 66 stock returns is Rs. 6.37 crores out of this an amount of Rs. 4.56 crores has actually been recovered as on 31st March, 1971 and the balance of Rs. 1.81 crores is being recovered."

1.38. It was stated during evidence that out of 12 outstanding returns, 8 were due from West Bengal and 4 from Orissa. From the details of outstanding returns furnished by the Department of Food, the Committee learn that the question of recovery of differential cost from fair price shops in West Bengal was under litigation. The Secretary, Department of Food stated during evidence, "The submission of the fair price shops is that sale of goods took place at the time when they paid the amount to State Governments. It has become their property and under the agreement of the State Government, they are not liable to pay anything more." The Committee enquired whether there was any specific condition laid down by the Central Government for the adjustment of price difference in regard to supplies of foodgrains to State Governments. The witness stated, "Yes.... Whenever there is a variation of prices, adjustment will be made both ways. When we reduce the price, we will give the money and if we increase the price, they gave us and we have been doing that". The Committee wanted to know whether similar conditions existed in regard to sales to fair price shops by the State Government. In their written note *inter alia* dealing with the procedure in West Bengal, the Department of Food stated, "...so far as foodgrains distribution in the State is concerned, the area has been divided as under:

- (a) modified rationing, i.e., area outside statutory rationing area.

(b) statutory rationing area.

In regard to modified rationing area, provision already exists in the prescribed agreement with the ration dealer (retailer or wholesaler) for recovery in case of upward revision and refund in case of downward revision of issue prices. But in the case of statutory rationing area, no such provision in the agreement existed. The State Government issued the West Bengal Rationing (Amendment) Order, 1969 providing *inter alia* for recovery|refund price differential but a majority of the existing ration dealers in the statutory rationing area have not executed the agreement because of injunction of the court against Food Corporation of India making recoveries of the difference in cost on the ground that after the sale of foodgrains, the property of the foodgrains had been finally passed on to the retailers and the Food Corporation of India had no claim for collection of the difference. Efforts are, however, being made by the State Government to make the rationing dealers sign the agreement by extending the time limit from time to time."

1.39. As regards the other States, the Committee find from the note submitted to them (Appendix III) that by and large no specific provision exists in the agreement with dealers regarding recovery of differential cost consequent upon the revision of issue prices. Differential cost is recovered by issue of executive order/instructions.

1.40. When the Committee enquired whether the opinion of the Ministry of Law was taken in this regard, the Secretary, Department of Food stated: "We have not done it so far, but we could examine it further."

1.41. The Committee wanted to know the instances if any, when the prices of foodgrains were lowered by the Government and the amount of money refunded to the State Government as a result thereof and in turn, the amount of money refunded by the State Governments to the fair price shops, particularly in West Bengal. In their written note, the Department of Food had stated, "there were two instances of downward revision of issue price during the period 1st January, 1965 to 31st December, 1968. On 10th June, 1966, the issue price of Milo was reduced from Rs. 40.00 to Rs. 33.00 per quintal and on 16th December, 1968 the issue price of white wheat (both indigenous and imported) was reduced from Rs. 90.00 to Rs. 85.00 per quintal. The differential cost paid to the State Government is Rs. 1.15 crores in the case of the first revision and Rs. 1.05 crores in the case of the second revision. This differential cost has been paid only to

such of the State Governments as have claimed the amounts. As the West Bengal Government is one of the State Governments which did not prefer any claim, no payment has been made to them, the stock of Milo and white wheat held by such Governments on the crucial dates being taken as 'nil'. In the case of downward revision of issue prices, the refund is authorised by the Ministry only to the State Governments even in respect of Stocks held by the Fair Price Shops in the States, as the Centre does not deal directly with the Fair Price Shops. Therefore this Department has no information from which it could be verified whether the State Governments concerned had allowed any refund to the Fair Price Shops in respect of stocks held by the Fair Price Shops on the dates of downward revision of issue prices."

1.42. The Committee wanted to know how the adjustment of revision of prices is made after the transfer of procurement and distribution of foodgrains to the Food Corporation of India. In their written note, the Department of Food have stated, "the adjustment is made in exactly the same manner as when the procurement and distribution operations were on Government account. That is to say consequent on any revision of issue prices, stock returns are called for by the Department of Food from the State Governments etc., and payment by or to the State Governments are required to be made on the basis of these returns. The transfer to the Food Corporation of India of the operations of foodgrains procurement, distribution etc., has made no difference to the procedure in question. The rationale of the procedure also remains the same viz., that no unintended benefit or disadvantage should accrue to the State Governments as a result of the revision of issue prices."

1.43. The Committee understand that every month stocks of foodgrains held by the State Governments are reported to the Department of Food. These returns do not, however, cover the stocks held by the fair price shops and consignments in transit. As the shops would be reporting their stocks to the State Governments the desirability of getting a consolidated return from them might be considered. This, in the Committee's opinion, might help to regulate supplies.

1.44. The Committee regret to observe that stock position on the dates of revision of prices is not being reported promptly for the purpose of revaluation. In respect of price increases given effect to on various occasions between January, 1965 and December, 1968. as many as 78 returns were due by February, 1970 of which 66 were received subsequently. The Committee would urge Government

to take up the matter with the State Governments with a view to making necessary adjustments as far as possible in the accounts of the same financial year in which a price revision is made.

1.45. Incidentally, the Committee learn that the question of recovery of differential cost by the State Government from fair price shops in West Bengal is under litigation. From the details given to them, the Committee find that while there is a specific condition in regard to the sale of Foodgrains by the Centre to the States that it is subject to necessary adjustments consequent on any price revision, there is no such specific understanding between the State Governments and the fair price shops in quite a few States. In order to avoid unnecessary complications the Committee would suggest that Government may in consultation with the Ministry of Law impress upon the State Governments the need for laying down a suitable condition to avoid unnecessary complications of the kind noticed in West Bengal.

Appropriation Accounts (Civil), 1968-69

Grant No. 34—Other Revenue Expenditure

Group-head "H-4(3)—Reimbursements to the Food Corporation of India of Consumers' subsidy initially borne by Corporation"

1.46. There was a saving of Rs. 7.90 crores out of the supplementary grant of Rs. 20.00 crores obtained in December, 1968.

1.47. Asked as to why the supplementary grant could not be restricted and why the consumers' subsidy could not be reimbursed in full to the Food Corporation, the Department of Food intimated as follows:

"(i) Supplementary grant to the extent of Rs. 20 crores, and not for a smaller amount was obtained because it was estimated, on the following basis, that an amount of Rs. 20 crores would have to be paid as subsidy:

(a) It was estimated that the rate of subsidy on indigenous Mexican wheat procured in Punjab and Haryana (in respect of which only most of the subsidy was expected to be given) would be of the order of Rs. 22 per quintal as under:

Economic Cost—Rs. 94.67 per quintal

Issue Price—Rs. 70.00 per quintal

Subsidy—Rs. 24.67 per quintal.

(Provisional rate of Rs. 22 per quintal for the purpose of calculations for supplementary grant was adopted).

- (b) It was also estimated that a quantity of about 8.74 lakh tonnes of indigenous Mexican wheat would be issued upto 31st March, 1969, which required Rs. 12.28 crores.
- (c) A sum of Rs. 0.77 crores was estimated as the requirement for paying subsidy on wheat taken from the Provincial Reserve stocks of Haryana.
- (ii) Why payment of the entire amount could not be made
- (a) The above estimates of the subsidy required to be paid were based on the estimated economic cost. Eventually however, it was considered financially prudent to make subsidy payments only on the basis of the actual economic costs of the various varieties of wheat.
- (b) These economic cost calculations could be finalised only towards the end of February, 1969, and hence sanction for the payment of subsidy at the specified rates for different varieties could be issued only on 26th February, 1969. (The sanction was further amplified on 5th March, 1969 enabling the Food Corporation of India to include supplies made to Roller Flour Mills and Fair Price Shops also for claiming subsidy).
- (c) Since the subsidy claims of the Food Corporation of India had to be supported by R.R. wise and consignee wise details, which the Corporation had to collect from their District offices, the entire amount could not be paid in the short period of about a month available upto 31st March, 1969, but only an amount of Rs. 12.10 crores could be paid."

1.48. The Committee desired to know the total amount of consumer's subsidy reimbursed year wise till 1969-70 to the Food Corporation of India and the amount expected to be paid during 1970-71. In their written note, the Department of Food furnished the following information in this regard:

Year	Amount (Rs. in lakhs)
1967-68	1.25
1968-69	12.10
1969-70	30.65

*No such subsidy was paid during the years 1965-66 and 1966-67.

For the year 1970-71, a provision of Rs. 25 crores has been made and so far claims aggregating Rs. 17.35 crores have been received from the Food Corporation of India. Out of this, bills for Rs. 10 lakhs have already been paid and claims for the remaining amount of Rs. 17.35 crores are under scrutiny. The amount likely to be actually paid will be estimated shortly, before the revised estimates are finalised....”

1.49. Explaining during evidence the increase in the incidentals which partly accounted for the rise in the quantum of consumer subsidy, the witness stated that since 1968-69 Government built up buffer stocks and that interest charges were paid for the stock as well as for the normal operational stock. The Department subsequently intimated that the total quantity of rice and wheat held as buffer stocks on 31st March, 1970 was 17.21 lakh tonnes. The element of interest charges included in the overheads on account of these holdings was Rs. 6.16 per quintal.

1.50. The Committee desired to know the total amount of overhead charges per tonne incurred by the Department when the work was done by the Department and that incurred by the Food Corporation as also the method of calculation of the charges. The Department of Food submitted a note which is reproduced below:

“The overhead charges incurred by the Department of Food during 1967-68 and those incurred by the Food Corporation of India during 1969-70 are given below:

Nature of Incidentals	Food Deptt's 1967-68	Food Corpora- tion of Indi
	1969-70	
(Figures in Rs. per tonne)		
1. Transit and storage loss	2.00	13.70
2. Freight	27.60	29.60
3. Handling of Godowns	3.30	3.90
4. Godown charges	5.60	4.80
5. Interest on capital	8.50	11.60
6. Establishment	4.40	13.50

NOTE : These incidentals relate the charges incurred from the point of despatch in the case of internally procured foodgrains, and after the stages of landing in the case of imported grains.

The entire operations relating to import/procurement, storage and distribution were transferred to the Food Corporation of India with effect from 1st April, 1969. Even during 1968-69 the port and storage operations of Food Department were transferred in stages to the Food Corporation. In December, 1968 the port operations in the Southern and Eastern Regions were transferred in March, 1969, the Storage Depots as well as the port operations of the Western Region were transferred to the Food Corporation. Therefore, the year 1967-68 is taken as a representative year for purposes of incidentals of the Food Department. Similarly, as the year 1969-70 was the first year in which all the food supply operations were handled by the Food Corporation, incidentals for this year are given.

3. In this connection, it is stated that the two sets of incidentals are not quite comparable due to the following reasons:—

- (a) As already stated, the incidentals given in the case of the Food Department relate to 1967-68 while those of the Food Corporation are for 1969-70.
- (b) In the case of the Food Corporation, the incidentals indicated have been worked out by deducting from the total expenditure incurred during the year, the estimated expenditure on holding the buffer stocks and dividing the balance by the sales for the year 1969-70.
- (c) The method of calculating the incidentals also differs in the two cases. In the case of Food Department the quantity of foodgrains purchased was generally the basis. The exact procedure followed in calculating each item of incidental is given in the Annexure to this note. So far as the Food Corporation is concerned, except for transit and storage loss, the other incidentals are calculated on the basis of the expenditure booked in accounts under each category divided by the total quantity sold during the year. The transit and storage loss is calculated by dividing the actual loss of each kind during the year (as evidenced by the stock accounts) by the total sales for the year.

The increase in the establishment charges of the Food Corporation is partly due to the fact that as compared to 1967-68, there has been an increase in the allowances payable to staff. Further, when the Food Department was handling the food grain operations, the purchase operations consisted mostly of imports and, therefore, these were confined to the ports. But the Food Corporation has also been

procuring internally considerable quantities of wheat and rice, and they are also to handle the price support operations. For this purpose they have to employ staff at a number of centres throughout the country with the result that there is a proportionate increase in establishment charges.

As regards 'interest on Capital' in respect of loans drawn from the State Bank of India for their purchase/procurement operations nearly half the amount employed in procurement operation is drawn from the State Bank of India for which the rate of interest paid is $7\frac{1}{4}$ per cent which is much higher than the rate of interest adopted by the Food Department when the foodgrains transactions were handled by them."

1.51. The Committee asked how the correctness of consumer subsidy to be reimbursed to the Corporation was verified at present. The Secretary, Department of Food stated, "They (the Food Corporation) are functioning on behalf of the Central Government and the State Governments. But we subsidise the consumer only in regard to the Central purchases. A procedure has been adopted. There are two elements, one is about the quantity and the other about the price. So far as the quantity is concerned, the Auditors of the Food Corporation of India are required to certify after giving RR-wise and item-wise details of the despatches to the State Governments." The witness added, "So, far as price differential is concerned, their accounts are audited and the economic cost is worked out on the basis of the margin allowed. In that we associate Chief Accounts Officer of the Government of India, Ministry of Finance and we ourselves also scrutinise them and on that basis we sanction subsidy."

1.52. As regards his certifying the Government accounts in so far as they relate to the re-imbusement of consumer subsidy to the Food Corporation of India, the Comptroller and Auditor-General said ". . . The Food Corporation is not under my audit. The Ministry of Food comes within the purview of my audit and therefore, the kind of check which I can make with regard to correctness or otherwise of the subsidy, whether it relates to the price proper or the incidentals, can be based only on such audited certificates which I can get from the FCI through the Chartered Accountants. To that extent my responsibility is very limited and I must make it clear that I do not take full responsibility for certifying to the correctness of the subsidy. I have really no idea of the price at which the Corporation has been buying and the price at which it is selling. Those documents I am not in a position to call for. . . ."

The C.&A.G. further added: "The position of the Food Corporation is this. They ask me to recommend some auditors and I recommend auditor and they appoint him. But as for certain other public sector concerns, I am not in a position to give directives to their auditors. If I were in a position to give directions, then I can ask him to allocate incidentals, as between the Government purchases proper State Government purchases and other purchases. Till now, I have not got any kind of details. So I have only got to go generally on the basis of the certificates when available as given saying that so much are the incidentals. I cannot go into the details."

1.53. The Committee wanted to know why the Food Corporation was excluded from the purview of CAG's audit. The witness deposed, "At the time in 1965 when the Food Corporation came into being it was submitted to Parliament that transactions of the Food Corporation were of a commercial nature involving procurement and selling of goods on a large scale basis. It was felt that the audit should be by commercial auditors and that the Auditors should be nominated by the Comptroller and Auditor-General. Now in the light of the Joint Select Committee's Report it should be possible to decide what other control should be exercised."

1.54. With regard to the power of the C&AG to audit the accounts of the Food Corporation of India, the Joint Committee on the Comptroller and Auditor-General's (Duties, power and conditions of service) Bill, 1969 (which has lapsed consequent on the dissolution of the Fourth Lok Sabha) have in their report made the following recommendation:

"Under the existing law, accounts of the Food Corporation of India are to be audited by Chartered Accountants who are duly qualified to act as auditors of companies under the Companies Act, 1956. Such auditors are appointed annually from a panel of auditors approved by the Central Government on the advice of the C&AG. There is no provision in the Food Corporation's Act 1964 for the audit of the accounts by the C&AG. Considering the fact that substantial sums from the consolidated Fund of India have been invested in the Food Corporation, the Committee feel that a specific provision should be made in the Act empowering the C&AG to conduct, at least, a supplementary or test audit of the accounts of the FCI as in the case of a Government Company. The new clause 20 has been inserted accordingly. The Committee

would like to observe that if necessary steps are taken by the Government to get the Food Corporations Act, 1964 amended to provide for an audit by the Comptroller and Auditor General of India of the accounts of the Corporation, this new clause may be dropped."

1.55. The Committee find that besides substantial investments by Government in the Food Corporation of India, consumer subsidy of the order of Rs. 25 to 30 crores initially borne by the Corporation, is reimbursed to them by Government every year. The Comptroller and Auditor General is at the present not responsible for the audit of the accounts of the Corporation and consequently he is not in a position to certify the accounts of Government in so far as they relate to the consumer subsidy reimbursed to the Corporation without reservation. When the Department of Food was handling the import/procurement storage and distribution of foodgrains, the Comptroller and Auditor General was auditing the transactions and as the nature of the operations has not materially changed since their transfer to the Food Corporation, the Committee feel that the Food Corporation should be brought within the purview of audit by the Comptroller and Auditor General as already recommended by the Joint Committee on the C.A.G.'s (Duties, Powers and Conditions of Service) Bill, 1969.

1.56. The Committee are concerned to note that the incidental expenses have gone up very much since the work relating to procurement, storage and distribution of food grains has been transferred to Food Corporation. The extent of this steep rise would be clear from the figures relating to the following two important components of incidental expenses. The transit and storage loss which worked out to Rs. 2.00 per tonne in 1967-68 increased to 95 paise in 1969-70. Expenditure on establishment which was Rs. 4.40 per tonne went up to Rs. 13.50 in 1969-70. In view of the large amount of consumer subsidy reimbursed to Food Corporation which includes the incidental expenses incurred, the Committee consider that there should be stricter scrutiny of the reasonableness of the expenses and the correctness of their allocation to the transactions on behalf of Central Government. The Committee need hardly stress that with the gain of experience and the advantage of handling even larger quantities of foodgrains, the incidental expenses incurred by the Corporation per tonne, should progressively come down. Government who ultimately bear the burden of these charges should ensure that the Corporation effect necessary economies in their operations. The Committee suggest that the Food Corporation of India should investigate the reasons for the steep rise in transit and storage losses and take necessary remedial measures.

CHAPTER II

MINISTRY OF SUPPLY

DIRECTORATE GENERAL OF SUPPLIES AND DISPOSALS

Delay in finalisation of rates and in settlement of discrepancies in supplies

Audit Paragraph

2.1. For supply of spares of jeeps, estimated to cost Rs. 57.47 lakhs, the Director General, Supplies and Disposals, placed four acceptances of tender on firm 'A' during 1948 to 1950. The rates provided in the acceptances of tender were provisional and final prices were to be determined on the basis of actual f.o.b. price (ex-U.S.A.) plus various other elements such as insurance, freight, customs duty, etc.

2.2. The consignee who received the stores between January 1950 and 1952, for which Rs. 51.97 lakhs had been paid (as advance payments) for three out of the fourth contracts (advance paid for the fourth contract not known) as per the terms of these contracts, noticed considerable discrepancies in the supplies. The discrepancies were brought to the notice of the the firm and the matter remained long under correspondence between the consignee and the firm. Agreed lists showing the quantities received/accepted by the consignee duly signed by the firm were finally sent to the consignee in November 1964 and June 1966 and from these lists the consignee prepared claims separately for each acceptance of tender showing the value of items not supplied and of discrepancies in the spares supplied, and sent them to the Pay and Accounts Officer. (The consignee had accepted certain spares not covered by the acceptances of tender). The latter withheld (February 1967) a sum of Rs. 11.56 lakhs representing the cost of spares received short/damaged (based on the provisional rates shown in two contracts and on prices of similar spares in the other two contracts) from the bills of the firm. The firm disputed the recovery on the ground that the amendments based on the final lists had not been issued by the Director General, Supplies and Disposals, and any adjustments could be made from only the final bills to be submitted by it. The consignee also asked the Directorate to finalise the following before any recoveries were made.

(i) Issue of amendment letters to the acceptances of tender as per lists agreed to by the firm.

(ii) Determination of final prices based on the terms and conditions of each contract as certain elements on account of freight, customs, etc., had to be added to the amount of the bills.

(iii) Scrutiny to the final bills to be prepared and submitted by the firm.

2.3. Although seventeen years have passed, the final prices of each contract and the amount to be actually recovered from the firm (on the basis of rates to be finalised) have not been determined so far (January 1970).

2.4. According to the contracts, the firm was to be paid 90 per cent of the value of the spares in advance on production of shipping documents and the balance 10 per cent on production of inspection notes duly received by the consignee. The firm which had received 90 per cent advance payment against the contracts has not so far submitted the bills for the balance 10 per cent payment. It is not known whether all the stores for which advance payments had been made, have been received by the consignee.

2.5. The case was reported to Government in September, 1969. Government stated (January 1970) that the supplies relate to 1948—1950, considerable amount of detailed work would have to be done in order to know how things stand and that it was proposed to hold shortly a meeting with the representatives of the consignee and the Pay and Accounts Officer to clarify the data and to decide on the course of action to be taken in the matter.

[Paragraph 59, Audit Report (Civil) 1970]

2.6. The details of the four acceptances of tenders placed on firm 'A' for the supply of spares for jeeps are as follows:

S. No.	A/T No.	Date	Amount (provisional) (Rs. in lakhs.)
1.	113	14-4-48	3.95
2.	416	8-8-49	32.15
3.	603	8-2-50	17.55
4.	788	2-8-50	3.82
TOTAL :			57.47

2.7. The Committee were informed that advance payments aggregating Rs. 51.97 lakhs were made against S. No. 2 to 4 as indicated below:

A/T No.	Date of payment	Amount (Rs. in lakhs)
416	April '50 to August '50	31.45
	February, 1962 (Sales tax)	1.82
603	April '50 to December '50	14.63
	February '62 to March '62 (Sales Tax)	0.80
788	January '51 to May '51	3.08
	May, 1962 (Sales Tax)	0.19
	TOTAL :	51.97

2.8. As regards the advance payment on the fourth contract, the details of which were not made available to Audit, the Secretary, Ministry of Supply stated during evidence that payment register was located subsequently and added:—"It consists of two parts. The first part was the supply of engine assembly and the other one was for spares. So far as engine assembly is concerned, advance payment of Rs. 1,22,379 was made and final payment of Rs. 13,591 was also made. So far as spares are concerned, 90 per cent of the total amount i.e. Rs. 4,12,740 has been paid to the firm." "This was the firm price contract and there was no question of finalising it because payment had to be made on the price which was agreed finally before the A.T. was placed."

2.9. Asked about the mode of delivery of the goods, the witness deposed: "The position was that these were f.o.r. contracts. The firm was responsible for clearing the goods on arrival from the port. when the parcels arrived, there was visual inspection to find out whether the crates were intact or whether there was any damage to the crates. Then those crates which were passed by inspection were taken by the firm to their warehouses. Afterwards these crates were opened by the firm in their own premises where the inspection was carried out by the Defence Inspectorate. Then, these spares were packed in boxes and they were sent to the COD by rail route."

2.10. During evidence the Committee pointed out that as a special case the firm was allowed to submit 90 per cent bills against shipping.

documents. Explaining how this was allowed on f.o.r. contracts (the witness said: "The position is like this. M/s. . . . were the sole suppliers of jeeps and the spares. Since they were importing spares from their principal in the U.S.A., the payment to the principal had got to be made on shipment. So far as F.O.B. contracts are concerned, we made 90 per cent payment on production of shipping documents. Even 100 per cent payment is made as soon as the goods are placed on board the ship. But the fact was that the firm had to make payment to their principal and there was no source of supply, we had to accept this term."

2.11. The discrepancies noticed were on account of supply of certain spares which were not applicable to jeeps in service and deficiencies of stores supplied. The Committee wanted to know how discrepancies occurred despite inspection prior to the despatch of goods by rail. The witness stated: "The inspection. . . . was done at the premises of the firm. Afterwards, the crates were left in the custody of the firm and they were supposed to repack for despatch. So, either the firm while repacking did not put the spares as were required to be sent or during the transit because of faulty packing, there was damage to the boxes which was discovered after the wagons were received and the boxes opened by the consignee."

2.12. Asked whether there could have been damage during transit by rail, the witness ruled out such a possibility saying that each crate on arrival at the railway station and on inspection was found to be intact. He attributed damages to faulty packing. According to a representative of Ministry of Defence there were cases where the goods had been kept with the firm for four or five months before despatch. Some stores had gone rusty while packing. Some delicate things had been put under the heavy things which caused damage.

2.13. The Committee wanted to know the nature of the 'superficial inspection carried out at the port of entry. The witness explained: ". that is only to find out whether there is any outward evidence of damage being caused to spare parts. It was in accordance with the agreement with the firm that if the crates were found to be damaged the Government will not be responsible. The other inspection is carried out at the firm's premises. That is done by the Inspectorate of Defence."

2.14. As regards the inspection at the firm's premises, a representative of Ministry of Defence stated: "The firm offered the stores to they sent the inspection notes. It was on the basis of these inspection they sent the inspection notes. It was on the basis of these inspection notes we checked the stores when the stores came to Department..

In this case, the inspection at the firm's end may not be 100 per cent because we take a sample from the quantity and it is also again the firm which repacks and there are cases when the goods have been kept with them for 4 or 5 months and then only got despatched. So, there was a necessity for re-inspection. This is done at the consignee end by a technical man."

2.15. The Committee wanted to know how spares which were not applicable to jeeps in service were supplied and accepted. The Additional Secretary, Ministry of Defence deposed: "This model of jeep we did not have when the indent was placed. We did not have the actual knowledge of its use or detailed idea of its parts. When we introduce a new model, we get the manufacturers' recommendations. When the manufacturers' recommendations are received, with reference to the technical knowledge which is available in the Army in their electrical and mechanical, engineering corps, they look into these items broadly. The main thing is to see whether the manufacturers are not passing on items which are costly but which are not fast moving. Secondly, what they see is that the scale which has been put in is in line with similar equipment that we have. They broadly see to it. On the basis of that, the orders were placed on this occasion. This is based on the recommendation of M/s..... who in turn must have got the data from their U.S. collaborator. When these indents were placed it was copied from the information which was furnished by M/s..... Now, at the time these indents were placed neither Army Head Quarters nor the DGS&D were aware that these items are not the items for this model..... When these were received and the technical officers had a look and came to the conclusion excepting the three items the rest of the items could not be put to use."

2.16. Asked to indicate the details of these spare parts, the representative from the Ministry of Defence stated that there were 59 such items (cost Rs. 1,81,649.98) out of which only three costing about Rs. 600 were utilised on an earlier model of jeep and the remaining 56 items were returned.

2.17. In a note submitted to the Committee, the Ministry intimated the value of short supplies A/T-wise as follows:

A/T No.	Value in Rs
113	62,502. 20
416	3,50,141. 55
603	5,55,177. 86
788	1,87,952. 23
TOTAL	11,55,773. 84

“The above amount, shown A/T wise, also includes repair and de-rusting charges incurred by the consignee. The above amounts for recovery were estimated by the consignee without taking into account the effect of the Customs duty increase allowed to the firm in respect of A/T 416 and 603. Taking the element of customs duty into account, the total recovery made already amounts to Rs. 14,57,504.84.”

2.18. During evidence the Committee were informed that the first time that Government came to know of the discrepancies was in May, 1958. The Committee pointed out that the consignments were received from 1950 onwards. The Secretary, Ministry of Supply stated that unless the inspection report was received the DGS&D would not know. He added: “But many times it does happen that the consignees do not report.”

2.19. Asked whether no discrepancy was noticed in 1950, and 1951 a representative of Ministry of Defence said: “.when a discrepancy is noticed, it is reported straight to the consignor. When the consignor refuses to accept it, then only it comes to the Army Headquarters and, in this case, when the Depot had failed to get discrepancy accepted by the consignors, the Department then reported the matter to Army Headquarters in May, 1958.” He added: “The stores started arriving from 30th November, 1950. We got them on 30th November, 1950, 17th December, 1950 and so on. We took on charge within two days of the stores coming in and raised the Discrepancy Report to the consignor. It was after correspondence with them that it came to the Army Headquarters. Otherwise, we had written various letters to the firm in 1950 and 1951 itself.”

2.20. The Committee wanted to know the reasons for the delay in reporting the discrepancies noticed by the consignee. The witness said: “If we had received certain things in 1950-51 and if it had taken us about a year and half to report to DGS&D regarding the discrepancies, I would say there was no delay. But I would like to point out the method by which we avoid reporting to the DGS&D small matters.every time there was discrepancy.the representatives of the firm were asked to come and see for themselves the supplies. There was a detailed examination in November, 1958. Between 1951-52, we had about a dozen letters exchanged. After that there had been a number of joint inspections. It appears unfortunate that the individual who came from the firm would, even though accept that the things were sub-standard, yet was not prepared to commit himself at the spot. So he would go back and there would be certain period of time that would elapse. Ultimately, in January, 1953, there was another joint investigation which took place. So since

the end of the year 1952 or early 1953, there has been a process of trying to reconcile the discrepancy and also there was a process of C.O.D. reporting to the Army Headquarters and the Army Headquarters going to DGS&D."

2.21. The Committee were informed that as late as in August, 1959 some additional list of discrepancies were sent by the consignee to the firm.

2.22. According to the Secretary, bulk of the supplies were made by the firm between 1950 and 1952 and a part of supplies were also made in 1954 and 1955.

2.23. The Ministry in a note submitted in August, 1970, indicated the position in regard to finalisation of rates as follows:

"The firm were approached on 15.7.1967 to submit their finalisation proposals expeditiously. They had been silent notwithstanding the fact that an amount of Rs. 11.55 lakhs was withheld by the Pay & Accounts Officer, Ministry of Supply, New Delhi. They were last reminded on 7-8-70 to submit their proposals.

Meetings were also held with the representatives of CP &AO on 12.3.70 and 3.7.70 to ascertain the availability of documents submitted by the firm alongwith their 90 per cent bills. In the meeting held on 12.3.70, the representatives of P&AO had brought payment registers in respect of A/T Nos. 416, 603 and 788 only. As regards the Shipping documents, the representative of P&AO informed that they would try to trace out the same from the old records. In the second meeting, the representative of P&AO informed that the firm had submitted only bills of entry alongwith the 90 per cent bills and that the same has already been destroyed being very old. The firm has again been expedited to submit the finalisation proposals."

2.24. Asked whether the provisional prices are always less than the final prices, the Secretary, Ministry of Supply stated that the prices might be less or more. The conditions governing the determination of final prices as given in A/T No. 788 were as follows:

"The prices accepted are provisional and subject to final adjustments on receipt of C. I. F. prices from you. Final prices payable against this A/T would be determined as under:

- (a) F. O. B. prices at actuals.
- (b) Freight at actuals.

- (c) Customs duty at actuals.
- (d) Handling and clearing charges at 2½ per cent of a, b and c for this purpose custom duty to be taken at old rate and not new rate.
- (e) Profit at 10 per cent on pre-devaluation landed cost. In the landed cost the old custom duty to be taken into account and not the revised duty.
- (f) The above basis has been agreed to on the assurance that the FOB prices to be indicated in the invoice should be the net prices and would include no over-riding commission due to you as Agents of the Manufacturers in India.

Regarding Auditors certificate to Factory Dollar Price, Government would be prepared to accept certificate signed by the Executive Head of Sales Department of Factory to the effect that dollar prices taken into consideration by you are the same as those which were in force during June/July, 1949."

There were similar provisions in A/T No. 603 also. Asked as to what check was possible to verify that the assurance given in terms of clause 'f' above regarding FOB prices indicated in the invoice was correct, the Secretary, Ministry of Supply stated: "At the moment, unless we receive the invoices it is very difficult to say."

2.25. The firm got 90 per cent payment even in respect of those parts which were returned to them and parts which were not supplied by them. The recovery of Rs. 14 lakhs was made only in 1967 after a lapse of over 15 years.

2.26. The Committee enquired how the documents were destroyed when the provisional payments had not been finalised. The Chief Pay and Accounts Officer, explained the circumstances: 90 per cent of the payment was made by the P&AO, New Delhi in 1950. The payment vouchers, which are treated as debit vouchers after payment, are bundled into a lot of 200.....and preserved in the Pay and Accounts Office. The period of preservation is 7 years. But there is a provision in the rule that at regular intervals, the records can be weeded out for purposes of destruction and the bundles should be reviewed to see which are the vouchers which are provisional. In 1962, the debit bundles were reviewed but it has happened that the debit vouchers relating to these 4A/Ts have been destroyed."

2.27. Asked why the officers concerned did not satisfy themselves that no action was pending before destruction, the witness stated:

"There are huge records in the Pay and Accounts Office collected over a period of ten years, and in reviewing, it is possible that some of the vouchers on which provisional payments have been made and which are bundled along with other vouchers may escape review and might come under destruction."

2.28. Explaining the preventive measures taken by the Ministry, the witness continued: "In 1962, another review was conducted in order to make suitable safeguards so that at the time of destruction of records this thing does not occur. Then orders were issued that at the end of the month in which the payment is made, the provisional payment vouchers should be segregated right from the start. That is the present position. But, I must honestly admit that that is also not proving satisfactory. Now, we have under consideration the question of establishing a separate section which should deal with provisional payments so that all records relating to that section do not come under destruction till they are no longer required."

2.29. Asked on what basis Government would finalise the prices, the Secretary, Ministry of Supply stated: "We have got the payments register and the firm will have to produce the relevant documents before the case is finalised. They have been asked to do so. And they are making a search and are hoping to produce the necessary vouchers and other documents within a reasonable time."

2.30. In the light of the Supreme Courts decision dated 18.1.1966, no sales tax was leviable in these cases as the sale took place in the course of import of goods. However, sales tax amounting to Rs. 2.81 lakhs was allowed in three of these cases in 1962. The Ministry in a note explained the circumstances under which sales tax was allowed and why recovery of the amount was shelved:

"The stores were imported and as such no sales tax is leviable. However, the sales tax was claimed by the firm as the Sales Tax Officer, Bombay assessed the firm on the basis that the sales made by the firm were not in the course of import into India and that the sales took place in Bombay and hence attracted Bombay sales tax. Although the firm filed a writ petition against the assessment, the contention of the firm was not upheld by the Bombay High Court. Hence, on a request by the firm for sales tax and on the advice of the Ministry of Law, sales tax was allowed. However, the question of recovery was again reviewed in consultation with the Ministry of Law who opined that 'it is clear that the view expressed by this Ministry in this case on earlier occasion was based on the law as then understood. In view of what I have said in para supra, it is not possible

to reopen the case either by asking the firm to file another writ petition or a suit challenging the decision of the Bombay High Court dated 9th December, 1961' In view of this advice, recovery of sales tax already allowed to firm was shelved."

2.31. Advance payments amounting to Rs. 49.16 lakhs were made in 1950 and 1951. During evidence the Committee pointed out that as shortages and damages were noticed on receipt of the goods, the claim of the firm in respect of sales tax, although payable could have been withheld pending settlement of discrepancies and final payments to the firm which would have got expedited. The Secretary, Ministry of Supply agreed that it could have been withheld.

2.32. To an enquiry as to whether the firm was not keen on finalisation of the bills having received payments already more than what was due, the Secretary, Ministry of Supply stated: "I had my own doubts. I confess, it occurred to me also; how is it that the firm is not coming forward for 10 per cent payment. It could be said one way or the other. The firm.....is afterall a well-known firm. They are the only suppliers of jeeps. And to Defence all the supplies are made by them. We have also withheld large sums are due to them, running to about 40 lakhs of rupees." He added that the dues amounting to Rs. 40 lakhs were withheld in respect of some other contracts for which the firm was pressing.

2.33. According to the witness the unusual delay of 20 years in finalisation of this case was due to delay in inspection and other controversies that arose. He informed the Committee that the firm was approached last on 4th August, 1970. To the earlier letters there was no response. After a representative of the firm was sent for a letter was received in which the firm said:

"This has reference to the meeting held in your office on 21st August, 1970. The consignee, COD, Dehu Road, reported damages, discrepancies and shortages in the parts eventually received by him. These did not tally with our record. In spite of best efforts of the COD, Dehu Road and ourselves, these discrepancies and short receipts could not be reconciled till much later.

During 1964-65 agreed lists of parts received by the COD Dehu Road were prepared, signed by both parties and forwarded to the DGS&D by COD, Dehu Road. On the basis of these lists, the Chief Pay and Accounts Officer recovered a sum of Rs. 11,55,777.84 from our pending bills. This recovery

should not have been made without amendments being issued to the A/Ts. in question.

We have also received letter dated 8.8.70 from DGS&D intimating us that he has decided to recover a further sum of Rs. 3,01,773.13 in respect of A/T No. SV-191054/603, and SV-1/87950/416 above referred. At our meeting we requested you not to effect this additional recovery till the quantities on A/Ts. are first finalised.

We are endeavouring to locate our old records with a view to submitting our proposals for finalisation of prices in respect of these A/Ts.

Our claim for parts damaged in respect of supplies against two A/Ts, where insurance was undertaken by Government is also pending with you. This claim amounts to approximately Rs. 2,500,000.

We assure you that if on submission of our finalisation proposals and on settlement of insurance claims, any amount is found due to the Government from us, we will have no hesitation in refunding the amount to you. On the other hand, we expect that if any amount is due to us, this will be paid to us promptly."

2.34. The Ministry subsequently intimated in November, 1970 that some proposals regarding the finalisation of the prices were received from the firm on 15th October, 1970 and that these were under examination by the DGS&D. The Ministry further intimated in April 71 that the proposals were still under consideration.

2.35. In a note submitted to the Committee in November, 1970, the Ministry intimated upto-date number of cases of provisional payments awaiting finalisation as follows:

"The Chief Pay and Accounts Officer intimated on 26-9-1970 that the total number of cases awaiting finalisation as on 1-8-1970 in the books of the four Pay and Accounts Offices was 1315. Office-wise break-up of the figure is:

New Delhi	455
Calcutta	396
Bombay	499
Madras	15
	<u>1315</u>

The Chief Pay and Accounts Officer has also stated that he is not able to furnish year-wise payment position in respect of these cases. He has explained that prior to April, 1968 the amounts paid against each contract were not noted in the prescribed register through which finalisation of the rates was watched. Even now, only the total amount paid against a contract is noted. Even if special efforts are made to collect the wear-wise figures from the relevant payment registers and vouchers, it would involve a good deal of labour and time, which it is felt, may not be commensurate with the results."

2.36. The Ministry also intimated that there were 6 more cases relating to firm 'A', the details of which are given below:

Year.	Amount of provisional payment made (Rs. in lakhs.)
1965-66	6.53
1966-67	4.03
1967-68	1.57
1969-70	0.32
1970-71	0.30
	12.75

2.37. During evidence the Committee were informed that ordinarily it took three to four months after the supplies had been completed to finalise provisional payments. Explaining the delay in such cases, the Secretary, Ministry of Supply, said: "It might have happened because the firm was very busy with the other things and so they did not take interest. We went into it and found that this is not quite satisfactory. We have now issued Office Order No. 98 in which we have prescribed a drill and have said that this will form part of the tender enquiry itself. We have also said that if the suppliers do not submit all the documents within a period of six months after the supplies have been completed, then the Purchase Officer will proceed to finalise the case on the basis of whatever documents might have been furnished originally, and it will not be open to the

suppliers later on to ask for a revision of the price upwards on the basis of fresh documents which they would like to produce. We have taken the additional precautions in the sense that the Purchase Officer will make a reference to the India Supply Mission, London and Washington if it is a F.O.B. contract and to the Excise/Customs authorities to find out the variations in excise/customs duty and also to the Iron and Steel Controller to find out the issue price of steel. That exercise has to be carried out in order to make sure that there is no downward revision in customs duty or in steel prices and as a result the firm does not get any unintended benefit. Instructions have been issued now that the case will be finalised within six months and within that period, the party has to get the documents. This is going to form part of the tender enquiry."

2.38. Asked whether it could be that the firms concerned had already received payments more than what were due, the witness continued: "About this, I am not in a position to say anything at the moment because this picture will become clear only after the cases are finalised. But, I would admit that whatever suspicion you have the same sort of doubt arose in my mind as well, as the firm did not come forward for several years for the balance of 10 per cent. payment. All that we could do was to send for the representatives of the firm and ask him as to why they had not come forward for a balance of payments. I asked them: Is it because you have really got more than what you are entitled to? Your finalisation of payment is delayed. Why don't you produce the documents? Let us finalise'. As I said the picture will become clear only afterwards."

2.39. The Committee are distressed to find that final prices of jeep spares purchased on payment of advance of Rs. 49.16 lakhs in the year 1950-51 based on provisional prices, have not as yet been determined although 20 years have elapsed. In the meantime, sales tax amounting to Rs. 2.81 lakhs was also paid in 1962. That the firm had not come up with the claim for the payment of the balance should not have held up the finalisation of prices as possibility of the firm having received already in excess of amounts due could not be ruled out. The Committee would like it to be investigated as to why pending settlement of discrepancies final prices could not be determined promptly on receipt of the consignments.

2.40. The Committee note that advance payments to the extent of 90 per cent of the provisional prices were made on production of shipping document as a special case in spite of the fact that the con-

tract was an f.o.r. contract. There was no inspection of stores prior to shipment and there was only a 'superficial' inspection at the port of entry. Even the inspection at the firm's premises appears to have been limited to a test check. As there were heavy shortages amounting to Rs. 14.58 lakhs reported on receipt of stores at the consignee's end, the Committee would like to be assured that there was no short import of spares. If there was no short import, the Committee would suggest that Government might examine whether there was any mis-utilisation of import licence and foreign exchange allowed to the firm. If, however, the entire quantity had been imported it should be investigated as to how the quantity short received by the consignee was otherwise disposed of by the firm.

2.41. A part of the supplies was made by the firm in 1954 and 1955 although advance payments were made for the entire quantity four years earlier on the basis of shipping documents. The reasons for the delayed supply and the value thereof may be intimated to the Committee.

2.42. The value of shortages was recovered between 1967 and 1970. Since the firm had retained extra payment to the extent of Rs. 14.58 lakhs for 16 to 20 years, it was understandable that they did not come up with the proposals for the finalisation of the bill. The Committee would like to know why the sum of Rs. 2.81 lakhs representing sales tax paid in 1962 could not be withheld pending settlement of firm's bill as heavy shortages had by then been reported by the consignee.

2.43. There were undue delays in detecting the discrepancies and reporting them to Government. The discrepancies were noticed even as late as in August, 1959. The Ministry came to know of the discrepancies for the first time in 1952. It took nearly 14 years to come to an agreement in regard to the extent of discrepancies. The Committee take a serious notice of these delays. They desire that responsibility should be fixed for delays at various stages and in future Government should ensure that discrepancies are reported to the supplying firm DGS & D/PAO by the consignees within a reasonable time in order to avoid complications and delays in settling the dues payable to or recoverable from the contracting firms.

2.44. The Committee are disturbed to find that there is no fool-proof system as yet in the office of the PAO to ensure that docu-

ments relating to cases pending finalisation do not come in for destruction prematurely. The Committee would urge Government to attend to this lacuna forthwith and devise a fool-proof procedure in this regard.

2.45. Although in this case payment vouchers and related documents pertaining to all the 4 A/Ts had been destroyed, the Committee were informed that the claims would be finalised on the basis of documents to be produced by the firm. The Committee would like to know the results of the examination of the firm's proposals stated to have been received on 15th October, 1970 with particular reference to the fact whether any amount is recoverable from the firm finally.

2.46. The Committee would like to refer to a couple of other interesting features of these contracts:

- (1) One of the special conditions of the contracts specified that the basis for the finalisation of prices had been agreed to "on the assurance that the F.O.B. prices to be indicated in the invoice should be the net prices and would include no overriding commission due to (the firm) as agents of the manufacturers in India." The manner in which it is proposed to verify the correctness of the assurance given may be intimated to the Committee.
- (2) The inspection of stores on arrival in India was inadequate. Further after the inspection the stores were allowed to remain in the custody of the firm pending repacking and despatch by rail, which took considerable time. The Committee would like to know how such arrangements were agreed to and whether such practices are still followed.

2.47. The Committee are concerned to find that, as on 1st August, 1970, there were as many as 1315 cases where provisional payments had been made, awaiting finalisation. The amount involved and the year-wise break-up are not known as the relevant registers are not maintained properly. Details of six more cases relating to firm 'A' made available however reveal that these date back to 1965-66 involving a sum of Rs. 12.75 lakhs. While the Committee note that Government have laid down a procedure for the speedy finalisation of such cases in future, they would urge that the pending cases should be reviewed on the basis of available data to find out whether

overpayments have been made to the firms and to settle them at an early date. The results of the review may be intimated to the Committee.

2.48. The Committee would also like the procedure regarding maintenance of the records in PAO's offices/purchase directorate to be streamlined to bring out up-to-date position in respect of all pending cases. It is surprising that the Ministry were able to locate the Payment Register and the original A.T. No. 113 of the Fourth Contract only 2/3 days before the official witnesses appeared before the Committee.

2.49. On the whole the Committee could not but come to the conclusion that a rather unusual contract was entered into with firm 'A' which was also not processed with care. There has been a perceptible lack of sense of expedition and prudence. The whole transaction was marked by an absence of effective coordination among the consignee department, purchase directorate and the Pay and Accounts Office. Nothing short of a thorough probe into all the factors that were responsible for this state of affairs would meet the requirements, the Committee have in view. Based on the findings, the entire system of procurement of spares from abroad through private firms should be overhauled to safeguard the financial interests of Government.

Delay in recovery of dues

Audit Paragraph

2.50. A review of the records of the Pay and Accounts Officer, New Delhi, showed that against dues assessed upto 31st March, 1969 the Director General, Supplies and Disposals, has not been able so far (September 1969) to recover Rs. 1.55 crores from the suppliers as shown below: —

Period during which dues were assessed.	Amount (in lakhs of Rs.)
Prior to 1st April 1965	35.41
1965-66	6.42
1966-67	9.46
1967-68	36.13
1968-69	67.25

2.51. These dues are mostly extra cost in repurchase recoverable from defaulting suppliers and also include recoveries on the following accounts:—

- (i) Rs. 17.97 lakhs on accounts of sales tax recoverable on imported stores paid to firms 'A' and 'B' during the period October, 1954 to February, 1967 (firm 'A' alone owes Rs. 17.27 lakhs).
- (ii) Rs. 7.93 lakhs on account of stores short-received/rejected/ received in damaged condition.
- (iii) Rs. 2.69 lakhs found to be overpaid to firm 'C' in 1955 on finalisation of provisional prices.

2.52. For item (i) above, firm 'A' on whom notices were served in December 1968 obtained a stay order from the court; the stay order was received in the Pay and Accounts Office in January, 1969. Recovery from firm 'B' is pending settlement of the dispute by the firm which claimed that some of stores supplied included indigenous ones. In the meantime payment of the balance 10 per cent bills to that firm has been withhold.

2.53. The Ministry stated (January 1970) that this involves a review of about 200 contracts against which recoveries, some of which relate to orders of 1950-51, are to be effected and that considering the number of contracts involved, calculation and consolidation, reply will take quite some time.

[Paragraph 66, Audit Report (Civil), 1970].

2.54. The Ministry furnished the following statement indicating the analysis of the items pending recovery:

S. No.	Categories.	No. of cases.	Value (Rs. in lakhs.)
1	Cases under litigation arbitration.	64	68.41
2	Cases in which awards have been given and closed.	11	70.15
3	Cases in which recoveries have been effected waived written off & closed.	21	6.79
4	Cases in which action to effect recoveries has been initiated is being taken.	76	20.56
5	Cases with S.P.E.	3	2.33
6	Cases in which action is yet to be intimated by Purchase Dte. which have been destroyed not traceable/DGS&D not concerned.	45	23.77
7	Cases in which miscellaneous actions to settle certain matters between the firm and the consignee etc. is being taken.	13	7.26
TOTAL		233	152.57

2.55. As regards the recovery effected subsequent to September, 1969, the Ministry had intimated: "The Chief Pay and Accounts Officer has intimated that a sum of Rs. 3.93 lakhs has actually been recovered out of the total amount of Rs. 1.55 crores. He has also stated that so far as his office is aware, recovery to the extent of Rs. 2.94 lakhs has since been withdrawn, due to settlement of objections raised by consignees/purchase officers, etc."

2.56. Referring to Serial No. 3 of the statement furnished by the Ministry, the Committee wanted to know the details and the circumstances under which recovery of dues was written off. In a note submitted to the Committee, the Ministry explained a case of write off involving Rs. 7471/- as follows:

"A/T No. STI/25599-F/1395/IV, dated 18-12-56 with M/s....

2.57. The above A/T was placed for the supply of 3660 cft. of Chir Sleepers 2nd Class by 31-1-57. As the firm failed to supply the stores by the stipulated delivery date, the contract was cancelled at their risk and expense on 1-4-57.

2.58. In order to make repurchase of cancelled quantity, the demand was advertised and a result of quotations received from trade, an order was placed elsewhere on 29-6-57 incurring an extra amount of Rs. 8301.34, demand for which was placed on the firm on 27-12-57. The firm neither deposited the said amount nor could it be recovered from any of their pending bills.

2.59. After ascertaining the financial position of the firm, the case was ultimately referred to arbitration by the Government on 3-2-60, but in the letter of reference to arbitration the claim was inadvertently shown as Rs. 830.34 through a typographical error. The Sole Arbitrator heard the parties and after deliberations gave an award on 5-4-63 for Rs. 830.34 only in favour of the Government even though the amount claimed in the statement of claim was Rs. 8301.34. The Government was also awarded Rs. 50/- as cost of arbitration proceedings. The award was accepted on the advice of Ministry of Law and it was got converted into a decree through the court. The decretal amount of Rs. 880.34 was recovered from the firm out of the decree for Rs. 2,10,119/- passed in their favour against another A/T.

2.60. Ministry of Law advised that no suit for the balance amount of Rs. 7471/- would lie for the recovery of the claim dismissed by the Sole Arbitrator. DGS&D were, therefore, left with

no other alternative but to write off the loss of Rs. 7471/-. Ministry of Defence were accordingly approached for writing off of the loss of Rs. 7471/- and write off sanction for the same was issued by them on 25-4-69."

2.61. During evidence the Committee were informed that the latest position was that number of cases in which action had already been initiated for recovery was 45 involving Rs. 17.21 lakhs.

2.62. Drawing attention to Serial No. 6 of the statement furnished by the Ministry, the Committee wanted to know the number of cases in which the relevant files had been destroyed and that in which the files were not traceable. The DGS & D stated that the numbers were 2 and 10 respectively. As per the information furnished, these cases involved recoveries of Rs. 12,800/- and Rs. 1,99,956/- respectively.

2.63. At the instance of the Committee, the Ministry indicated how the two files were destroyed when action was pending on them, in a note which is reproduced below:

"File relating to A/T No. STI|4628-F|1197|II, dated 14-1-1957 placed on Messrs.....was sent to the Record Room, after review, on 29-3-60 indicating the date of destruction as, after 31st December, 1964.

The file relating to Acceptance of Tender No. SX-2/19847-B/III/83 dated 23-10.1951 placed on Messrs.....was similarly sent to the Record Room, after review, in 1962 indicating the date of destruction as after 31st December, 1966.

No instructions were recorded on the files that they should be referred back for further review before actual destruction. In the circumstances they were destroyed as per the instructions contained in Office Order No. A-12|37(4)|58, dated 2-2-59.

In some cases, while recording the files, the officers concerned indicate that before the files are actually destroyed, they should be referred back to the Section concerned for review. Such cases are sent to the concerned officers for review before actual destruction."

2.64. Explaining during evidence the procedural lacuna in the matter of destruction of record, the DGS&D stated: "The statement (of recoveries due) which we receive from the Chief Accounts

Officer is in instalments. The statement he sends today might concern a period of two years. It is not a statement from beginning to end. Either there should be a register in his office which is continued from beginning to end or there should be a corresponding register in my office from beginning to end and every time a record is destroyed there should be a reference made to the register, that is there. That we will have to introduce. I confess that there is a loophole. I don't deny it."

2.65. The Committee then drew attention of the DGS&D to the mention made in the Audit para regarding the recovery of sales tax paid to firms 'A' and 'B' on imported stores. The witness stated: "I will first mention about firm 'A'. Sales tax was payable under the terms of the rate contract and sales-tax was paid to them in the light of the legal position as understood then. On 18th January, 1966, the Hon. Supreme Court held that these were transactions in the course of import and sales-tax was not payable on them. The Law Ministry also advised that whatever sales-tax we had paid to the suppliers in similar transactions since the promulgation of the Constitution of India was recoverable. Therefore, we started giving notices to the parties calling upon them to refund the amount and this firm 'A' is one such party and instructions were also sent to the Chief Pay and Accounts Officer to recover these amounts from whatever bills were to be paid to them. He recovered a part of the amount. Meanwhile, the firm moved the Hon'ble High Court, Bombay and obtained a writ. The amount recovered was refunded and no further amounts were to be recovered until the writ petition had been disposed of. The case is still pending. There are 58 writs on the same subject moved in different High Courts."

2.66. The Chief Pay and Accounts Officer added that the total amount that was to be recovered from firm 'A' was Rs. 49.01 lakhs. A sum of Rs. 31.74 lakhs was recovered leaving a balance of Rs. 17.27 lakhs. As a result of the High Court order dated 16-1-1969 a sum of Rs. 16.41 lakhs recovered after that date had to be refunded. The amount recovered prior to 16-1-1969 was not refunded. The amount (Rs. 17.27 lakhs) given in the Audit para did not include the amount (Rs. 16.41 lakhs) recovered and refunded following High Court order.

2.67. As regards the dues of Rs. 70,000/- from firm 'B', the DGS&D stated that the amount was not recoverable as it related to sales-tax in respect of indigenous items and components supplied by the firm and that the case had been settled.

2.68. The break-up of the amount of Rs. 7.93 lakhs recoverable on account of stores short received/rejected/received in damaged condition as furnished by the Ministry is as follows:

	Amount Rs.
(a) Short receipt	1,28,950.33
(b) Rejections	4,82,786.55
(c) Received in damaged condition.	1,81,748.55
	<u>7,93,485.43</u>

N.B.: The amount of Rs. 2.94 lakhs since withdrawn on account of settlement of objections etc. would be reduced from the total of Rs. 7.93 lakhs."

2.69. Regarding the overpayment of Rs. 2.69 lakhs made to firm 'C', the witness stated during evidence; "This was a case of import of spare parts. There was a provisional price. The firm was to be paid ultimately on the basis of c.i.f. price at actual, freight at actual, insurance and profits. The A/T provided for price on the basis of invoice from the principals which the firm had produced. But then the case was to be finalised. The firm did not produce the documents. On the basis of our enquiries about the prices prevailing in London and the rates of customs then prevailing, we concluded that the amount recoverable was 2.69 lakhs; the firm had included customs duty @ 13½ per cent but at the time of import the rate was 7½ per cent. The amount recoverable from the firm is Rs. 2.69 lakhs."

2.70. The Committee were informed that the overpayment was mainly on account of difference in customs duty. The Secretary, Ministry of Supply said: "Payment is made as soon as the goods are shipped and on production of document. At that time one does not know what the customs duty is. It may go up or come down. The position becomes clear at the time of finalisation."

2.71. Asked whether the customs rates could not be verified before making 90 per cent advance payments, the Secretary admitted that normally customs rates were not verified before making advance payments and the DGS&D added that "the Ministry have now taken up the matter with the Central Board of Excise and Customs."

2.72. The Audit para mentions the dues assessed upto 31st March, 1969 but not recovered, in so far as Headquarters Office of

DGS&D at Delhi was concerned. The overall position including the Branch Offices at Bombay, Calcutta and Madras was stated to be as follows:

Office	Amount pending recovery.
	(Rs. in crores.)
Headquarters (Delhi)	1.55
Calcutta.	1.35
Bombay	0.43
Madras.	1.62
TOTAL	4.95

2.73. The position as on 30th June, 1970 was that 5465 cases involving Rs. 6.07 crores were pending recovery of dues.

2.74. At the instance of the Committee, the Ministry furnished the details of the outstanding cases involving amounts of Rs. 50,000 and above in respect of all the offices indicating the latest position which are reproduced in Appendix IV. The following is the year-wise break-up of the cases:

Year in which A/Ts were placed	No. of cases	Amount of recovery pending.
		Rs.
Prior to 1950 (1-4-50)	5	10,07,142.54
1950-55	10	67,26,519.24
1955-60	12	15,64,242.33
1960-65	53	79,22,795.98
1965-66	28	86,36,584.52
1966-67	28	53,14,211.51
1967-68	17	31,71,586.21
1968-69	24	28,85,266.91
1969-70	1	51,857.80
TOTAL	178	372,83,207.04

2.75. The category-wise break-up of the cases is as given below:

Category	No of cases.	Amount Rs.
Liquidated damages	2	1,60,852.55
Price Variation	7	9,21,523.63
Shortage of stores.	26	40,96,526.42
Risk purchase	98	160,92,651.78
Others	45	160,11,652.66
TOTAL	178	372,83,207.04

2.76. Asked to indicate the number of cases in which the dues were likely to become bad debts due to the whereabouts of the firms being not known or the firms having gone into liquidation or for other reasons. The Ministry intimated that there were three such cases involving Rs. 2,46,880.53.

2.77. According to the information furnished by the Ministry, the number of cases of recoveries of and above the value of Rs. 50,000 where action is yet to be initiated is 60 involving Rs. 1.35 crores.

2.78. The Committee are concerned to find that upto 31st March, 1969 dues recoverable in various accounts from the suppliers amounted to Rs. 4.95 crores. The position as on 30th June, 1970 was that 5465 cases involving Rs. 6.07 crores were pending. From the details of cases of recovery of and above Rs. 50,000 upto 31st March, 1969 furnished by the Ministry, it is found that some of them are pending for over 20 years now and that one case relates to the period as far back as 1944-45. As some of these are likely to become bad debts due to efflux of time or otherwise, the Committee need hardly stress that appropriate steps should be taken forthwith to realise the dues early and that in future there should be a systematic review of such cases periodically. The Committee desire that the action taken in this regard and the progress made in the recovery may be intimated to them.

2.79. In 60 cases involving Rs. 1.35 crores, Government have not as yet come to any decision regarding recovery of the dues. Inordinate delays have occurred in obtaining legal opinion and in initiating arbitration proceedings or filing suits in courts. In a number of cases the relevant purchase files are not traceable. All these present a rather disquieting picture. The Committee would therefore

urge Government to review all these cases and to take suitable action on the basis of the findings.

2.80. The Committee have earlier in this report referred to the need for the speedy finalisation of cases of provisional payments which may throw up further cases of recovery. There may also be cases of non-fulfillment of contracts, delayed or defective supplies etc. in respect of which recoveries are yet to be assessed. The Committee would suggest an early review of all such cases with a view to assessing and realising the dues at an early date. For the future, the DGS&D should evolve a control system by which, progress of finalisation of such cases is watched by senior officers periodically.

2.81. It is surprising that in one case owing to a typographical error that went uncorrected Government could not claim a sum of Rs. 7471 which had to be written off. Failure to detect the typographical error in the letter of reference to arbitration is simply inexcusable. In two other cases the relevant files were destroyed as no instructions had been given at the time of sending them to the Record Room, that they should be reviewed further before actual destruction. The Committee would like to know whether disciplinary action was taken to fix responsibility for the lapses in these three cases and delinquent officials suitably punished.

2.82. During evidence the Committee were informed that there were 58 writ petitions pending before different High Courts regarding recovery of sales tax paid prior to 1966 on transactions which were in the course of import. The Committee would like to know the outcome of these writs.

2.83. The Committee note that on finalisation of provisional payments made to firm 'C' for import of certain spare parts, it was found that overpayments to the extent of Rs. 2.94 lakhs had been made mainly on account of the fact that the rate of customs duty was not verified. It is stated that the Ministry have now taken up the question of verification of rates before making provisional payments with the Central Board of Excise and Customs. The Committee would like Government to evolve a procedure in this regard early.

Purchase of jersey pullovers

Audit Paragraph:

2.84. For supply of 14,000 jersey pullovers the Director General, Supplies and Disposals, placed in October, 1966 on firm 'A' an acceptance of tender. The delivery period provided in the contract was as under:—

"3,000 Nos. in the 1st month and thereafter 4,000 Nos. per month and completion of order by 28th February, 1967".

2.85. The contract also stipulated assistance by Government for procurement of nylon tops. The Textile Commissioner who was requested on 10th October, 1966 to issue necessary nylon to the firm actually issued release order on 15th March, 1967 i.e. after expiry of the stipulated period of delivery. Although the firm which received the supply of nylon tops by the end of April, 1967 had been requesting the Director General, Supplies and Disposals, to extend the delivery period, no action was taken by the Directorate General till August, 1967 when, without consulting the indenter, the delivery period was extended to 15th December, 1967 subject, however, to levy of liquidated damages for the delay in supply after expiry of original contract period. The firm supplied the pullovers in instalments between September, 1967 and January, 1968—the last three instalments having been supplied after expiry of the extended delivery period.

2.86. In view of urgency the indenter (Director of Ordnance Services, Army Headquarters, New Delhi) had in the meantime purchased pullovers direct from the market at a higher rate resulting in extra expenditure of Rs. 0.85 lakh. The extra expenditure was considered to be not recoverable from firm 'A' because the corresponding quantity had not been cancelled from his contract. The question of levying token damages equivalent to 10 per cent of the liquidated damages (assessed at 2 per cent) was referred by the Directorate to the Department of Supply which held that "in view of legal advice that Section 73 of the Indian Contract Act specifically says that compensation for breach is not to be given for any remote or indirect loss or damages sustained by reason of the breach and in the circumstances it would not appear to be possible to recover the difference between the price paid by the indenter on a direct purchase and the contract price in the form of liquidated damages, the potential loss of Rs. 0.85 lakh suffered by the indenter would not be recoverable either as liquidated or general damages." The department, however, observed that in view of the large loss, liquidated damages on the delayed supplies (including those supplied after expiry of the extended delivery period) should be recovered in full.

2.87. The Director General, Supplies and Disposals, however, levied Rs. 3,104 only as token liquidated damages on the ground that taking into account the prevailing market price during the delivery period the extra expenditure to the indenter should have

been only Rs. 1,449 (as against Rs. 0.85 lakh extra paid by the indenter for local purchases).

[Paragraph 62, Audit Report (Civil), 1970]

2.88. The Ministry intimated the rates at which firm 'A' was to supply the jerseys and the rates at which local purchase was made by the indenter (Ministry of Defence). The extra expenditure incurred works out to Rs. 0.85 lakh as follows:

Size	Qty. Ordered	A/T rate (Obtained in Oct., 1966)	Rate paid by the I.O. (Dec., 66)	Difference in rates	Extra Expenditure
		Rs.	Rs.	Rs.	Rs.
1.	800	17.83	23.75	5.92	0.05
2.	4125	18.48	24.50	6.02	0.25
3.	9075	19.18	25.25	6.07	0.55
			TOTAL	.	0.85

2.89. It was further intimated that "the Ministry of Defence placed supply orders (for local purchase) on 26 firms of Ludhiana on 31st December, 1966 for the supply of a total quantity of one lakh nos. jerseys. The delivery stipulated in these 26 supply orders provided for the commencement of supplies within seven days and the completion thereafter by 16th February, 1967. Out of a total quantity of one lakh Nos. ordered, 95,214 Nos. were accepted as on 15th February, 1967 and the balance 4,786 Nos. were rejected and the supply orders were treated as complete."

2.90. During evidence the Committee pointed out that according to audit para, orders were placed on firm 'A' in October, 1966 for supply of 14,000 jerseys only. The DGS & D explained: "It was not a case of our having placed an A. T. with one firm; it was a continuous requirement that was coming and ultimately on the 10th October, we had placed an order for 2,31,100 jerseys on 25 different firms... and the supplies were to be made over a period of two to four months, but the supplies unfortunately were not made and they were faced with a situation in which a decision had to be taken to make a local purchase."

2.91. The details of the orders placed on the 25 firms on 10th October, 1966 as furnished by the Ministry of Supply in a note submitted to the Committee, are as follows:

Size	Quantity Ordered	Rate Rs.
1.	4,000	17.82
2.	1,72,650	18.48 to 18.80
3.	54,450	19.18
TOTAL	<u>2,31,100</u>	

2.92. Indents were received by the DGS & D in June, 1964 from the Ministry of Defence for meeting the requirements during the period October, 1964 to September, 1966. The Committee wanted to know during evidence the reasons for the delay of over two years in placing orders. The witness deposed: "In June, 1964, there were three indents but the total quantity covered by them was about 7,39,850 of pullovers jersey. An Advertised Tender Enquiry was issued from the next month and a quantity of 2,97,400 numbers was covered on one of the firms. . . . the Tender Enquiry had revealed that there was one offer which was based only on the indigenous product. The offer of the firm was approved by the A.H.S.P. We, therefore, ordered only on that firm. At that point of time nobody offered to do that.

2.93. So far as the rest of the quantity was concerned, the matter was taken up with them. It was put to them that the rest of the quantity was to be covered by the mixture of nylon. For the imported nylon, they would have to obtain the necessary foreign exchange. So, a letter was sent to them; several reminders were also issued. It was not possible for them to arrange for the foreign exchange. Until the foreign exchange was arranged, it was not possible for the DGS & D to place orders for the remaining quantity. In the meanwhile, they changed the specifications. Their requirements had also been changed. And ultimately, fresh tender enquiries were issued. The Textile Commissioner very kindly agreed to release the nylon. . . . the orders were placed in October, 1966. In these two years, there was a lot of correspondence. . . . we wrote several letters to the Ministry of Defence and to the Textile Commissioner."

2.94. A chronological statement of action taken by the DGS & D to meet the requirements of Defence furnished by the Ministry of

Supply at the instance of the Committee is reproduced at Appendix V.

2.95. The Committee pointed out that the delivery period of the contract expired only on 28th February, 1967 and that the indenter made local purchase within the delivery period i.e. in January-February, 1967. The Director General Supplies and Disposals stated: "We placed the A.T. on the 10th October, but no supplies were forthcoming. One of the conditions in the A/T was that nylon was to be released by the Textile Commissioner and the nylon was not released till March, 1967. Another thing was that drill was supplied on the slips issued by the Textile Commissioner and the necessary slip was issued in the month of August. No supplies were actually forthcoming after the 10th October, even though the supplier had said that he would complete the supplies by 28th February, 1967." He added: "The indenter had put in several indents and the order was placed with several firms also but since the supplies were not forthcoming, they were faced with acute shortage and they decided to make the purchase on their own."

2.96. The Committee were informed that in 1966 there were accumulated stocks of nylon. Referring to the delay in the issue of nylon, the Committee enquired how it took 5 months. The Textile Commissioner explained: "The pattern of assistance established upto that date was to release nylon only to the authorised spinners and not to the contracting hosiery firms. In this case, for the first time, the A/T was to issue nylon to the contractors and not to the spinners. We had, therefore, to make a reference. There was a correspondence between the DGS & D and the Ministry of Commerce. The Textile Commissioner also made a reference to the Ministry of Commerce in view of this changed type of A/T. On that subsequently, we received instructions from the Ministry of Commerce that the nylon can be issued only to the authorised spinners and all these contractors were required to nominate the authorised spinners. The contractors were a little slow in doing so."

2.97. Explaining why nylon was released only to the spinners, the Textile Commissioner went on to say: "The reason is this yarn is made out of a blend of wool and nylon. If we give nylon to the contractor, it would be of no use to him. It is necessarily to be given to a person who will mix nylon with wool and then the whole thing comes into the yarn. Only then the yarn is put into the hosiery machine to make jerseys. Therefore, it goes to the authorised spinners."

2.98. Asked whether the DGS & D did not know the policy in regard to release of nylon and whether he did not think it necessary to check up with the Textile Commissioner before entering into contracts, the DGS & D replied: "A perusal of the file does not show whether this subject was considered by the officers then dealing with the case." The Textile Commissioner added that the contract was entered into on 10th October, 1966 and that "the problem of not giving or changing the policy was taken up and discussed between the two Ministries and we were able to sort out by December, that it was not possible to change the procedure. Immediately thereafter we told the firms that they must nominate the spinners and they were not agreeable to nominate spinners. They wanted nylon directly. They took their own time. That is the cause of two months delay. In this particular matter the period is only three months and two months were taken by the party refusing to fall in line."

2.99. Referring to the evidence given by the Textile Commissioner that "the pattern of assistance established upto that date was to release nylon only to the authorised spinners and not to the Contracting Firms "and that" in this case for the first time the A/T was to issue nylon to the contractors and not to the spinners, the Committee enquired whether, in contracts for the supply of jersey pull-overs entered into in the past by the DGS & D, provision was made for release of nylon to the authorised spinners in accordance with the policy. The Ministry, in their reply, stated that in the earlier contracts placed on firms on "with assistance basis", the following clause had been stipulated:

"The Textile Commissioner, Bombay will make arrangements for the supply of yarn required for the manufacture of the above store."

"The Nylon was being released to the authorised spinners in accordance with the policy."

2.100. During evidence the Committee enquired whether the indenter made local purchase from firm 'A' also at higher rates. The witness confirmed that it was so. In a note subsequently submitted to the Committee the Ministry intimated that 23 out of 26 firms who were holding contracts during the period also supplied jerseys against

local purchase made by the indenter. The total quantity supplied by them, the local purchase rate and the contract rates are as follows:

Size No.	Qty. supplied against local purchase	Local purchase rate	
		Rs.	Rs.
1.	18,789	23.75	17.83
2.	45,906	24.50	18.48 and 18.80
3.	12,929	25.25	19.18
4.	10,267	26.00	No contract concluded.
TOTAL	87,891		

2.101. During evidence the Committee were informed that the indenter made local purchase on 'without assistance' basis i.e. without any obligation for releasing nylon. The Committee pointed out that the indenter had paid about Rs. 6 extra per jersey and enquired whether it was only due to the fact that no assistance in regard to nylon was given to the supplier. The witness stated: "There were a number of factors; not merely this. Factor No. 1 is, we had placed orders for jerseys which were to be supplied with a mixture of only 10 percent nylon and wool; while when they went in for the local purchase, they raised percentage of nylon from 10 to 15 percent and nylon costs more than wool. That was No. 1.

The other factor was that they wanted the suppliers to meet an emergent situation. Ordinarily, when we invite tenders, we give a period of 39 days for them to quote and then we ask for supplies over a period of four months. But they asked for supplies within two months—during the months of January and February.

Now, considering that a larger percentage of nylon had to be provided and considering, also, that the supply had to be made in a very much shorter time, the market had gone up and the prices were higher.

2.102. The Committee wanted to know whether the indenter informed the DGS & D that he was going in for local purchase. The DGS & D said: "On the 16th December, a meeting was held in the room of the Additional Secretary, Defence and a decision was taken as the file shows, to make a purchase of a lakh of jerseys at that

time." The Additional Secretary, Ministry of Defence added: "Winter was coming and the Chief of the Army Staff was naturally in great difficulty. So we had a discussion with the Director General of Supplies and Disposals. We tried to find out to what extent there is a possibility of getting immediately one lakh of jerseys and pullovers which were immediately required for that winter. We found, by various discussions that there was no chance of getting anything through the DGS & D contract."

2.103. Asked whether a representative of the DGS & D was also present during the meeting held on 16th December, 1966, the Ministry intimated that the then Additional Director General and Director of Supplies attended the meeting. A copy of the minutes of the meeting furnished by the Ministry, is reproduced at Appendix VI.

2.104. To a question whether the DGS & D considered the possibility of inviting tenders for supply of jerseys without assistance for nylon the DGS & D replied: "On 10th October, when we placed orders nylon was available and the people made offers without assistance but their price was 50 paise per jersey inore."

2.105. In a note, the Ministry intimated as follows: "Tenders were again invited on 28th November, 1966 and opened on 20th December, 1966 on with as well as without assistance basis and the following rates were received:

<i>Rates with assistance basis</i>	<i>Rates with assistance basis</i>
1. Rs. 18.20 to Rs. 22.95	Rs. 14.55 to Rs. 22.65
2. Rs. 19.55 to Rs. 23.95	Rs. 15.25 to Rs. 23.40
3. Rs. 19.55 to Rs. 24.95	Rs. 14.68 to Rs. 24.20
4. Rs. 19.55 to Rs. 25.95	Rs. 15.38 to Rs. 24.95

The tenders were, however, scrapped later on."

2.106. As regards levy of damages for the delayed supply of jerseys under the contract placed on firm 'A', the witness stated: "As there was delay in making supplies we levied liquidated damages. They came to the amount of Rs. 3104|-. In the meanwhile, we had made two other purchases at a lower price during the currency of the contract. There was a downward trend and we had to sustain a loss because there was a fixed rate. The instructions that we have issued are that the liquidated damages that are imposed on the firm should cover the loss that we have to sustain because of the downward trend. The liquidated damages are Rs. 3104|- and the loss we had to sustain is Rs. 1449|-. So the liquidated damages covered the loss because of the downward trend in the prices."

2.107 Explaining how the token liquidated damages and the extra expenditure were assessed by the DGS & D as Rs. 3,104 and Rs. 1,449 respectively, the Ministry of Supply furnished the following note:

"Liquidated damages have been worked out at the rate of 2 percent per month on delayed supplies. As the release order for nylon was issued on 15-3-1967 and the firm received the nylon tops by the end of April, 1967 the delivery period was reckoned from 1st May, 1967 for the purpose of computation of liquidated damages. The liquidated damages on the basis of treating the contract as 'severable' contract and taking into account the delay in intermediary instalments, worked out to Rs. 31,035.16.

According to the instructions, in cases where the indentors make local purchase to meet their immediate requirements without cancellation of the corresponding quantities from the A/Ts placed by the DGS & D, the extra expenditure so incurred by them, cannot be treated as 'loss' for purposes of imposition of liquidated damages. The extent of such extra cost that is recoverable in such cases will be token damages equivalent to 10 per cent of the liquidated damages assessed at the rate of 2 per cent provided the firms are responsible for the delay. Ministry of Law, who were also consulted in the matter, advised that it would not appear to be possible to recover the difference between the price paid by the indenter on direct purchase and the contracted price either in the form of liquidated damages or by way of general damages. As such it was decided to recover 10 per cent of the total liquidated damages assessed at the rate of 2 per cent which worked out to Rs. 3,104/-.

As regards the question as to how the extra expenditure was assessed by the DGS&D as Rs. 1,449/-, the extra expenditure has been computed on the basis of lower trend in the price of stores during the period of delay; the extra expenditure has been worked out on the basis of the contract placed on 15th October, 1967 for deliveries upto 31st December, the date upto which the contract with this firm was extended for delivery.

As regards the lower trend in prices on the basis of which potential loss was calculated it is submitted that two risk purchase contracts were concluded on 25th October, 1967 after cancellation of A/T No. 90 dated 18th October, 1966

placed with M/s.....for a quantity of 14,000 Nos. of jerseys in three sizes. The rates paid against these contracts are compared with the rates paid to firm 'A' as under:

Size	Rates of A/T No. TWOL-1 85	Lower trend as per A/T No. 375 & 376, dt. 25-10-67	Difference
	Rs.	Rs.	Rs.
1.	17.83	17.69	0.14
2.	18.48	18.31	0.17
3.	19.18	19.11	0.07

Potential loss was calculated on the basis of the difference in rates as indicated above."

2.108. During evidence the Committee were informed that there were no annual rate contracts for supply of jerseys to meet Defence requirements. Asked whether it was possible to enter into such contracts, the witness stated: "We can have a better system, that is, running contract. I have explained it to the Additional Secretary, Defence. If they could give up firm indents we would cover their requirements under running contracts and he has agreed to explore the possibility."

2.109. The Committee were informed that in all, local purchases to the extent of 95,214 jersey pullovers were made by the indenter (Ministry of Defence) in January-February, 1967 due to delay in supply by 25 firms—firm 'A' was one of them— which held contracts upto a total quantity of 2,31,100 pullovers during the period. The approximate extra expenditure incurred was thus of the order of Rs. 5.71 lakhs on the basis of the price difference of about Rs. 6 per jersey between the rates of contract and local purchase. The indents placed in 1964 for 7,39,850 pullovers to meet Defence requirements from October 1964 to September, 1966 could not be processed promptly due to a variety of reasons, chief of which was the delay in arranging foreign exchange for the import of nylon tops. The Committee would like to know whether local purchase was resorted to at any other time during the period 1964 to 1966 and if so, the amount of extra expenditure incurred.

2.110. The Committee regret to find that the DGS & D for the first time entered into contracts in October, 1966 with a provision for the release of nylon directly to the contracting hosiery firms although the policy had all along been to release nylon

only to the authorised spinners. This was the main reason for the delay in supply of the pullovers which resulted in considerable extra expenditure. It is strange that the policy as well as the past precedents in the DGS & D's organisation were ignored while entering into the contracts. The Committee would like to know whether responsibility of the officials concerned was fixed for appropriate departmental action.

2.111. The Committee were informed that the extra payments made on local purchase were partly due to the fact that no assistance was given for procurement of nylon. The Committee, however, find that on the 16th December, 1966 there was a meeting held by the Ministry of Defence which was attended by the representative of the DGS & D, in which a decision was taken to go in for local purchase of a lakh of pullovers. Earlier on the 20th November, 1966, the DGS & D had invited tenders on the basis of both with and without assistance for nylon. The orders for local purchase were actually placed on the 31st December, 1966. In the meanwhile tenders were opened by the DGS & D on the 20th December, 1966 which revealed that the lowest prices quoted on without assistance basis were only on an average 50 paise more than the rates of contracts placed in October, 1966. These tenders were, however, scrapped. With a little coordination, the Committee feel that the local purchase at Rs. 6 extra per pullover could have been avoided and extra expenditure to the extent of Rs. 5.24 lakhs saved by taking advantage of the offers received by the DGS & D before the orders for local purchase were placed by the indentor. The Committee would, therefore, like Government to examine how the Ministry of Defence was not kept informed of this vital information regarding invitation and opening of tenders by the DGS & D. Incidentally the Committee wish to observe that no reason was adduced for the local purchase of jerseys with increased nylon content.

2.112. It is revealing to note that out of the total quantity of local purchase of 95,214 pullovers, 87,891 were purchased from 23 out of the 25 firms holding contracts during the period and that they received extra payments amounting to about Rs. 5.27 lakhs. The Committee cannot resist the impression that the firms might have deliberately delayed nominating the spinners to receive the nylon to be released by the Textile Commissioner as by 31st December, 1966, they had procured orders directly from the indentor at higher rates. Government might consider whether under such circumstances it is at all desirable to resort to local purchase at higher rates from the firms holding contracts to supply the same goods.

2.113. Token liquidated damages of Rs. 3104 were levied on firm 'A'. The Committee may be informed of the total amount of damages levied and recovered from all the 25 firms as also the reason why the appropriate quantity of local purchase made was not cancelled from the quantity contracted for with each firm and full liquidated damages recovered.

2.114. The Committee would like Government to come to an early decision with regard to entering into annual rate contracts or running contracts for the supply of jersey pullovers and other such items to meet Defence requirements so that there may not be any occasion in future to go in for large-scale uneconomic local purchase.

Purchase of woollen yarn

Audit Paragraph

2.115. Against an urgent indent received from the Defence Services in December 1967, the Director General, Supplies and Disposals, issued a limited tender enquiry to 15 firms on 15th January 1968. The tenders were opened on 3rd February 1968 and two tenders were received—one of them being a late telegraphic quotation and the other from firm 'A', the quotation of the latter being Rs. 30 per Kg. Because of the increase in the quantity required, from 14,703 Kgs. to 20,328 Kgs., firm 'A' later (March 1968) agreed to reduce its rate to Rs. 29.95 per Kg. A contract for purchase of this quantity was placed on the firm in May, 1968 (total cost Rs. 6.09 lakhs) at Rs. 29.95 per kg., with Government assistance for procurement of 64s carded scoured wool and completion of deliveries of 170.40 Kgs. "after four weeks of receipt of the acceptance of tender and requisite raw material from Government and the balance quantity in four equal monthly instalments."

2.116. Due to prolonged correspondence with the Textile Commissioner and the State Trading Corporation about the availability of carded scoured wool for which Government assistance was to be provided, the import recommendation certificate was issued only in September 1969—sixteen months after issue of the order.

2.117. In March 1968, before the order was placed, firm 'A' had indicated that, in estimating the rates offered by it *viz.*, Rs. 29.95 per kg., it had assumed the c.i.f. value of carded scoured wool as 90 per lb. The firm, however, had to pay only 66d. per lb. at the time of

actual import through the State Trading Corporation resulting in its getting un-intended benefit of Rs. 0.92 lakh (on 23,232 Kgs. of wool for which import recommendation certificate was issued).

[Paragraph 65, Audit Report (Civil), 1970].

2.118. The Committee wanted to know the basis of selection of tenderers for the limited tender enquiry as 13 out of 15 firms to whom tender enquiry was issued did not respond. The Secretary, Ministry of Supply explained. "It is a very difficult item. We found that there was not much response. The firms were not interested in this type of thing. 15 firms were actually on the list of the approved suppliers. Tender enquiries were sent to them. Two responded. Out of this only one was in time and the other tender was late." Asked to indicate the price quoted by the other tenderer, he said it was Rs. 33.48/Kg.

2.119. As regards the reasonableness of price quoted, the witness stated that a comparison was made on the basis of last purchase price and it was considered reasonable as previously a contract at Rs. 33.60 /Kg. was concluded in July, 1967. To a question he added: "In fact the indenter himself had given the estimated cost as Rs. 33.60. Subsequently he revised it to Rs. 20.87. But that was subsequently; and that also for different specification. Ultimately we found that the two were not comparable."

2.120. The Committee pointed out that with the increase in quantity required the firm had offered a price reduction of 5 paise only. The witness stated that it was token reduction and added: "Every effort was made to reduce it but they were not in a position to offer reduction. Since there was only one party and this was the maximum reduction that they offered".

2.121. Thereupon the Committee drew attention of the witness to the unintended benefit derived by the firm to the extent of Rs. 0.92 lakh. The witness admitted that it was a fact and stated further: "When we approached them they (the firm) said that the rate quoted was accepted by us and we are bound by it. The firm said that 18 months had gone by and there was so much of delay in the grant of import licence and import of wool. The cost of production had gone up. Labour charges had gone up and there was not much profit."

2.122. Asked as to how it took 16 months (May, 1968 to September, 1969) to issue import recommendation certificate, the witness

clarified: "So far as the issue of import recommendation certificate is concerned, it did not take 16 months. It took only 7 months. The A/T was placed on 15.5.1968; and the import recommendation certificate was issued on 16th December, 1968. There was only 7 months delay. But the import licence was issued after 16 months." He then explained the delay in the issue of import licence in the following words: "So far as the delay of 16 months is concerned, the position was like this. We had to make a reference to the Textile Commissioner to find out how much wool is required to manufacture this quantity because the firm had asked for import licence for 23,776 Kgs. of wool. Now so far as the c.i.f. value is concerned, we had to go to the State Trading Corporation. There was a lot of delay. We went on reminding them. But the channelisation and all that takes time. Then two months were taken by the Ministry of Finance in giving their clearance in regard to the foreign exchange. All these things took time and even after import licence was issued, the firm again came forward saying that the quantity and the value should be increased. It took another four months."

2.123. As regards the firm's contention that the cost of production had gone up, the witness agreed that it could be examined but pointed out that it was a firm price contract. The Committee understood that according to legal opinion obtained by the Department it was not possible for Government to claim any reduction in the price since the contract did not provide for any price variation *vis-a-vis* the price for the imported raw material.

2.124. The contract was placed on firm 'A' in May, 1968. The firm had intimated in their letter dated 18th March, 1968 the basis of calculation of the rate of Rs. 29.95 per Kg. The Committee desired to know whether the assumed c.i.f. value of carded scoured wool of 90d. per lb. was verified. The witness deposed: "Subsequently we referred the matter to S.T.C. They said that 75 d. will be right. As order had already been placed so there was no question of changing it. This was for the finished product and licence was issued @ 76 d. The quantity was limited."

2.125. In a note furnished to the Committee, the Ministry stated that the price of imported 64s carded scoured wool was intimated by the State Trading Corporation, New Delhi in February, 1969.

2.126. Asked whether Income Tax authorities were informed of the profit made by the firm, witness stated that copies of A/Ts went to them automatically. Asked further whether, apart from routine intimation, a special intimation was not necessary in such cases where

unintended benefit was derived, he said: "In future, we shall do so".

2.127. The Committee note that although the contract entered into with firm 'A' in May, 1968 provided for Government assistance for procurement of 64s carded scoured wool, Government agreed to a firm price for the woollen yarn. It is regrettable that the prevailing c.i.f. value of the carded scoured wool was not verified when the firm indicated earlier in March, 1968 the assumed value thereof, with the result the firm got an unintended benefit to the extent of Rs. 0.92 lakhs due to the price of the wool being actually less. In order to avoid the recurrence of such costly lapses, the Committee would suggest that there should be a system of verifying with the help of agencies like State Trading Corporation, Minerals and Metals Trading Corporation etc., the assumed rate and value of raw materials to be imported with Government assistance.

2.128. The Committee are unhappy to note that it took in all 16 months to issue import licence in this case. The explanations given that delay occurred in ascertaining the quantity required and the value of the wool to be imported and obtaining clearance from Finance in regard to foreign exchange is not at all convincing especially while processing an urgent indent to meet Defence requirements. The Committee consider that the delay in this case was unreasonable and hope that Government would look into the procedural bottlenecks and see that better sense of priority is displayed in future.

2.129. At present only copies of acceptances of Tender are sent to Income-tax authorities in a routine manner. The Committee recommend that in the present and similar cases the income-tax authorities should be specially informed of such unintended profits as have been made in this case to help scrutiny of the relevant tax-returns.

Extra expenditure due to failure to accept tenders within their validity periods.

Audit Paragraph

2.130. Against an advertised tender enquiry, for purchase of tents-flies inner and flies outer, issued by the Director of Supplies (Textiles), Bombay, in July, 1966, tenders received were opened on 1st September, 1966. The offer of firm 'A' at Rs. 153 per unit (f.o.r./delivery free Hathras-including packing charges)—for supply of flies inner was the lowest, while for flies outer the offer of firm 'B' at Rs. 123.75 per unit f.o.r. Kanpur was the lowest. These offers were open

for acceptance till 30th November, 1966. The offers of firms 'A' and 'B' were ignored on the ground that the firms had heavy bookings with them which would keep them busy for four to five months even if they were to complete their existing orders at their rated capacity.

2.131. As prices of other tenderers were considered high it was decided on 16th December, 1966 (after the validity period of the tenders had expired) to conduct negotiations with other tenderers in order to secure economical price/and timely supplies to the indenter. Negotiations were actually conducted on 13th January, 1967 and in the meantime, the prices having gone up the tenderers revised their rates upwards. Without inviting tenders orders were placed on two firms at higher rates. The original and revised rates of firms 'C' and 'D' on whom orders were placed on 31st January, 1967 are shown below:

	Firm 'C'		Firm 'D'	
	Rates originally quoted in the tender.	Rates revised on 13th January, 1967.	Rates originally quoted in the tender	Rates revised on 4th December, 1966.
	(per unit)		(per unit)	
	Rs.	Rs.	Rs.	Rs.
Flies inner	167.00	183.50	169.50	176.00
Flies outer	129.31	141.00	125.50	131.00

2.132. Delay in conducting negotiations with the firms and failure to place orders within the validity period of tenders resulted in placement of orders at higher rates and consequently in extra expenditure of Rs. 2.36 lakhs (Rs. 1.81 lakhs on purchase of 8,700 flies inner and 3,200 flies outer from 'C' and Rs. 0.55 lakh on purchase of 10,000 flies outer from firm 'D').

2.133. The indenter wanted delivery of the stores by 31st March, 1967 but the period of delivery stipulated in the contracts placed with firms 'C' and 'D' was between April, 1967 and July 1967. Stores were actually supplied by firms 'C' and 'D' between September, 1967 and January, 1968. The question of finalising the pre-estimated damages from firms 'C' and 'D' for late delivery of stores is still under consideration (November, 1969).

[Paragraph 69. Audit Report (Civil), 1970]

2.134. During evidence the Committee wanted to know why orders could not be placed on the firms 'C' and 'D' on the basis of

their offers within the validity period. The Secretary, Ministry of Supply stated: "The idea was that since these two lowest tenderers were being ignored because they were already over-loaded, we might be able to bring round the other firms to reduce their prices to the lowest level and efforts were made to do that."

2.135. Asked about the reasons for the delay in conducting negotiations with the firms a representative of the Ministry explained: "The tenders were opened on 1st September, 1966. The initial purchase proposal was put up at the Bombay Office on 21st September, 1966... The file was sent to the DGS &D, New Delhi on 28th September, 1966. It came to the Ministry and was sent back on the 20th October..... the Ministry was to be convinced that there were good reasons for ignoring the lowest offers. The file was (therefore) sent back.....with the question whether firms 'A' and 'B' were actually overloaded. It came back to the Ministry with the requisite information on 8th November. It took 18 days—20th October to 8th November—because the information had to be collected and statements got from Bombay. The file finally came to the Ministry on 17th November, 1966. The file had to be seen by the Under Secretary, the Deputy Secretary, Joint Secretary, Secretary and then the Minister because of the value of the contract. At each stage, every one was to be quite sure that he was acting rightly in ignoring the lowest two tenders. The file went up to the highest level..... Finally it was decided (29th December 1966) that more justification was needed to ignore the lowest tenders. The offer expired on the 30th November. The firms were asked to extend and in the process both these firms increased their rates."

2.136 As regards the necessity for obtaining the orders of the Ministry, the Secretary, Ministry of Supply said: "Under the standing instructions, all cases exceeding Rs 30 lakhs where negotiations are to be resorted to, have to be referred to the Ministry and the Ministry's orders have to be obtained because, the normal practice is that offers will be decided on the basis of the tenders which have been received and no negotiations will be resorted to except in very exceptional circumstances and the reasons for doing so will have to be recorded in writing. That is the procedure. So, therefore, it was necessary that the orders of the Ministry should be obtained."

2.137. The Committee pointed out that the market trend should have been known to determine whether negotiation to reduce the price could be fruitful. The witness deposed: "One must judge according to the circumstances of the case. There are a large number of cases where we have been able to bring down the prices substantially and effect a saving of several lakhs.

Now one has got to exercise one's judgement and take a decision knowingly and deliberately whether it would be justifiable to resort to a certain action or not. Sometimes it does happen that, in the process, prices go up and we may have to pay a little more. But one has to take precautions to see that the interests of Government are safeguarded. Here, the anxiety was that there were two lower offers and to ignore these offers there must be justification

2.138. To a question as to how orders were placed on the firms 'C' and 'D' at higher rates without inviting fresh tenders, the representative of the Ministry stated that a view was taken by the Additional Director General of Supplies which was concurred in by Finance that inviting fresh tenders might result in even higher prices. He confirmed that it was placed on record and continued:

"It was noted by him on the 27th January, 1967 that with regard to textiles the tendency has been to increase the prices all the time and therefore for sometime to come we may have to consider placing orders at whatever prices are available and whatever capacity is available to us; and that, in the circumstances, as the indent period has expired against most of the items, the lowest offer now available on each item may be accepted to the extent that the firm is able to meet the demands. This was the cogent reason given, again seen by Finance, and approved by the Ministry."

2.139. The Committee feel that the delay that occurred in processing this transaction was avoidable. They would urge Government to ensure that the tenders are decided well before the expiry of the offers of the tenderers.

2.140. The Committee strongly feel that in this case the proposal for negotiation was itself not well conceived. It was only subsequently that a view was taken that "with regard to textiles the tendency has been to increase the prices all the time and therefore for sometime to come we may have to consider placing orders at whatever prices are available." The Committee would like to know how this fact was overlooked at the time the tenders were opened.

Extra expenditure due to delayed re-purchase

Audit Paragraph

2.141. On the failure of firm 'A' with which a running contract had been placed by the Director General of Supplies and Disposals

on 24th October 1967, for supply of 11.01 lakhs of two types of key bearing plates the contract was cancelled at that firm's risk and cost.

2.142. For the risk purchase of the stores the Director General, Supplies and Disposals, issued a tender enquiry on 16th March 1968, and 38 tenders were received and opened on 25th April 1968. The offer of the lowest firm for plates of both the types was ignored on the ground that it was beyond the monetary capacity ceiling for placing orders with that firm. Of the remaining firms, the tender of firm 'B' which had in its tender specified delivery schedule as under, was accepted for only one type of plate:—

That not accepted—20,000 plates per month.

That accepted—15,000 plates per month.

2.143. An advance acceptance of tender was placed on this firm on 23rd July 1968, in which the delivery schedule was stipulated "at the rate of 35,000 pieces per month on receipt of order, that is, supply shall be completed by 31st May 1969 or earlier". While accepting the advance acceptance of tender, the firm in its letter dated 31st July 1968 informed the Director General, Supplies Disposals, that it was unable to accept the delivery condition as it was not according to its offer and requested either to alter the despatching period proportionately and extend the delivery period till 30th August, 1970 instead of 31st May 1969 or amend the quantity to 1,80,000 plates to be supplied within 12 months from the date of final acceptance of tender (to be supplied at the rate of 15,000 pieces per month). In the meantime, formal (running) contract was placed on that firm on 6th August 1968. On 10th August 1968 the firm expressed its inability to accept the contract until it was amended as per its letter dated 31st July 1968. On 12th August 1968 the firm asked for increase in the price of plates (because of increase in the price of pig iron by the Joint Plant Committee). The Director General, Supplies and Disposals, informed the firm on 14th|17th August 1968 that the monthly rate of delivery was fixed at 35,000 numbers in accordance with the capacity of the firm and that it should execute the order immediately. On 26th August 1968 the firm intimated that due to its capacity having been fully booked by the acceptance of an order from the Railway Board, it was unable to accept the order for any quantity.

2.144. On 21st September, 1968 the Director General, Supplies and Disposals, amended the delivery period schedule in accordance with the offer of the firm which again expressed its inability to

accept the order for any quantity. On the advice of the Ministry of Law that since the firm had in effect withdrawn its offer by expressing its inability to accept the contract even before the formal (running) contract was issued, there was no concluded contract, the Director General, Supplies and Disposals, cancelled the contract without financial repercussions.

2.145. The plates were repurchased from two other different firms at higher rates as follows:—

	Amount (in lakhs of Rs.)
(i) 30,000 plates ordered on 8th May 1969 on firm 'C' at extra cost of Re. 0.83 each	0.25
(ii) 1,50,000 plates ordered on 8th May 1969 on firm 'D' at extra cost of Re. 0.88 each	1.32

Inclusion, in the acceptance of tender, of delivery terms different from that offered by firm 'B' resulted in extra expenditure of Rs. 1.57 lakhs.

2.146 About recovery of extra expenditure incurred in repurchase of the stores from firm 'A', the Department stated (September 1969) that the firm on being served with a demand notice has contested Government's claim and the matter was under litigation.

2.147. The Ministry stated (January 1970) that the firm had obtained a stay order from High Court against recovery and that as the Department is contesting the stay order for which purpose the connected file has been sent to defence Counsel, the Department is not in a position to offer any comments.

[Paragraph 61, Audit Report (Civil), 1970]

2.148. During evidence the Committee enquired how the delivery schedule was stipulated as 35,000 per month in the advance acceptance of tender placed on firm 'B' against its offer of 15,000 plates. The Director General, Supplies and Disposals stated that taking a strictly legal view the officer who placed the order should have gone exactly by the terms in the tender offer. He, however, added that the firm had mentioned in its tender its capacity as 9,000 tonnes. The capacity had not been spelt out separately for the two types of plates. As the firm had offered 20,000 pieces of one type of plates and 15,000 pieces of the other type the officer had concluded that

it would be prepared to supply 35,000 pieces of one type judging in terms of total capacity and orders were placed accordingly.

2.149. Asked why it was not specifically ascertained whether the firms would be prepared to supply at the rate of 35,000 plates per month, the witness stated: "I accept the proposition that before he placed the order on the basis of the total capacity the officer should have checked the position with the firm. Secondly, the firm wrote to him that they had offered the capacity in the terms of the two items separately; he should have corrected the position. He failed to do that. To that I have no defence....."

2.150. Explaining the context in which the delivery schedule originally fixed was maintained, the witness continued: "Firstly, in those days we were passing through recession and all the Chambers of Commerce were addressing appeals—in all the meetings we had with them they had only one suggestion to make i.e., we should be prepared to consolidate our demands not only for the current year but also for the next two or three years and place the demand on them. Secondly, this firm let the officer know that even though because of the recession they had so much idle capacity yet at that time they had made an offer to the DGS & D, they had also made an offer to the Railway Board and in the meanwhile they had received an order from the Railway Board. It was in the light of that order they wanted to back out."

2.151. In a note submitted to the Committee subsequently, the Ministry intimated the orders placed in July, 1968 by the Railway Board on firm 'B' as follows:

"Railway Board contract No. and date	Description of stores and drawing	Quantity ordered	Rate per tonne	Value
			Rs.	Rs.
68/746/16 Track dated 24-7-68	<i>B. G. Sleepers</i>	9500	369	35,05,500
	T. 4789(M) Alt. 1			
	T. 10221 Alt. 1			
68/746/16(A) Track dated 24-7-68.	<i>M. G. Sleepers (60-R)</i>	5500	404	22,22,000
	T-10257 Alt. 1			
	T-10232 Alt. 1			

It may also be stated that scrap to the extent of 50 per cent of the ordered quantity has been supplied to the firm by the Railway free of cost.

2:152. Asked whether the Railway Board placed orders through the DGS & D, the witness clarified: "They place the orders through

us but there are certain items for which authority has been delegated to them. Cast-iron bearing plates are purchased by us but cast-iron sleepers are purchased by the Railway Board. Some foundaries make both of them." To a question as to how to avoid competition between the Railways and the DGS & D, he added: "I would submit I have already requested the Ministry to have a talk with the Railway Board to surrender the authority given to them. I have just taken up the matter with the Ministry."

2.153. The Committee desired to know the reasons for the failure of the contract placed on firm 'A'. The witness stated: "That is a very sad case. The tenders were invited. The firm was asked to extend the validity of the offer upto 21st July. The order was despatched to the firm on the 20th July. So far as the legal position is known to us the offer had been accepted within the period of validity and, therefore, the contract was concluded. The firm took the position that the offer had reached them on the 22nd July after the validity period was over and according to them, therefore, the contract was not concluded." He added that according to the legal advice, as the offer of the firm was there, the contract was concluded as soon as the order was issued and that if the firm had backed out Government could make the purchase at their risk.

2.154. The Committee pointed out that the lowest tender was passed over while considering risk purchase and wanted to know whether legal opinion was obtained as to its implications on the recovery of the extra cost from the defaulting firm 'A'. The witness read out the legal opinion obtained: "Mr. . . . raised the point whether, while placing an order on the next higher tenderer we can restrict our claim to risk purchase damages as the difference between the contract rate and the rate quoted by this lowest tenderer. To that, the answer is that unless the risk purchase is made, i.e., it materialises we cannot claim risk purchase damages. The only alternative would be to claim general damages for which we can take the rate quoted by the lowest tendered at the market rate as the goods are specially fabricated."

2.155. The original demand as per the contract placed on firm 'A' was for 11.01 lakhs of two types of key bearing plates whereas ultimately only 1.8 lakhs pieces of one type of plate alone were purchased from firms 'C' and 'D'. The Committee desired to know whether the remaining quantity was purchased. The Ministry furnished the details of purchases made as follows:

"The details of the purchases made on account of cancellation of the order on firm 'A' (M/s.) is as follows:

	T. 225	T. 226
Quantity cancelled in Rg./C. No. 144 held by M/s.....	3,51,055	7,50,000
	Nos.	Nos.

Southern Railways having withdrawn their demand against IRS Drg. No. T-225 for 1,40,422 Nos. repurchase was made against this Drg. T-225 for 2,10,633 Nos. only. The details of purchases made are as follows.

	Item—1 (T—225)	Item—2 (T--226)
	Nos.	Nos.
(1) M/s....Rg/C No. 245 dt. 1-8-68	..	4,000
(2) M/s....Rg/C. No. 246 dt. 1-1-68	1,11,633	..
(3) M/s....Rg/C No. 247 dt. 1-8-68	99,000	1,32,000
(4) M/s....Rg/C No. 248 dt. 1-8-68	99,000	1,20,000
(5) M/s....g/C No. 249 dt. 6-8-68	..	1,44,000
(6) M/s....Rg/C No. 250 dt. 5-8-68.	..	3,50,000
TOTAL	2,10,633	7,50,000

The total amount of damages claimed from firm 'A' was Rs. 5.23 lakhs.

2.156. As regards the grounds on which firm 'A' had disputed its liability to pay damages, the witness informed the Committee during evidence that the firm was not taking up the question of delayed receipt of order legally and that it was relying more on other defence. Elaborating further, he said: "We had accepted part of their offer. There were several items in that tender. For certain items, we had accepted their offer, but for certain other items, we had not accepted the same and we asked for extending the validity period. Their plea is that we asked for extending the validity period of offer and we asked for it in respect of all the items, and not in respect of the items which we had not yet covered. And, therefore, they say that the contract is not concluded. But they are not seeking to reply on this that we issued the orders on the 20th, because, so far as the legal opinion that way is concerned, the matter is settled."

2.157. The Ministry intimated in a note the present position of the civil suit filed by firm 'A' against the recovery as given below:

"In the suit filed by firm 'A' it has been held by the Calcutta High Court (Judgement dated 3-6-70) that there was no concluded contract between the parties and, therefore, the prayer of the firm has been upheld. This judgement is being examined."

2.158. During evidence the Committee enquired whether apart from the plea advanced by the firm that there was no concluded contract, it had procured better order from the Railway Board. The Ministry passed on the following information furnished by the Railway Board:

"Orders placed on firm 'A' during 1967-68 :

Railway Board's contract No. and date.	Description of stores and drawing.	Quantity ordered	Rate per tonne	Value
67/746/22 Track dated 23-10-67	<i>B. G. Sleepers.</i>			
	T. 478(M) Alt. 1 } T. 10221 Alt. 1 }	4225	331	13,98,475
67/746/22 (A) Track dated 23-10-67	<i>M. G. Sleepers</i>			
	T. 498(M) Alt. 2 } T. 439(M) Alt. 1 }	4000	370	14,80,000

2.159. The Committee were informed that the delivery schedule was stipulated as 35,000 per month for the type of key bearing plates ordered taking the total capacity of firm 'B' into account. The Committee are at a loss to understand how this mistake was not corrected even after the firm had pointed out that they had offered the capacity in terms of the two types of the plates separately. The Committee hope that such omissions may not occur in future.

2.160. As against the original demand of 11.01 lakhs of two types of key bearing plates, risk purchases were made to the extent of 9.61 lakhs and damages amounting Rs. 5.23 lakhs had been claimed from firm 'A'. The Committee were informed that in a suit filed by the firm against the damages, the Calcutta High Court had held that there was no concluded contract and that the judgement was being examined. The Committee would like to know the outcome of the examination.

2.161. According to the DGS&D firm 'B' finally backed out on account of the orders for the supply of sleepers placed on them by the Railway Board direct and the Committee note that firm 'A' had

also similarly secured orders from the Railway Board. The Committee were given to understand that the cast iron bearing plates are purchased through the DGS & D whereas cast iron sleepers are purchased directly by the Railway Board. As some foundaries make both of them, the Committee recommend that in order to have a coordinated procurement of these railway track items, the purchases should be entrusted to one agency. The Committee would like to be informed of the outcome of the reference made by the DGS&D to Ministry of Supply for taking up the matter with the Railway Board in this connection.

NEW DELHI;

July 8, 1971.

Asadha 17, 1893 (Saka).

ERA SEZHIYAN

Chairman,

Public Accounts Committee.

Appendix I

(Ref. Para 1.16 of the Report)

Ex-L

REGISTERED A.D.

20th April, 1967

JJ/TT

To

The Union of India

Served through and delivered to:—

The Secretary to the Government of India,

Ministry of Food, Agriculture, Community Development and
Cooperation (Deptt. of Food)

New Delhi.

Dear Sirs,

Under instructions and on behalf of our clients M|s P. T. Anklesaria & Co. partnership Firm Registered under the Indian Partnership Act, 1932 and carrying on, *inter alia*, the business of transport and clearing agents and contractors, at Hamam House, Hamam Street, Port, Bombay-1 we have to give you this Notice of suit under section 80 for the Code of Civil Procedure.

Our said clients are a partnership Firm registered under the Indian Partnership Act, 1932, and the present constitution of the said Firm is as under:

Names of Partners.	Description	Residential Address
(i) Phiroms Temulji Anklesaria	• Business	17, Ram Mahal, Dinshaw Wachha Road, Churchgate, Bombay-1.
(ii) Shantilal Mangal Das	• • • Business	"Kum Kum" Peddar Road, ⁴ Bombay-26.

We are instructed by our clients to give you this notice and call upon you which we hereby do, to pay to our clients or to us as Attorneys on their behalf, the sum of Rs. 42,11,688.30 together with interest thereon at the rate of 9 per cent per annum from the date of

this notice. Please take notice that in default of your compliance with the aforesaid demand, our clients will on the expiration of two months next after the receipt hereof by you file a suit against you on the cause of section and for the reliefs mentioned in the draft **Plaint**, which is enclosed herewith and which shall be deemed to form part of this Notice. All the averments, submissions, statements and contentions made in the enclosed draft **Plaint** shall be deemed to be part of this Notice.

Please treat this as Notice under Section 80 of the Code of Civil Procedure.

Yours faithfully,

Encl:—Draft **Plaint**.

Solicitors, High Court, **Bombay**.

[True Copy]

Appendix—II

(Ref Para 1.16 of the Report)

EXHIBIT 'J'

STATEMENT SHOWING CLAIMS OF MESSRS. P. T. ANKLESARIA & COMPANY AGAINST GOVERNMENT

	Rs.
I. Bills of various types due to our clients and not paid us yet by Government.	
1. Bills for casual labour employed on T. T. Wagons	9662. 00
2. Bills for casual labour employed for breaking hardened lumps of bulk Ammonium Sulphate	12052. 00
3. Clearance bills including Sunday guaranteed wages bills.	24087. 56
4. Transport bills not paid.	11058. 71
5. Transport bills not paid in full	46030. 69
6. Bills for clearance of bulk fertiliser not paid in full	371361. 60
	<hr/>
	4,75,147. 56
7. Bills for detention to truck at Government Godowns and Rail heads.	23,83,593. 65
	<hr/>
	28,58,741. 21
II. Total recoveries wrongfully and illegally effected by Government from the various bills of our clients or account of alleged demurrage and other charges:—	
1. Tarpauline Bills.	18,235. 00
2. Petromex Bills	1,311. 75
3. Survey Bills.	14,516. 56
4. Levy Bills	99,863. 37
5. Transport Bills.	3,10,771. 96
6. Clearance & Supp. & Miscellaneous Bills.	5,24,307. 19
	<hr/>
	969,005. 83
	<hr/>
	1,75,874. 40
Remission given	7,93,131. 43
Further recovery made from Supplementary & Miscellaneous Bills.	1,75,874. 40
	<hr/>
Net amount of recovery illegally effected by Government from various bills of the company.	9,69,005. 83
	<hr/>

III. 1. Security Deposit of our clients furnished in the form of 3½% National Plan Bonds	Rs. 2,00,000.00
2. Half yearly interest accrued due on the above mentioned National Plan Bonds from October, 1962 to 15th April 1967 and not paid to our clients	Rs. 34,062.50
3. Compound interest on the above interest amount of Rs. 34,062.50 wrongfully detained by Govt. calculated at the rate of 12% per annum as per notice given to Government from time to time	Rs. 10,295.00
	<u>Rs. 2,44,357.50</u>

SUMMARY:—

28,58,741.21
9,69,006.83
<u>2,44,357.50</u>

40,72,105.54

1,39,582.76 Interest on Rs. 35,67,767.70 @ 2% per annum as per notice dated 14-12-1966 given by M/s. Little & Co. to R-D.(F) Bombay

G. TOTAL :— 42,11,688.30 and copy to D.G. (F) New Delhi.

APPENDIX III

(Ref: Para 1.39 of the Report)

GOVERNMENT OF INDIA

MINISTRY OF FOOD, AGRI., C. D. & COOPERATION
(DEPARTMENT OF FOOD)

Recovery of Differential Cost Consequent upon the revision of issue prices

Government's Reply:

In the Note furnishing interim reply in respect of this item which was forwarded to the Lok Sabha Secretariat with this Department's O.M. No. G/25017/6/70-IF. II dated 6-11-1970, it was stated that the requisite information had been called for from the State Governments.

Replies from some of the State Governments|Union Territories including the West Bengal Government have since been received and are furnished below:—

- (1) *West Bengal*: So far as foodgrains distribution in the State is concerned, the area has been divided as under:—
 - (a) Modified rationing i.e. area outside statutory rationing area.
 - (b) Statutory rationing area.

In regard to Modified Rationing area, provision already exists in the prescribed agreement with the ration dealer (retailer or wholesaler) for recovery in case of upward revision and refund in case of downward revision of issue prices. But in the case of the Statutory rationing area, no such provision in the agreement existed. The State Government issued the West Bengal Rationing (Amendment) Order 1969 providing *inter-alia* for recovery|refund of price differential but a majority of the existing ration dealers in the Statutory rationing area have not executed the agreement because of injunction of the court against Food Corporation of India making recoveries of the difference in cost on the ground that after the sale of foodgrains, the property of the foodgrains had been finally passed on to

the retailers and the Food Corporation of India had no claim for collection of the difference. Efforts are, however, being made by the State Government to make the rationing dealers sign the agreement by extending the time limit from time to time.

(2) *Kerala*: No specific provision exists in the agreement executed by the retail distributors for the recovery of the difference in cost of foodgrains. However, clause 5 of the agreement states that all sums found due to the Government under or by virtue of the agreement shall be recoverable from the dealer. The amounts due are recovered from the retail distributors on the basis of clause 5 of the agreement by executive orders.

(3) *Rajasthan and Union Territory of Pondicherry*: No provision exists in the agreement. Administrative instructions are issued for verification of stocks of foodgrains for recovery of difference.

(4) *Punjab*: Recoveries are made by executive orders. However, Clause 2 of the agreement stipulates that governmental authorities shall in no case be responsible for the disposal or distribution of the entire stocks of wheat|wheat atta|sugar|rice etc., coming into possession of dealers or to make good the loss on account of stocks left unsold or on account of the stocks being sold at a price less than that fixed by Government for distribution.

(5) *Union Territories of Tripura, Goa and Dadar and Nagar Haveli*: Recoveries are made by executive orders. No specific agreement is entered into.

(6) *Nagaland*: There are no fair price shops in Nagaland and wheat is being distributed to millers, stockists and retailers with whom no agreement for recovery in case of revision of issue price exists.

Replies from other State Governments are awaited and will be forwarded as soon as they are received.

This Note has been vetted by Audit.

APPENDIX IV

*Details of Cases of recovery of Rs. 50,000/- and above
(Ref.: Para 2.74 of the Report)*

P&AO NEW DELHI

(A) RISK PURCHASE

S.No.	A.T No. & Date	Amount	Latest position
1	2	3	4
		Rs.	
1	ST-2,25321/1728/dt. 2-6-53	1,22,535.00	The position will be intimated later.
2	ST-1.606/1130 IV dt. 5-9-1955	75,480.00	The position will be furnished later.
3	SR3 1748 dt. 16-6-60	51,993.57	Do.
4	SWLr, 26502 - 8593 dated 22-3-63	99,979.99	Purchase Dte. have stated that the amount of recovery is only Rs. 9979.99. The CP&AO has confirmed that the recovery is Rs. 9979.99 only.
5	SMH-2 - 7900 dt. 18-6-1964	50,102.00	In regard to the assets of the firm, District Magistrate, Aligarh has reported that Shri died long ago, leaving three sons (1) Shri (2) Shri and (3) Shri Mohd-usman. Shri died leaving a widow and 2 minor sons, Shri Mohd. Jabir, aged 16 and Shri Mohamed Muzahid aged 9 Shri is suffering from paralysis. Shri is reported to be ailing in a hospital. They had three houses, one of which was sold to clear the decree of Dubey Ka Padav wala. Now they have two double storeyed houses of estimated value of Rs.- 40,000/-to Rs .45,000/-. The firm does not exist any longer. The above persons are the legal heirs and they are reported to be the owners of the two houses.

			The question whether recovery of Govt. dues can be effected against the above mentioned property will be examined in consultation with the Ministry of Law.
6	STIM-3,88098,2696,III dt. 6-11-63	60,284.47	No recovery has been possible and the case stands referred to Litigation Section for recovery through arbitration.
7	SWL-2,1016,124,1752 dt. 21-11-65	1,28,387.15	Position will be furnished later.
8	Kan,3054,R,V/75 dt. 24-2-65	62,553.39	Risk purchase loss could not be recovered from the firm through the normal departmental channels. As advised by the Ministry of Law, the matter was referred to Arbitration. The Sole Arbitrator issued order sheet on 20-8-70 asking the Respondents to file their documents by 10-9-70 and the hearing of the case will be taken up by the Arbitrator on his next visit to Kanpur of which due information will be given by the Arbitrator to the parties.
9	SWL-1/1116,III,429 dt. 27-2-64	1,71,881.00	Action is being taken to invoke arbitration for the recovery of the amount.
10	SMH-2,27687/RP,PAOD,2,8397 dt. 10-8-65	93,373.00	The main file is still with the SPE. Action to recover the amount can be taken only on receipt back of the file from the SPE.
11	TWL-2,200,8534 dt. 15-3-67	77,125.05	A sum of Rs. 60,697.65 has been recovered from the firm's outstanding bills and security deposit. Action is being taken to recover the balance amount of Rs. 16,427.40 through arbitration.
12	TWL3,1016,158-159A,II,4713,dt. 23-3-65	1,20,535.00	An amount of Rs. 1676/- has been adjusted against the firm's direct supplies to the ICAR, New Delhi and an amount of Rs. 104.23 is available from the firm's 5% outstanding bills pending D/P regularisation. Further action in terms of No. 51 dated 26-3-69 is being taken to ascertain the firm's financial standing etc.
13	SMH-3,2074/045/502 dt. 5-7-65	55,000.00	A demand notice was issued to the firm to deposit the arrears. The firm refused to do so. Before the case is referred to Arbitration, the financial standing of the firm is being ascertained. Action in this regard has been taken by addressing letters to Commissioner of Income-tax, Calcutta, Income Tax Officer, Calcutta and Registrar of Companies, Calcutta. The Registrar of Companies has intimated that no such Company stands registered under the Companies Act in West Bengal. The others have been reminded.

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14 SWL-3 80062P, II/3390 dt. 1-4-63	97,630.00	Although the P&AO was advised to withhold Rs. 97, 630/- approximately, it was ultimately decided in consultation with the Law Ministry and the Indentor that recovery of Rs. 20,000 only which reflected the repair charges plus transport charges, would be sufficient. The P&AO was advised accordingly on 6-6-68 and he confirmed on 7-10-68 that the recovery has been effected.	
15 SV3/81044/P, III/422 dt. 9-8-63	6,14,304.00	The case is in Patna High Court and the next date of hearing is 9-11-70. Recovery will be possible only after the case is decided by the Court.	
16 SWL-2/4517/2347, PAOD dt. 30-12-66	55,511.99	The firm have challenged the Government regarding the validity of risk purchase. The case has been referred to Litigation Section for resorting to Arbitration proceedings.	
17 TWL-4/221/66/023/3253 PAOD dt. 16-4-66	93,523.00	Action has been initiated to ascertain the financial standing of the firm.	
18 Kam/1092/D/KP6/186, PAOD dt. 16-2-68	51,323.00	The firm failed to supply the stores within the contract delivery period. The case was referred to the Ministry of Law for advice if the contract could be cancelled at the risk and cost of the defaulter. The Min. of Law, while advising risk purchase, fixed the date of breach as 31-5-68. As the decision to effect the repurchase could not be arrived at before 12-11-68 risk purchase was not practicable within the remaining period of the 6 months, limit. It was, therefore, decided to recover general damages to the extent of Rs. 51, 323 and a notice to this effect was issued on 20-11-69. The P&AO New Delhi was requested to effect recovery of the general damages. He has intimated that there are no outstanding bills of the firm from which recovery was possible. The case is being referred to the Min. of Law for advice with regard to instituting legal proceedings for the recovery.	
19 TWL-4/1016/160A/17, PAOD dt. 18-5-66	1,72,650.00	} As the amount involved could not be recovered from any of firm's pending bills, the case was referred to arbitration at the instance of indentor (Central Rly). The arbitration was adjourned sine-die till the decision of criminal proceedings against the firm. The SPE Madras has intimated that Special Judge, Poona has delivered judgement and according to the newspaper report the proprietor of the firm has been sentenced to imprisonment and fine. Copy of the judgement is still awaited.	
20 SY-2 2396 dt. 16-7-55	82,441.53		
21 SY-2/225/8 dt. 16-3-56	2,98,038.00		

22	SMH-2, 101/42, 2072/209/1168/ 5-10-65, 11, 8577 dt. 24-12-65	57,096.20	The financial status of the firm is being ascertained. Report regarding the assets of the firm is still awaited from the District Magistrate, Meerut, who was last reminded on 5-10-70.
23	SWL-2, 101, 65, 2321 dt. 10-12-65	67,465.00	No recovery has been possible from the firm and the case stands referred to Litigation Section for further action in the matter.
24	SMH-2, 134, 22A, 29A, 11/ 7994 dt. 26-8-64	1,11,520.00	Report regarding assets of one firm is still awaited from the Distt. Magistrate, Meerut, who was last reminded on 5-10-70.
25	SOPC-5/101/55, 567AA/5807 dt. 7-10-65	52,050.00	Case sent to Litigation Section for necessary action to initiate Arbitration proceeding for the recovery of the amount.
26	SOPC-9, RCC, 7311C/SE, 67-9753 dt. 5-12-67	4,77,617.25	A sum of Rs. 1, 63, 620.25 has been recovered by the P&AO. The firm has filed a suit which is pending in the Calcutta High Court.
27	Bom-77 dt. 20-1-67	1,56,234.00	Only Rs. 1229/- has been recovered so far. As the firm's bills are not forthcoming, P&AO New Delhi is not able to recover the amount. The Deputy Commissioner, Delhi has been addressed on 1-9-70 to furnish the names and addresses of the partners of the firm and financial stability of the firm and its partners. On receipt of reply, further action will be taken.
28	SCAI, 1079, 056A, 65, 311/PAOD dt. 12-1-66.	1,45,000.00	The P&AO New Delhi was asked to withhold payment of Rs. 1,45,000 due from the firm on account of risk purchase. He intimated that a note has been kept in his register and that a sum of Rs. 2478,- had been recovered. Further report from the P&AO is awaited.
29	RC No. TWL-9, RGC/10/7364 7837, 398 dt. 13-2-68	5,23,160.00	The case is under arbitration.
30	TWL-3/101, 62, 1254/289, PAOD dt. 20-8-67	1,10,450.00	The case has been referred to Litigation Section on 29-4-70 for filing a suit in the Hight Court for recovery of the amount.
31	Bom, PTA-290, 698, PAOD dt. 18-6-66	75,271.00	The demand notice dt. 19-5-69 could not be served on the firm as all the registered letters were returned by the Postal Authority saying that firm not available. The demand notice Registered has been served on the firm by DGS&D on 6-8-70. Further developments awaited.
32	Bom, PTA-390/RP/351 dt. 6-4-67	4,98,370.00	
33	TWL-8, Tent Pin Large, RGC/ 7606, II[128, PAOD dt. 27-3-67	10,166.00	Item to be deleted as the amount is less than Rs. 50,000,-. Farlier the amount of recovery was indicated as Rs. 1,01,166,- by the P&AO N. Delhi.

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- 34 Bom/PTA/260/RP/1021RDSD
dt. 6-8-66 1,43,421.00 The firm have filed a suit contesting our claim for risk purchase amount involved in the court of Sub Judge 1st Class, Delhi. The suit has not come up for hearing yet.
- 35 Bom 1326/PAOD dated 24-10-66 5,97,531.32 No further recovery has been effected. The firm issued damage notice through their advocate. As the A/T did not contain Arbitration clause the advocate has been directed to obtain instructions from his clients whether they are agreeable to enter into the Arbitration agreement in respect of A/T vide Director of Supplies (Tex.) Bombay letter No. BOM/PT.1326/PAOD dt. 15-1-70. No reply has yet been received.
- 36 Bom/PA-2/280/RP/999/PAOD
dt. 6-8-66 2,11,615.00 The firm have filed a suit contesting our claim for risk purchase amount involved in the court of Sub Judge, 1st Class, Delhi. The suit has not come up for hearing yet.
- 37 Bom/PT,68/PAOD dt. 21-7-68 63,337.50 The PAO New Delhi has been asked to state the latest position of recovery vide DS (Tex.) Bombay letter No. BOM/PT/868/PAOD dt. 25-8-70. Reply from P&AO is awaited.
- 38 SOPc-5/101/55/842AA/6143 dt.
24-11-65 77,891.00 The case has been sent to Litigation Section for necessary Arbitration proceedings for recovery of the amount.
- 39 SMH-2/-/129 dt. 9-10-67 79,358.00 The question regarding recovery of amount is being examined in consultation with the Ministry of Law.
- 40 ST1/-529 dt.19-2-58 51,869.00 The case file is not readily traceable.
- 41 MDS-53/6877/3/6268 dt.
24-8-68 { 76,516.00 } Pay & Accounts Officer, New Delhi has reported that since no bill is pending against the subject firm, recovery could not be effected so far. Action to go. for
- 42 MDS/53/7751/3/6257 dt.
24-8-68 58,491.12 } Arbitration is being considered, as recovery could not be effected.
- 43 BTX-8 107/52075 5767/74 dt.
23-1-69 3,26,260.04 P&AO New Delhi has been requested to intimate the latest position of recovery.

44	Bom.PT/101/47273,R,76,PAOD dt. 20-1-66	96,602.00	The position will be intimated later.
45	BTX/PA 620/RP/1190,PAOD dt. 4-12-68	1,06,867.40	Postion will be intimated later as the file is not readily available.
46	SM-2/29023/N.I,6962 dated 12-2-1963	1,65,571.51	Position will be intimated later.
47	SA-7/-/211 dt. 16-4-68	2,74,950.00	No recovery is possible in this case as the Law Ministry has opined that Section 7 of the Rajasthan Weights and Measures (Enforcement) Act, 1958 prohibits the use of old units, the contract must be held to be void under the Law.
48	SC1/5603/A,2,2228-29-30 dt. 15-5-51	20,86,158.75	The position will be intimated later.
49	SOPC-2/-/8613 dt 26-11-62	1,26,000.00	The correct A/T No. is 8617 and not 8613 as given in the list. As per the Arbitration award, the A/T has been re-instated and, therefore, no recovery is due. The re-instated A/T No. is 103/62/002/9-4-69/IHI/V/4412,PAOC dt. 18-7-49

PAY & ACCOUNTS OFFICE NEW DELHI

SUPPLEMENTARY LIST OF ITEMS OVER Rs. 50,000/- RISK PURCHASE (A)

50	ST1/25981,C,781 dt.13-1-58	58,370.00	Position will be furnished later.
51	ME-2,501,12,025,PAOD/207 dt. 12-6-1968	64,835.00	Instructions to all P&AOs were issued for recovery of the money against any of the firm's outstanding bills but the same has not been effected so far. Currently the firms are executing a contract No. WMT-1/102,II/281/31-7-69 PAOD 60 dt. 11-5-70 worth Rs. 33,000/- Specific instructions for withholding payment against this contract issued on 7-8-70. Reports regarding financial standing of the firm are being called in accordance with the oo No. 51 dated 26-3-69.
52	SX-2/84831/I/396 dt. 4-2-69 & SX-2/882767/I,410 dated 11-3-49	2,51,867.70	Details of nature of recovery are still awaited from P&AO New Delhi.

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(B) PRICE VARIATION

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|---|--|-------------|--|
| 1 | SM-2/SV1/26243E/IV/D/666 | 2,69,484.00 | The case is under arbitration/Litigation. |
| 2 | SV-3/81044,P/III,591 dated
23-12-63 | 51,088.00 | The case is pending in Poona court and litigation is following it. |

(C) SHORTAGE OF STORES

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|---|---|-------------|--|
| 1 | SW11/10/64/1067/1102 dt.
16-10-65 | 52,862.70 | Case with SPE. |
| 2 | SV3/81080/P/V/344 dated
12-6-63 | 4,17,906.00 | The case is pending in High Court, Delhi and the next hearing has been fixed as 28-9-70 for filing of additional documents and 18-11-70 for evidence. |
| 3 | 101/53/635/C/PAOD, 9165 dt.
16-11-66 | 4,51,709.00 | } Cases are under arbitration. |
| 4 | 101/53/635/8291/PAOD dt.
13-5-66 | 1,75,000.00 | |
| 5 | 202 12/171/19-9-67/3417/PAOD
dt. 26-3-68 | 54,577.00 | Due to certain defects in the machines, the consignee had advised the P&AO to recover whatever amount had been paid to the firm against this contract. We had taken up with the firm or rectification of the defects and it is understood that the firm have reputed their people for rectification of the defects and that they are awaiting certain reports from the consignee on one of the rectified machines. |
| 6 | [ES/106 36/732 I PAOD, 137
dt. 20-5-67 | 1,00,002.20 | In the opinion of the Ministry of Law it appears necessary to find out if it will be possible for the consignee to prove the tenability of rejection and to refer the dispute to arbitration. This is under consideration. |
| 7 | WMT5/107/13/796/III/211
dated 4-12-67 | 2,76,261.75 | The stores had been accepted by our Inspector but certain discrepancies had been notified by the consignee. We had taken up the matter with the Inspection Wing and we have also referred to Ministry of Law to advise whether we can recover from the firm the amount paid to them. Further progress will be known on receipt of advice from the Law & Inspector Wing. |

- 8 42 RT/566/P14/9061 9B10 69
dated 10-4-69 BP3 23-5-68/
RT/PR/56 dt. 20-9-68 58,671. 71 Position will be furnished later.
- 9 WMT/5/107 15/918/III/PAOD/
203 dt. 14-12-1967 57,859. 95 The stores had been accepted by our Inspection but certain discrepancies had been notified by the consignee. We had taken up the matter with the Inspection Wing and we had also referred to Ministry of Law whether we can recover from the firm the amount paid to them. Further progress will be known on receipt of advice from the Law & Inspection Wing.
- 10 SV4/6053 R/11/450 dt. 31-1-66 1,33,475. 00 In this case 4 chilled Milk Tanks had been supplied. Out of these one machine had been damaged after final inspection. The firm have agreed to rectify the stores without any extra charge. In the meanwhile the P&AO had been requested to recover 80% payment made for despatch. Out of an amount of Rs. 1,33,475 the P&AO has confirmed vide his letter dated 28-8-70 that an amount of Rs. 3,696/- had been recovered from the firm and the balance amount of Rs. 1,29,779/- will be recovered in respect of the firm's bills.
- 11 SV1/4526/29/III/46
dt. 15-2-65 2,98,115. 00 An affidavit of claim for a recovery of Rs. 3,00,637/- (as against Rs. 2,98,115/-) towards general damages for breach of the contract has been filed before the official liquidator, High Court Calcutta on 11-6-70. It is not known when the official Liquidator is going to take up the claim for settlement.

(D) LIQUIDATED DAMAGES

- I 101 42 035/10-4-69, III/B, PAOD/
294 dated 9-12-68 51,154. 55 Security for an amount of Rs. 51,000/- has been furnished by the firm who have pledged certain shares with the High Court Delhi and the said security has been accepted by the Court on 6-2-1970.
- The High Court, Delhi has accordingly issued a stay order against recovery of the amount in question from the firm. The P&AO New Delhi has been informed of this position vide letter No. 101 42 032 29-4-68, III--B, PAOD, 294 dt. 25-7-70.

(E) OTHERS

- I ST2/1868/II/ dt. 26-12-1951 3,34,823. 75 Arbitration award for Rs. 73,075/- has been given in favour of the firm which has since been accepted by the Government.

2	ST2/1867 dated 13-1-1954	1,32,838.36	Case is under arbitration.
3	SV1,922/A III dt. 28-2-1950	78,510.00	The first appeal on behalf of Government has been dismissed by the High Court on 12-5-1970.
4	ST1/8606/D/1130/IV dt. 5-9-55	92,070.44	Case is pending in High Court.
5	ST1/22080 F/1162/IV dt. 21-9-1953	2,46,758.44	Case is under arbitration.
6	ST1/26140/F/1599/IV dt. 21/30-11-1955	1,27,101.86	The arbitration award has been accepted and the case closed.
7	M. Dep. 8/225, 2246 dt. 15-10-63	1,04,151.20	Ministry of Law has advised that the consignee should have rejected the goods within a reasonable time. After a long lapse of time action is not sustainable in litigation/arbitration. This is a case of supply order placed against R C and as such DGS&D have no further action to be taken in the matter.
8	SMH-10/101/451/8312/4166/1/255 dt. 21-11-1967	51,419.00	Case is with Litigation Section. Statement of claims filed on behalf of Union of India in the month of September, 1970 (1st week)
9	SWL-3/1016/0681/1A/4572 PAOD dated 11-8-1965	1,30,190.92	The firm has challenged the recovery in the Arbitration. Final award is awaited.
10	TWL/2/107/PAOD/85 dated 29-9-1966	3,18,005.00	The firm have refuted our claim of Rs. 3,18,005 - on account of general damages. They have filed a writ petition in the Delhi High Court for a stay order against recovery. The writ petition is being contested and the dispute has been referred to arbitration. Arbitration has been appointed on 29-9-70.
11	STV-2/SV1/26579/V(a)/1090 dated 24-11-56	2,69,100.24	Position will be furnished later.
12	SV-1/25080/E/1,2575 dt. 30-4-54	4,93,148.00	Position will be furnished later.

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|----|--|---------------|---|
| 13 | SV-3/81086 P. II/252 dated
30-4-54 | 28,75,514. 65 | Notice of recovery of sales-tax was issued on 16-12-68. Some recoveries were made by the P&AO till 16-1-69 but the firm filed a writ petition and got an injunction order till the case is decided by the Court. No further recovery is possible. |
| 14 | STV-3/26102/5/L/III/MID/
6175 dt. 22-2-61 | 59,325. 00 | The case was refd. to arbitration with a note to P &AO for recovery. It has now been decided to withdraw the same on the advice of DD(Sales-tax), Ministry of Law and approval of DG. intimation to P&AO is under issue. |

P & AO Bombay

(A) RISK PURCHASE

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|---|---|--------------|--|
| 1 | TWL-3/101/63/P64/27-3-68/
111/PAOD/441 dt. 31-7-68 | 1,42,902. 40 | Position will be furnished later. |
| 2 | TWL-3/101/65/289/373/392
dt. 29-3-68 | 1,43,108. 00 | The firm have obtained injunction from the Delhi High Court restraining the Govt. from making any recovery. The case stands referred to Litigation Section for further action. |
| 3 | ES-2, 101/32, 714/143 dt. 9-8-68 | 1,68,750. 50 | The case has been referred to the Ministry of Supply for administrative decision regarding recovery of this amount claimed as general damages. |
| 4 | SCA-1/107/91/388 dt. 5-5-66 | 1,12,000. 00 | The P&AO, Bombay was requested to recover Rs. 1,12,000/- towards general damages from firm's pending bills <i>vide</i> our endorsement dated 19-2-70. The P&AO has intimated <i>vide</i> d.o. dated 20-3-70 that as the amount involved is very high, a circular may be issued to all the P&AOs especially as no bills are being received from the firm. The file has been sent to CDN Dte. for doing the needful. |
| 5 | BTX-3/52827-67-484 dt. 18-5-68 | 94,399. 00 | The Mills are closed and hence there was delay in the recovery of the above dues, infact, M/s. Prabha Mills are our major source of supply of netting mosquito Round Mesh. With the closure of the Mills, there is accumulation of demands for Round Mesh Netting. The position relating to recovery was also intimated to the Ministry of Supply. |
| 6 | BTX-3/528-827/11/67/PAOD-485
dt. 18-5-68. | 1,85,631. 00 | |
| 7 | Bom, PMI-50925-40-421 dt. 4-5-67 | 2,50,000. 00 | It is not possible to effect recovery from the amounts due to the contractor by with holding payment. The case is being processed for arbitration proceedings in terms of O.O.No. 21 dated 1-1-1969. |

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- 8 SWL-3/107/66-539/5090 dt. 9-12-65. 3,12,500.00 Position will be furnished later.
- 9 Bom-PI-A-80-2: dt. 4-1-63. 73,576.27 Position will be furnished later.
- 10 Bom H-2/4003-P/569 dt. 10-3-63. 82,000.00 The case is under arbitration, which is now suspended and the petition is being filed in the court to give judgement that this being availedly concluded contract and the Arbitration has the jurisdiction to give an award.
- 11 Bom/H-2/4100-N/608 dt. 22-5-63 82,701.00 The delivery stipulated in the A/T was 4/5 months after receipt of raw material against Quota Certificate viz. 51-1-64 or earlier. The raw material was, however not issued against Essentiality Certificate issued by DGS&D and the firms did not put up supply and the A/T was cancelled at the risk and cost of the firm. There risk purchase amount is Rs. 82,701/-. In reply to our notice for payment. of Rs. 82,701/- the Solicitor of the firm stated that if we take any action to recover the said amount or any part thereof, the same will be entirely at our risk as to cost & consequences.

There are some contradictory opinion in the file expressed by the Ministry of Law at New Delhi & Bombay as well as some notings from the Department. It has to be decided whether risk purchase recovery will be legal. This is under consideration.
- 12 Bom H-2/4076-P/695 dt 28-7-64 98,059.00 Delivery period stipulated in the A/T was 2/4 months from the date and receipt of A/T and raw material against quota certificate/Essentiality certificate to be issued by Govt. It has to be decided whether risk purchase recovery will be legal. This is under consideration.

P & A O Bombay

(B) PRICE VARIATION

- 1 SR-5/25/7628 dt. 12-5-66 74,652.00 Position will be furnished later.

(C) SHORTAGE OF STORES

- 1 Bom-PB-1/RGC-556 dt. 9-6-67 2,24,004.00 The case referred to C.B.L.(S.P.E.) for investigation and recovery. It is learnt informally from C.B.L. that the firm have deposited full amount against the A/Ts in the Court without any commitment.
- Bom-PB-1/RGC-1934 dt. 28-12-67

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- 2 ME-1/SV-1/204/71,071 PAOD,113
dt. 7-4-67 80,139.00 Particulars regarding details of A/T and nomenclature of store have been called for from the P&AO, Bombay.
- 3 ES-5,210,35,129/17-1-68,272
dt. 13-9-68 2,56,880.00 According to the opinion given by the Ministry of Law, the firm has been served with a notice on 16-9-70 to deposit the advance payment within 15 days failing which suitable action will be taken in terms of the A/T. They have also been asked to expedite replacement of rejected tapes after which payment will be released to them. If nothing is heard from the firm., the case may have to be sent to litigation for taking legal action to recover the amount.
- 4 SV,7,20177,606,311,309,1,520
dt 20-7-68. 58,192.00 Firm completed all the supplies within the delivery period. The indenter (Border Security Force) wrote to the firm on 20-4-70 for supply of 2 chassis meant for D.G., BSF, Tripura. In the endorsement he asked the P&AO to withhold payment for 2 chassis. The firm replied on 6th May, 1970 that they have already delivered all the chassis meant for Tripura and have also got copies of the inspection note duly receipted by the consignee. The matter was taken up with the DG (BSF) on 25th May, 1970 to confirm firm's statement. As no reply was received, a reminder has been issued to the indenter and a telegram to the consignee. Immediately on receipt of reply, the P&AO would be advised.
- 5 TWI-5,392 dt.12-9-68 66,512.00 The amount of recovery represents the quantity rejected by the consignee after release of Inspection notes. The matter has been taken up with the Inspector, Indenter and Consignee. P&AO have been advised on 15-7-70 not to recover any amount until further advice.
- 6 CP-2 PR-1,8132-B,1MB,6 dt.
19-11-66. 3,14,548.00 The amount of Rs. 3,14,548 - mentioned as dues to be recovered in d.o. under reference, presumably represents the 90% payment made for one indigenous tampering plant supplied against the subject A/T. which has been finally rejected by the indenter/consignee. The question of repair/replacement of this plant is being pursued.
- 7 Bom/PM-2-214-50947-C-10 dt.
7-1-67. 63,242.60 However, this tampering plant was supplied together with an imported hardening plant, which is at present being tested at the consignee's factory for acceptance by itself. The payment of this Hardening plant, amounting to Rs. 6,32,720/- has not been made. Preliminary tests have shown this plant performance as satisfactory. and the payment made for the tampering plant is proposed to be adjusted against the payment for the Hardening Plant.
- 63,242.60 Pay and Accounts Officer Bombay has been able to recover Rs. 11,486/- from the firm's outstanding bills Balance to be recovered is Rs. 63,242.54. The recovery was

reported to DGS&D who circularised the recovery to the different P&AO's. In their letter No. CDN-3/19(MSIC)/111/68/ dt 3-7-70. Hqrs. advised us that the P&AO's New Delhi/Calcutta & Madras have no dealings with the firm and therefore alternative steps to be taken for the recovery of the amount. The case has been referred to Hqrs. (Lit. Sec.) on 29-8-70 for D.G's sanction to invoke arbitration for the recovery.

8 Bom-PM2-101/50916-C-Bib.1544
dt. 24-12-66.

68,084.00 Recovery on account of risk purchase against the A/T is only Rs. 8045/59. It has not been possible to recover any amount from their outstanding bills. As advised by Hqrs. in their letter No. CDN-3/10 MIS/111/68 dt. 3-7-70. alternative steps for recovery of the amount have to be taken. The case has, accordingly, to be referred to Hqrs for D.G.'s sanction to invoke arbitration.

The amount of recovery viz. Rs. 68084/- represents 95% advance payment made to the firm for the material subsequently rejected by the consignee as defective. This recovery was intimated by the consignee to the P&AO Bombay direct. Min. of Law at Bombay were consulted on the legality or otherwise of this recovery and on their advice and with the approval of Hqrs. the consignee was advised that as he had taken an unduly long period in exercising his rights to reject the stores there is no legal remedy left for effecting recovery.

9 Bom E-2. 14706/1554 dt.31-10-56.

87,136.10 Out of a recovery of Rs. 87,136/- only Rs. 474/- has been recovered from the firm. Matter is being referred to the Min. of Law for obtaining legal opinion and to decide further course of action to be taken for recovery, etc.

(E) OTHERS

1 SCA-1. 107.91.313.65.302 dt.
3-1-66.

76,400.00 The P&AO Bombay was requested in our letter dated 13-3-70 to withhold Rs. 76,400/- from the firm's bills as desired by the indenter. He has intimated vide his letter dt. 9-4-70 that his office has not been able to recover/withhold Rs. 76,400/- as no bills are forthcoming from the firm. He desired that the way & means for effecting recovery may be suggested. The file has been referred to CDN Dte. for issuing a circular in the matter to all P&AOs and others.

2 SR-5/1072/080A. 1.7226 dt.13-3-65

90,476.90 Position will be intimated later.

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4	SR-2 5082/106A III/360 dated 3-2-65.	1,76,121.700	There is one more case No. SR-8 SR-5 Rgc. 7052(4)/III 420 involving a recovery of Rs. 1,25,563.50 from this very firm. Thus the total recovery from this firm works out to Rs. 4 lakhs approximately. To initiate arbitration for recovery of this amount, reports from various Dep'ts. as per the departmental procedure were called for and have since been received. The reports reveal that the total assets of the firm are very small as compared to the recovery due. The case, is therefore being referred to Ministry of law and Ministry of Supply for decision on the advisability or otherwise of taking legal proceedings for recovery.
5	T WL-5/101,66/937/8-9-65/ Paper 18/PAOC dated 31-5-66	3,10,786.92	The firm have moved in the court against the recovery and the case is being contested in the High Court. Recovery has been kept in abeyance till the decision of the court is received.
6	SR-2,RGC 6733(2)33, 64-65, III, 153 dated 1-8-64.	91,130.68	Same as in S. No. 4 above.....
7	CP-4(1)25028-C/PACC,133 dated 4-11-66.	55,503.00	P & AO Calcutta has been advised to recover the amount from the security deposit or any pending bill of the firm vide letter No. CDN-3/19(34), III/69 dated 29-9-70.
8	101/53...../8063 PACC dated 18-4-66.	1,22,428.00	Demand notice served on firm on 13-1-67. The firm had not deposited the amount. Matter was referred to Min. of Law for initiating arbitration proceedings against the firm. Min. of law advised to find out the prospects of recovery from the firm. Letters issued to Police Commissioner, Calcutta, Registrar of Companies, Calcutta & Commissioner of Income Tax Calcutta to find out the financial status of the firm. Their replies are awaited.
9	SWL-3/27722-N,11,5073,IAOC dated 19-11-65.	1,37,624.00	Steps have been taken to ascertain the financial standing of the firm and its partners etc. in terms of O.O. No. 51 dated 26-3-69.
10	SE-4/459-V,III 006 dated 21-1-59.	54,300.00	Position will be furnished later.
11	207 52,8509 dated 1-7-66	1,17,932.00	The firm has gone to court and a stay order was issued against recovery of the amount due. The case was last heard in the High Court, Delhi on 8-10-70 and the next

			date of hearing has not yet been intimated by the Govt. Solicitor.
12	SWL-3/1074/064A/11/4863 dated 3-6-65.	2,45,285.27	An amount of Rs. 10,383/- has been recovered from the firm's bills received against the order placed by DS&D Kanpur. An amount of Rs. 1845.67 is available from the firm's 5% balance. Arbitrator has been appointed as desired by the firm. The file is with Litigation Section.
13	SWL-3/20057-P/11/5092 dated 9-12-1965.	3,13,034.00	The case is pending in the Calcutta High Court. Firm's 100% payment amounting to Rs. 30,000/- for supplies made is due to the firm. Further steps will be taken on receipt of the decision from the High Court.
14	SR-1/17610-L/11/5625 dated 6-5-61.	93,868.00	The case is not readily traceable and the position will be intimated later.
15	107 51/424/III/PAOC/5892 dated 16-10-65	92,105.60	The relevant file pertaining to this A/T is presumably with the office of DS&D. Calcutta with regard to suit filed by this firm and the recovery is under litigation in Calcutta. Court.
16	SWL3/1006/110/111/4213 dated 18-3-66.	3,00,347.38	Position will be furnished later.
17	SWL-2/10/65/962, 1/2248 dated 2-10-65.	81,176.00	The firm got injunction from Delhi High Court restraining the Govt. from making any recovery till the case is decided in the Arbitration. Further action is being taken by Litigation Section.
18	SWL-2/226/9A 1/2/69, PAOC dated 7-8-68.	1,30,032.71	Particulars regarding full A T No. and description of stores have been called for from P. & A.O. and the position will be intimated later.
19	SOPC-/. /3129 dated 30-4-68.	75,487.92	Recoveries could not be effected by I & AO as such litigation is being resorted to in consultation with OSD (Lit.) Case with Litigation Section since 8-9-70.
20	WP-1/24004-N/C/B/SK/11/6896 dated 3-4-62.	2,41,406.63	Case is under Arbitration.
21	Cal/PVI 5750/1/212 dated 16-12-1960.	2,83,615.00	The case file is not readily traceable. Position will be furnished later.
22	501/53/. . . . 12/69 dated 20-4-68.	86,512.00	P&AO could not deduct the amount as no bill from the firm was forthcoming. As desired by P&AO a list of order placed on the firm was sent to them on 22-5-70.

Now to ascertain firm's financial position letters have been issued to the Collector, Income Tax Officer, Income Tax Commissioner and the Registrar of Companies

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- 23 207/53.....2887, dated 27-5-66. 1,32,395.24 P & AO has not been able to deduct the amount as no bills are forthcoming from the firm. Now the progress wing is being requested to provide the list of current orders on the firm for onward transmission to P&AO.
- 24 SR-2/...../328 dt. 25-1-48
SR-2.../676 dt. 2-7-48
SR-2.../677 dt. 2-7-48 75,133.00 Position will be furnished later.
- 25 SR-5/5022/060(A).../7125
dated 23-3-1965. 85,174.53 A reference was made to the official liquidator on 30-6-69 requesting him to communicate whether he has adopted the contract so as to enable the DGS&D to proceed with the reference of the dispute to arbitration in accordance with the Arbitration agreement. His final reply is awaited.
- 26 SMH-3/2074/045 1(A)/502
dated 5-7-65. 55,000.00 Action to refer the case to arbitration under O.O. No. 51 dated 26-3-69 is being taken.
- 27 SMH-7/202...../123
dated 18-4-1968. 1,11,552.00 Position will be furnished later.
- 28 Rg. 6325/50 dt. 18-5-68
SO No. SWP-1/5051, 819
dated 30-4-69. 86,677.16 Case is under arbitration.
- 29 SWP-2/...../4872 dt. 18-1-1964 1,46,260.00 Case is under arbitration.
- 30 ME-3/201/03/402/111/219
dated 22-1-1969. 2,01,155.90 As there was no outstanding contract, it has not been possible to recover any amount from this firm. Recently the firm has requested to give the case to arbitration. Therefore, the matter has been referred to Ministry of Law for their advice whether the case is fit for decision by arbitration.
- 31 SVI/4348/C/1/1061
dated 18-6-53. 1,10,966.69 Case is under litigation.
- 32 OJ/EJ/2/6684-C/RNJ/982, R. 226
dated 2-5-69. 54,857.80 As there is no contract with this defaulting firm the amount could not be recovered. Opinion of the Ministry of Law has been obtained to file a suit against this firm. The case is being passed on to litigation Section.

(B) PRICE VARIATION

- 1 SE-5 1013/063A 1/65/4973
dated 14-7-65. 97,267.65 This is a recovery due as a result of finalisation of prices as on the basis of Cost Accounts Report. Firm have not accepted this basis and desires to have the details leading to lower adjustment of prices. Relevant details have been furnished on 25-9-70. P&AO Calcutta has also been requested (on 31-8-70) to confirm whether recovery to this extent has been effected. Firm have also been requested (on 31-8-70) to confirm whether they have since deposited the excess amount drawn. Both remained on 23-2-70.
- 2 WP-2/6053 12 B RGC/2376
dated 26-12-61 1,65,748.98 We advised P & AO to recover the extra amount already paid to the firm due to increase in price of raw-material. Certain amount was recovered by P & AO Calcutta and in the meanwhile the firm moved the High Court, Delhi for a stay order. Further recoveries are stopped. The firm also came up for arbitration, and we have entered into arbitration. The date for hearing in arbitration has not yet been fixed.

- 3 Project/887N/1/47/dt. 22-2-63 1,59,150.00 The credit for Rs. 1,58,150.00 in respect of recovery of Excise Duty refunded to the suppliers against the A/T has already been transferred to P&AO, Calcutta for necessary action as A/T in question is dealt within his office. In the circumstances the recovery of the amount has already been made. The case may therefore, be treated as closed.
- 4 SR-6/4501 1/1/ dt. 27-2-63 1,04,133.00 Position will be furnished later.

(C) SHORTAGE OF STORES

- 1 S-Project/RC-17458, CMC, ROR/
IV, 1655 dt. 30-10-66. [1,09,503.93 Position will be furnished later.
- 2 WPL.... 3179 dt. 15-10-66 89,961.00 Recoveries in the normal course was not possible and therefore these cases stand referred to arbitration. As per Litigation Section, since the present address of the firm is not known, the notice for arbitration could not be served so far, and the Govt. counsel at Calcutta is taking necessary action to serve the notice to the firm. No recovery has been made from the firm.
- 3 WP-2/.... 3033 dt. 31-8-62 71,269.47
- 4 Cal J-1/4048/245 dt. 17-7-51 2,35,490.10 Case is under Litigation.
- 5 SR-6/RGC-173/
PAOC dt. 28-10-68 80,645.00 The exact position regarding the amount to be recovered from the firm on account of final rejections made on joint inspection (by consignee & Inspection Wing) and the amount so far recovered by the P & AO Calcutta is being ascertained.

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6 CP-4(1)25018-C/47/PAOC
dated 25-3-67.

2,14,478·87

It has not yet been settled whether the amount should be recovered from the firm due to rejection of stores by the consignee. The matter is under reference to the indendor and inspection authority regarding acceptance of re ected stores under price reduction.

(D) LIQUIDATED DAMAGES

1 SWP-8/22629-P/1,416
dated 11-5-64

1,09,698·00 Position will be furnished later.

(E) OTHERS

1 MP-2544/92/54/3475
dated 25-3-42

1,81,138·84 Particulars of A/T and nomenclature of Stores have been called for from the P&AO and the position will be furnished later.

DIB,DGP/E-6 dated 14-10-44

2 ME-4/201/36/295/1/3L/PAOC
dated 15-2-67.

94,931·80

The question of recovery in this case has ceased to exist. The final inspection note was issued on 10-7-70 the Bank Guarantee executed by the firm was released on 3-8-70. P&AO Calcutta was simultaneously advised that no recovery in the manner requested earlier be made.

3 SMH-4/7289-N/739/IV/1/61/
JN/1614 dt. 2-3-64

6,90,872·00

Case is with C.B.I.

4 WP-2/2317 dt. 30-11-62

1,17,213·35

Recovery in the normal course was not possible and therefore these cases stand referred to arbitration. As per Litigation Section, since the present address of the firm is not known, the notice for arbitration could not be served so far and the Govt. counsel at Calcutta is taking necessary action to serve the notice to the firm. No recovery has been made from the firm.

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5	Cal/RT/X-5/16270-O/1269 dated 13-11-52	88,285.50	Case file is not traceable.
6	SE-3/2213-012A/1/9159 dated 3-5-65	54,41,968.70	The case has been sent to Min. of Supply for taking up the matter with the Ministry of Industrial Development and Internal Trade.
7	WP-3/1555-H, B/58 dated 21-5-58.	99,801.10	Position will be furnished later.
8	SPIA/873355/111/Goneka/180-49 dated 1-4-49.	4,20,493.00	Do.
9	220/12/940/...3343 dated 23-1-67.	8,96,001.75	Action is being taken to cancel the reference to P&AO, wherein he had been asked to recover the amount paid to the foreign principals.
10	SR-5/.../7250 dt. 9-6-65	56,306.00	Position will be furnished later.
11	SR-9/.../5294 dt. 10-6-60	90,301.00	Do.
12	SR-9/.../5450 dt. 19-5-51	61,506.00	Do.
13	SR-B5/.../6106 dt. 12-6-63	50,824.83	Do.
14	SE-3/.../6607 dated 18-12-61	1,84,796.35	Clarifications regarding claims for finalisation are being obtained from the firm.
15	SE-3/.../6463 dt. 10-7-61	5,67,528.20	Case is with Litigation.
16	SE-3/7382-L/ 1/Dodsal/6239 dated 21-1-61	76,605.00	Recovery of sales tax on imported stores is under consideration.
17	SR-5/7132,002A/IV,7203 dated 25-3-65	1,11,604.00	The firm has gone in liquidation and an official liquidator has been appointed by the Bombay High Court for winding up the company. The matter of realisation of Govt. dues has been taken up with the Official liquidator.
18	SE-3/.../660 dt. 18-12-61	2,43,671.41	Same as against S.R. No. 16.
19	SE-3/.../0888 dated 15-12-60.	71,939.77	Action to file civil suit for recovery of sales tax paid is under consideration.

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20	SE-3/.../6608 dated 28-12-61	88,163.10	Action to file civil suit for recovery of sales tax paid is under consideration.
21	SE-3/.../6548 dated 20-9-61	1,20,639.79	The firm have obtained stay order from West Bengal High Court.
22	SE-3/7208-ABM/11/6692 dated 16-5-62	77,330.00	Do.
23	SR-5/.../6061 dated 27-5-63	88,746.48	The firm had filed a writ petition in the Bombay High Court and interim injunction has been granted restraining the Union of India not to effect any recovery on account of Sales Tax against their pending bills.
24	SR-9/.../5877 dated 20-12-62	1,31,621.80	The firm was requested on 12-9-69 for refund of Rs. 1,32,000 wrongly authorised towards Sales Tax in the course of import. No reply has so far been received. The case is being further processed.
25	SR-9/.../5537 dated 9-11-69	58,754.00	The position will be furnished later.
26	SR-p/.../5470 dated 1-7-61	56,697.26	The firm was requested on 20-12-68 and reminded on 30-12-68 and 26-2-69 to refund Rs. 56,717.50 paid to them by way of re-imbusement of Sales Tax in the course of import. No reply has so far been received. The case is being pursued on the lines of advice tendered by DD(Sales Tax).
27	SE-3/.../6606 dated 18-12-61	1,69,135.75	The question of recovery of Sales Tax is under consideration.

ANNEXURE 'D'

Pay and Accounts Office (Madras)

(A) RISK PURCHASE

1	Bom. PB.3/202/490973/1558 PAOM/dated 6-5-64	1,38,717.20	Proposal to write off the entire loss of Rs. 1,38,717.20 has been sent to DGS&D Ministry on 10-8-70.
2	SE-3/40/30/020, 11.Premraj, 9554 dated 4-11-65	52,757.93	This is a case of price preference and not for recovery. The case is being settled.

APPENDIX V

(Ref. Para 2.94 of the Report)

CHRONOLOGICAL STATEMENT OF ACTION TAKEN AT VARIOUS STAGES

- 0-6-64. Indents placed by D.O.S., Army Headquarters on DG S & D.
- 30-6-64. Advertised tender inquiry issued.
- 28-8-64. Tenders opened. 104 tenders were received.
- 15-9-64. Textile Commissioner, Bombay was requested to arrange release of yarn to meet the entire requirements. In case it was not possible he was requested to intimate the C.I.F. value of the material for which the Defence Authorities may be approached to provide necessary foreign exchange.
- Director of Ordnance Services was apprised of the position. He was asked to intimate whether the items indented for were to be manufactured from imported woollen yarn only, or the alternative provided in the specification *viz.* use of indigenous wool, or admixture, will be acceptable and orders placed accordingly.
- 25-9-64. Textile Commissioner intimated that foreign exchange ceiling to the extent of about Rs. 1, 86 crores should be placed at their disposal so that the requirement of hosiery yarn for orders proposed to be placed by D.G. S. & D. with Hosiery manufactures during 1964-66 are made available. It was also desired that a similar estimate could be made in regard to other requirements of Defence Department and arrangements for release of foreign exchange for import of raw materials made in advance so that production programme may not be held up.
- 5-10-64. Department of Supply was intimated of the position with the request the Ministry of Defence may be apprised of the position and asked to make necessary arrangements for the provision of foreign exchange amounting to Rs. 1, 86 crores to meet their requirements. Department of Supply was also informed that the matter was coming up for discussion at the next co-ordination Committee meeting to be held on 8/9-10-64.
- 16-10-64. Director of Ordnance Services was asked to confirm provision of foreign exchange to the extent of Rs. 23. 35 lakhs for import of nylon tops both for socks and jerseys.
- 23-11-64. D. O. S. was reminded to confirm provision of foreign exchange for import of nylon tops.
- 25-11-64. D. O. S. informed DGS&D that "Before shy foreign exchange is sanctioned, however, necessary clearance must be given by the Textile Commissioner in the usual way, that none of the above requirements is likely to be available from indigenous production in whole or in part".
- 29-12-64. D. O. S. was informed that clearance from the Textile Commissioner called for in his office letter of even number dated 7-12-64 was still awaited despite a telegraphic reminder. In the meanwhile they were requested to proceed with the processing of the foreign exchange sanction so as to avoid delay in deciding the tenders.
- 11-1-66. Textile Commissioner was expedited for issue of clearance for import of nylon and poly-propylene fibre tops to the extent of Rs. 4.78 lakhs *c.i.f.* value.
- 12-1-65. D.O.S. was informed that necessary clearance had been given by the Textile Commissioner for import of nylon staple fibre and poly propylene staple fibre if foreign exchange was arranged by Defence authorities. D.O.S. was requested to release foreign exchange.

- 6-3-65. The Textile Commissioner was requested for release of foreign exchange from commercial quota for import of requisite quantity of nylon tops for release to the successful tenderers as Defence authorities had advised of their inability to provide any separate foreign exchange for this purpose.
- 10-3-65 Textile Commissioner intimated that within the foreign exchange allotted individual mills were permitted to import synthetic fibre to the extent of 10% of the face value of the licence. It would not be possible to meet requirements of nylon staple fibre or poly propylene fibre.
- 15-3-65 D.O.S. was informed of the position and requested to obtain necessary foreign exchange sanction to proceed further with the procurement of jerseys and socks.
- 19-3-65 Department of Supply was informed that Textile Commissioner cannot provide foreign exchange for import of nylon tops. That Department was requested to approach Ministry of Commerce to direct the Textile Commissioner to make necessary foreign exchange available, in the absence of which demand for jerseys and socks placed in 1964 cannot be covered.
- 25-3-65. Pursuant to the discussions held by ADG with Textile Commissioner on 19/20-3-65 D.O.S. was informed that Textile Commissioner would be prepared to earmark a portion of foreign exchange allotted to him for Defence requirements if instructions are given to him by the Ministry of Commerce as and when any additional foreign exchange is given to him. A copy was also endorsed to Department of Supply for information.
- 27-3-65 Department of Supply approached Ministry of Commerce to consider how best the firms who had already received allotments during the then current licencing year could be persuaded to supply the defence requirements without further allocation of foreign exchange and to set out procedure therefor. Ministry of Commerce was also requested to instruct Textile Commissioner to ensure that early negotiations are held with the firms and supplies made by them against immediate requirements of Defence.
- 9-4-65 Defence Ministry (D.O.S.) was informed of the position and requested to obtain necessary foreign exchange sanction for the import of nylon and to communicate it expeditiously.
- 17-4-65 D.O.S. informed that the case regarding allotment of foreign exchange to the extent of Rs. 23.35 lakhs was being processed.
- 24-4-65 Department of Supply was asked to intimate whether the Ministry of Commerce or the Textile Commissioner had agreed to meet the requirements of raw materials against Defence demands so that DGS&D might be able to proceed further with procurement action.
- 1-5-65 D. O. S. expedited for provision of necessary foreign exchange.
- 16-6-65 D.O.S. was expedited to confirm provision of necessary foreign exchange to the extent of Rs. 23.35 lakhs.
- 22-6-65 The D.O.S. intimated that they had also reviewed the requirements of Jerseys Pullover for the year 1965/66. As quantity of 2,97,400 manufactured out of indigenous wool with Nylon admixture had already been covered without any foreign exchange assistance, there was no necessity to cover the remaining quantity for the time being. The remaining demand for 1965/66 and 1966/67 would be covered after they had received the final reply from Ministry of Commerce and Industry, to whom a request had been made for allotment of foreign exchange for the import of wool tops.
- 27-9-65 DGS&D requested the DOS to submit his indent on prescribed form for 1,00,000 Nos. made from 50s quality of wool and to send a corresponding reduction demand in respect of the existing indents in due course. He was also requested to confirm that the balance quantity of 2,31,000 jerseys against existing demands may be covered immediately in 48s quality of wool.

- 26-10-65 The DOS sent a fresh indent for 1,00,000 jerseys and also indicated how the quantity should be reduced from the demands already placed by him. As regards the coverage of balance quantity of 2,31,000 Nos. he requested that its procurement may be deferred till the supplies started materialising against the orders already placed for supply in 48s quality wool and the supplies commenced in respect of jerseys made out of 50s quality wool.
- 20-11-65 The DOS was requested to confirm whether the balance quantity of 2,31,000 Nos. may be covered in 48s quality wool.
- 29-11-65. DOS confirmed that procurement of 2,31,000 jerseys pullovers woollen OG may be deferred till the materialisation of supplies of jerseys made out of 48s quality wool and those made out of 50s quality wool as already stated in para 4 of his letter dated 26-10-65.
- 20-12-65 The DOS stated that further coverage of jerseys may be deferred till the end of February, 1966 by which time they were expected to take a decision.
- 8-2-66 The DOS was requested to intimate whether any decision had been taken, since the offers were valid upto 28-2-66.
- 15-2-66 DOS was again reminded.
- 16-2-66; DOS intimated that the matter was still under consideration.
- 26-2-66 The DOS requested the DGS&D to invite fresh tenders in respect of jerseys pullover woollen which had yet to be covered, in both qualities i.e., (i) 48s wool with 15% nylon and (ii) 50s wool with 10% nylon. On receipt of the fresh quotations, a final decision would be taken.
- 1-3-66 DGS&D suggested to DOS to cancel the outstanding uncovered quantity of 2,31,000 Nos. of jerseys and after a decision is taken by him, to place a fresh indent with the detailed specifications, on receipt of which fresh procurement action would be initiated.
- 15-3-66. DGS&D requested the DOS to submit a fresh indent with the certificate of competent Financial Authority for the quantity to be covered in 50s quality wool.
- 24-3-66 DOS was informed that as desired by CLO(D), it had been decided to advertise the demand of 2,31,000 Nos. and to scrap the present tenders opened on 15-1-65 and kept extended upto 31-3-65.
- 21-4-66 Advertised tender enquiry issued.
- 17-6-66 Tenders opened on 17-6-66. Tenders valid upto 17-8-66.
- 4-7-66 Tenders analysed. DS suggested that the DS may be informed of the range of prices received and asked for decision on the formula, i.e. 85 wool, 15 Nylon or 90 wool/10 nylon.
- 4-8-66 It was decided to get the offers extended upto 17-9-66.
- 12-9-66 As decision could be taken, it was decided to get the offers extended by another month i.e. upto 17-10-66.
- 3-10-66. Ministry approved the purchase proposals.
- 4-10-66 25 contracts were placed for supply of 2,31,100 Nos. of jerseys with various hosiery units located at Ludhiana.

APPENDIX VI

(Ref. Para 2.103 of the Report)

Minutes of the meeting held in the room of Shri—Addl. Secretary, Ministry of Defence, on 16th December, 1966 at 10-30 A.M. to consider the Note dated 14th December, 1966 from MGO regarding supply of Jerseys Pullover Woollen O. G.

Present

Ministry of Defence

Shri, Addl. Secy. Chairman.

Shri, JS(Q).

Ministry of Finance (Def.)

Shri, DFA (O).

Army Hq.

Lt. Gen., MGO.

Lt. Col., ADOS.

Directorate of General Stores

Brig., DR&D (G).

Shri, (PSc. OAD (CSI)).

Shri, AI.

Directorate General of Supplies & Disposals.

Shri, Addl. DGS & D.

Shri, Director.

Shri, stated that the AI for 2,97,400 Jerseys placed on M/s. Pearl Woollen Mills Ludhiana in December, 1964 has been cancelled and fresh tenders for supply of the same quantity on the same terms and conditions at the risk and cost of the firm had been issued. These tenders were to be opened within the next few days. Addl. Secy. stated that the DGS & D should consider the black-listing of this firm and also examine whether the firm gets any foreign ex-

change or other assistance from Government either in the Commerce Ministry or in the Department of Industry with a view to stop such further assistance.

Action: DGS & D

2. Shri further stated that a further quantity of 2,31,100 had been covered on 10th October, 1966 on 25 firms at rates ranging from Rs. 17.83 to Rs. 19.80. He mentioned that the contracts with all these firms provide that, "the Textile Commissioner Bombay will authorise release of requisite Nylon from the imports already made by him through the Indian Woollen Mills Federation, Bombay". The copy of the AI issued to each of the firms contains an endorsement to the Textile Commissioner requesting him "to issue necessary nylon to the firm under intimation to the DGS & D." Shri..... mentioned that the Ministry of Commerce have declined to issue Nylon to the firms in question and insist that the same can be released only to the approved spinners in accordance with the general policy followed in the Commerce Ministry. Shri..... mentioned that on the other hand the supplying firms insist that in accordance with the contract the release of Nylon must be made to them with liberty to have the same spun from any firm of their choice. There was thus a deadlock. Shri..... further stated that 25 firms had agreed to commence supplies immediately on release of the Nylon and complete the same within 2 months. Addl. Secy. stated that he will write to the Commerce Ministry Secretary requesting him to release the Nylon to the contracting firms in view of the terms of the contract and with a view to expedite supplies urgently needed but that in the further contracts which the DGS & D may conclude, it may be made clear that Nylon will be released by the Textile Commissioner to an approved spinner indicated by the contracting firm.

3. MGO stated that the dues-out are in the neighbourhood of two lakhs and there was an urgent demand to obtain at least one lakh stock of Jerseys pullover. He mentioned that he was not certain whether the Commerce Ministry would agree to the proposal to release the Nylon to the 25 firms in question and even if the Commerce Ministry agreed, it was not certain whether these 25 firms would be able to commence deliveries of 'top dyed' woollen jerseys immediately. Shri..... stated that a further indent for 4,03,800 jerseys had been placed in October, 1966 and the tenders therefor were being opened on 11th January, 1967. It was agreed that the one lakh quantity now authorised for local purchase will be reduced from the indent of 4,03,800 and the DGS & D would cover only the remaining quantity of 3,03,800.

Action: DGS & D . .

4. After discussion, it was agreed that tenders should be invited by the MGO both for 'top dyed' and for hand dyed woollen jerseys, that limited tender enquiries be made, that at least 6 tenderers should be invited to quote, that the period for completion of the delivery should be 15th February, 1967, that at least 10 days period be given for submitting quotations and that the usual inspection be provided for. The orders will be placed by the MGO in consultation with the Ministry of Finance (Defence). Adl. Secy. stated that he would like to know the result at the end of the current month. Shristated that one of the firms which could be considered for local tender may be M/s VIC Kanpur since they have the capacity.

Action: MGO|Finance (Defence)

Sd|-

Joint Secretary

16-12-1966.

Ministry of Def. US No. 3590|503|D(O-1).

APPENDIX VII

No.	Para No.	Ministry/Dept. Concerned	Conclusions/Recommendations
1	2	3	4
1	1.17	Ministry of Food, Agriculture, Community Development and Co-operation (Deptt of food)	The Committee note that after the termination of the contract for the clearance and transport of foodgrains in Bombay Port in August, 1964, it took nearly six years for the Government to finalise the claims against the contractor. The net liability of the contractor initially fixed at Rs. 7.75 lakhs in April, 1965 underwent revision twice—once in November, 1966 as Rs. 7.71 lakhs and again in January, 1970 as Rs. 7.19 lakhs for the recovery of which a suit has been filed in March, 1970. This is stated to be partly due to delay in consolidating the amounts relating to the contractor and making necessary adjustments and partly due to late receipt of bills from the Bombay Port Trust for the demurrage and detention charges payable by the contractor. The Committee are surprised that these matters were not attended to before serving a final notice on the contractor in April, 1965.

1	2	3	4
2	I.19	Min. of food, Agriculture Community Development and Cooperation (Deptt. of food	The Committee are distressed to find from the particulars furnished to them that some of the claims pertaining to the period August, 1963 to May, 1964 were received from the Bombay Port Trust only during March, 1968 to January, 1970. This shows that there was no coordination between the food Department and the Port Trust and reflects adversely on the working of the concerned offices. They would, therefore, suggest that Government might examine how it took such inordinately long time for the Port Trust to prefer claims. The procedure in this regard needs to be streamlined to avoid any delay in future.
3	I.20	do	<p>The Committee were informed that the Insurance Company had rejected the claim of Government in part discharge of an indemnity bond executed by them on the ground that the contractor had disputed the claim. The Government have since filed a suit in the Bombay High Court in March, 1970 for the recovery of the dues. While the contractor has filed a suit against Government in July, 1967 for payment of Rs. 42.12 lakhs alleged to be due to him. The Committee would like to be apprised of the outcome of these cross suits.</p> <p>This is yet another case of inordinate delay in finalising the dues of the contractor after the termination of his contract. The contract for handling and transport of foodgrains at Manmad was</p>

terminated in June, 1965, but the extent of liability of the contractor could not be finally determined until August, 1969.

5 1.31 -do-

The Committee note that the contractor has repudiated the claim of Government for Rs. 0.93 lakh which has been referred for arbitration. They would like the results of the arbitration proceedings to be intimated to them.

6 1.43 -do-

The Committee understand that every month stocks of foodgrains held by the State Governments are reported to the Department of Food. These returns do not, however, cover the stocks held by the fair price shops and consignments in transit. As the shops would be reporting their stocks to the State Governments the desirability of getting of consolidated return from them might be considered. This, in the Committee's opinion, might help to regulate supplies.

7 1.44 -do-

The Committee regret to observe that stock position on the dates of revision of prices is not being reported promptly for the purpose of revaluation. In respect of price increases given effect to on various occasions between January, 1965 and December, 1968. as many as 78 returns were due by February, 1970 of which 66 were received subsequently. The Committee would urge Government to take up the matter with the State Governments with a view to

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making necessary adjournments as far as possible in the accounts of the same financial year in which a price revision is made.

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1.45

-do-

Incidentally, the Committee learn that the question of recovery of differential cost by the State Government from fair price shops in West Bengal is under litigation. From the details given to them, the Committee find that while there is a specific condition in regard to the States that it is subject to necessary adjustments consequent on any price revision, there is no such specific understanding between the State Governments and the fair price shops in quite a few States. In order to avoid unnecessary complications the Committee would suggest that Government may in consultation with the Ministry of Law impress upon the State Governments the need for laying down a suitable condition to avoid unnecessary complications of the kind noticed in West Bengal.

9

1.55

-do-

The Committee find that besides substantial investments by Government in the Food Corporation of India, consumer subsidy of the order of Rs. 25 to 30 crores initially borne by the Corporation, is reimbursed to them by Government every year. The Comptroller and Auditor General is at the present not responsible for the audit of the accounts of the Corporation and consequently he is not in a position to certify the accounts of Government in so far as they relate to the consumer subsidy reimbursed to the Corporation without

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1.56

Do.

reservation. When the Department of Food was handling the import/procurement storage and distribution of foodgrains, the Comptroller and Auditor General was auditing the transactions and as the nature of the operations has not materially changed since their transfer to the Food Corporation, the Committee feel that the Food corporation should be brought within the purview of audit by the Comptroller and Auditor General as already recommended by the Joint Committee on the C.A.G.'s (Duties, Powers and Conditions of Service) Bill, 1969.

The Committee are concerned to note that the incidental expenses have gone up very much since the work relating to procurement, storage and distribution of food grains has been transferred to Food Corporation. The extent of this steep rise would be clear from the figures relating to the following two important components of incidental expenses. The transit and storage loss which worked out to Rs. 2.00 per tonne in 1967-68 increased to 95 paise in 1969-70. Expenditure on establishment which was Rs. 4.40 per tonne went up to Rs. 13.50 in 1969-70. In view of the large amount of consumer subsidy reimbursed to Food Corporation which includes the incidental expenses incurred, the Committee consider that there should be stricter scrutiny of the reasonableness of the expenses and the correctness of their allocation to the transactions on behalf of Central Government. The Committee need hardly stress that with the gain of experience and the advantage of handling even larger quantities

1	2	3	4
			<p>of foodgrains, the incidental expenses incurred by the Corporation per tonne, should progressively come down. Government who ultimately bear the burden of these charges should ensure that the corporation effect necessary economies in their operations. The Committee suggest that the Food Corporation of India should investigate the reasons for the steep rise in transit and storage losses and take necessary remedial measures.</p>
11	2·39	Min. of Supply	<p>The Committee are distressed to find that final prices of jeep spares purchased on payment of advance of Rs. 49.16 lakhs in the year 1950-51 based on provisional prices, have not as yet been determined although 30 years have elapsed. In the meantime, sales tax amounting to Rs. 2.81 lakhs was also paid in 1962. That the firm had not come up with the claim for the payment of the balance should not have held up the finalisation of prices as possibility of the firm having received already in excess of amounts due could not be ruled out. The Committee would like it to be investigated as to why pending settlement of discrepancies final prices could not be determined promptly on receipt of the consignments.</p>
12	2·40	Do.	<p>The Committee note that advance payments to the extent of 90 per cent of the provisional prices were made on production of</p>

shipping document as a special case in spite of the fact that the contract was an f.o.r. contract. There was no inspection of stores prior to shipment and there was only a 'superficial' inspection at the port of entry. Even the inspection at the firm's premises appears to have been limited to a test check. As there were heavy shortages amounting to Rs. 14.58 lakhs reported on receipt of stores at the consignee's and, the Committee would like to be assured that there was no short import of spares. If there was no short import, the Committee would suggest that Government might examine whether there was any mis-utilisation of import licence and foreign exchange allowed to the firm. If, however, the entire quantity had been imported it should be investigated as to how the quantity short received by the consignee was otherwise disposed of by the firm.

13 2·41 Do.

A part of the supplies was made by the firm in 1954 and 1955 although advance payments were made for the entire quantity four years earlier on the basis of shipping documents. The reasons for the delayed supply and the value thereof may be intimated to the Committee.

14 2·42 Do.

The value of shortages was recovered between 1967 and 1970. Since the firm had retained extra payment to the extent of Rs. 14.58 lakhs for 16 to 20 years, it was understandable that they did not come up with the proposals for the finalisation of the bill. The Committee would like to know why the sum of Rs. 2.81 lakhs representing

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sales tax paid in 1962 could not be withheld pending settlement of firm's bill as heavy shortages had by then been reported by the consignee.

15 2·43 Mini. of Supply
Mini. of Defence

There were undue delays in detecting the discrepancies and reporting them to Government. The discrepancies were noticed even as late as in August, 1959. The Ministry came to know of the discrepancies for the first time in 1952. It took nearly 14 years to come to an agreement in regard to the extent of discrepancies. The Committee take a serious notice of these delays. They desire that responsibility should be fixed for delays at various stages and in future Government should ensure that discrepancies are reported to the supplying firm DGS & D/PAO by the consignees within a reasonable time in order to avoid complications and delays in settling the dues payable to or recoverable from the contracting firms.

110

16 2·44 Mini. of Supply

The Committee are disturbed to find that there is no fool-proof system as yet in the office of the PAO to ensure that documents relating to cases pending finalisation do not come in for destruction prematurely. The Committee would urge Government to attend to this lacuna forthwith and devise a fool-proof procedure in this regard.

17 2 45

Do.

Although in this case payment vouchers and related documents pertaining to all the 4 A/Ts had been destroyed, the Committee were informed that the claims would be finalised on the basis of documents to be produced by the firm. The Committee would like to know the results of the examination of the firm's proposals stated to have been received on 15th October, 1970 with particular reference to the fact whether any amount is recoverable from the firm finally.

18 2 46

Do.

The Committee would like to refer to a couple of other interesting features of those contracts:

- (1) One of the special conditions of the contracts specified that the basis for the finalisation of prices had been agreed to "on the assurance that the F.O.B. prices to be indicated in the invoice should be the net prices and would include no overriding commission due to (the firm) as agents of the manufacturers in India." The manner in which it is proposed to verify the correctness of the assurance given may be intimated to the Committee.
- (2) The inspection of stores on arrival in India was inadequate. Further after the inspection the stores were allowed to remain in the custody of the firm pending repacking and despatch by rail, which took considerable time. The Committee would like to know how such arrangements were agreed to and whether such practices are still followed.

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19 2·47 Ministry of Supply

The Committee are concerned to find that, as on 1st August, 1970, there were as many as 1315 cases where provisional payments had been made, awaiting finalisation. The amount involved and the year-wise break-up are not known as the relevant registers are not maintained properly. Details of six more cases relating to firm 'A' made available however reveal that these date back to 1965-66 involving a sum of Rs. 12.75 lakhs. While the Committee note that Government have laid down a procedure for the speedy finalisation of such cases in future, they would urge that the pending cases should be reviewed on the basis of available data to find out whether overpayments have been made to the firms and to settle them at an early date. The results of the review may be intimated to the Committee.

20 2·48 Do.

The Committee would also like the procedure regarding maintenance of the records in PAO's offices/purchase directorate to be streamlined to bring out up-to-date position in respect of all pending cases. It is surprising that the Ministry were able to locate the Payment Register and the original A.T. No. 113 of the Fourth Contract only 2/3 days before the official witnesses appeared before the Committee.

21 2·49 Do.

On the whole the Committee could not but come to the conclusion that a rather unusual contract was entered into with firm 'A'

which was also not processed with care. There has been a perceptible lack of sense of expedition and prudence. The whole transaction was marked by an absence of effective coordination among the consignee department, purchase directorate and the Pay and Accounts Office. Nothing short of a thorough probe into all the factors that were responsible for this state of affairs would meet the requirements, the Committee have in view. Based on the findings, the entire system of procurement of spares from abroad through private firms should be overhauled to safeguard the financial interests of Government.

22

2-78

Do.

The Committee are concerned to find that upto 31st March, 1969 dues recoverable in various accounts from the suppliers amounted to Rs. 4.95 crores. The position as on 30th June, 1970 was that 5465 cases involving Rs. 6.07 crores were pending. From the details of cases of recovery of and above Rs. 50,000 upto 31st March, 1969 furnished by the Ministry, it is found that some of them are pending for over 20 years now and that one case relates to the period as far back as 1944-45. As some of these are likely to become bad debts due to efflux of time or otherwise, the Committee need hardly stress that appropriate steps should be taken forthwith to realise the dues early and that in future there should be a systematic review of such cases periodically. The Committee desire that the action taken in this regard and the progress made in the recovery may be intimated to them.

1	2	3	4
23	2.79	Ministry of Supply	<p>In 60 cases involving Rs. 1.35 crores, Government have not as yet come to any decision regarding recovery of the dues. Inordinate delays have occurred in obtaining legal opinion and in initiating arbitration proceedings or filing suits in courts. In a number of cases the relevant purchase files are not traceable. All these present is rather disquieting picture. The Committee would therefore urge Government to review all these cases and to take suitable action on the basis of the findings.</p>
24	2.80	Do.	<p>The Committee have earlier in this report referred to the need for the speedy finalisation of cases of provisional payments which may throw up further cases of recovery. There may also be cases of non-fulfillment of contracts, delayed or defective supplies etc. in respect of which recoveries are yet to be assessed. The Committee would suggest an early review of all such cases with a view to assessing and realising the dues at an early date. For the future, the DGS&D should evolve a control system by which, progress of finalisation of such cases is watched by senior officers periodically.</p>
25	2.81	Do.	<p>It is surprising that in one case owing to a typographical error that went uncorrected Government could not claim a sum of Rs. 7471 which had to be written off. Failure to detect the typographical error in the letter of reference to arbitration is simply inexcusable. In two other cases the relevant files were destroyed as no instructions had been given at the time of sending them to the Re-</p>

26	2.82	Do.	<p>cord Room, that they should be reviewed further before actual destruction. The Committee would like to know whether disciplinary action was taken to fix responsibility for the lapses in these three cases and delinquent officials suitably punished.</p> <p>During evidence the Committee were informed that there were 58 writ petitions pending before different High Courts regarding recovery of sales tax paid prior to 1966 on transactions which were in the course of import. The Committee would like to know the outcome of these writs.</p>
27	2.83	Do.	<p>The Committee note that on finalisation of provisional payments made to firm 'C' for import of certain spare parts, it was found that overpayments to the extent of Rs. 2.94 lakhs had been made mainly on account of the fact that the rate of customs duty was not verified. It is stated that the Ministry have now taken up the question of verification of rates before making provisional payments with the Central Board of Excise and Customs. The Committee would like Government to evolve a procedure in this regard early.</p>
28	2.109	<u>Ministry of Supply</u> Min. of Defence	<p>The Committee were informed that in all, local purchases to the extent of 95,214 jersey pullovers were made by the indenter (Ministry of Defence) in January-February, 1967 due to delay in supply by 25 firms—firm 'A' was one of them—which held contracts upto a total quantity of 2,31,100 pullovers during the period. The approximate extra expenditure incurred was thus of the order of Rs. 5.71 lakhs on the basis of the price difference of about Rs. 6 per jersey between the rates of contract and local purchase. The indents</p>

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placed in 1964 for 7,39,850 pullovers to meet Defence requirements from October 1964 to September, 1966 could not be processed promptly due to a variety of reasons, chief of which was the delay in arranging foreign exchange for the import of nylon tops. The Committee would like to know whether local purchase was resorted to at any other time during the period 1964 to 1966 and if so, the amount of extra expenditure incurred.

29 2.110 Min. of Supply

The Committee regret to find that the DGS & D for the first time entered into contracts in October, 1966 with a provision for the release of nylon directly to the contracting hosiery firms although the policy had all along been to release nylon only to the authorised spinners. This was the main reason for the delay in supply of the pullovers which resulted in considerable extra expenditure. It is strange that the policy as well as the past precedents in the DGS & D's organisation were ignored while entering into the contracts. The Committee would like to know whether responsibility of the officials concerned was fixed for appropriate departmental action.

30 2.111 Min. of Supply
Min. of Defence

The Committee were informed that the extra payments made on local purchase were partly due to the fact that no assistance was given for procurement of nylon. The Committee, however, find that on the 16th December, 1966 there was a meeting held by the Ministry of Defence which was attended by the representative of the DGS & D, in which a decision was taken to go in for local purchase of a lakh of pullovers. Earlier on the 20th November, 1966,

116

the DGS & D had invited tenders on the basis of both with and without assistance for nylon. The orders for local purchase were actually placed on the 31st December, 1966. In the meanwhile tenders were opened by the DGS & D on the 20th December, 1966 which revealed that the lowest prices quoted on without assistance basis were only on an average 50 paise more than the rates of contracts placed in October, 1966. These tenders were, however, scrapped. With a little coordination, the Committee feel that the local purchase at Rs. 6 extra per pullover could have been avoided and extra expenditure to the extent of Rs. 5.24 lakhs saved by taking advantage of the offers received by the DGS & D before the orders for local purchase were placed by the indenter. The Committee would, therefore, like Government to examine how the Ministry of Defence was not kept informed of this vital information regarding invitation and opening of tenders by the DGS & D. Incidentally the Committee wish to observe that no reason was adduced for the local purchase of jerseys with increased nylon content.

117

31

2.112

Do.

It is revealing to note that out of the total quantity of local purchase of 95,214 pullovers, 87,891 were purchased from 23 out of the 25 firms holding contracts during the period and that they received extra payments amounting to about Rs. 5.27 lakhs. The Committee cannot resist the impression that the firms might have deliberately delayed nominating the spinners to receive the nylon to be released by the Textile Commissioner as by 31st December, 1966, they had procured orders directly from the indenter at higher rates. Gov-

1	2	3	4
			ernment might consider whether under such circumstances it is at all desirable to resort to local purchase at higher rates from the firms holding contracts to supply the same goods.
32	2.113	Min. of Supply	Token liquidated damages of Rs. 3104 were levied on firm 'A'. The Committee may be informed of the total amount of damages levied and recovered from all the 25 firms as also the reasons why the appropriate quantity of local purchase made was not cancelled from the quantity contracted for with each firm and full liquidated damages recovered.
33	2.114	Do.	The Committee would like Government to come to an early decision with regard to entering into annual rate contracts or running contracts for the supply of jersey pullovers and other such items to meet Defence requirements so that there may not be any occasion in future to go in for large-scale uneconomic local purchase.
34	2.127	Do.	The Committee note that although the contract entered into with firm 'A' in May, 1968 provided for Government assistance for procurement of 64s carded scoured wool, Government agreed to a firm price for the woollen yarn. It is regrettable that the prevailing c.i.f. value of the carded scoured wool was not verified when the firm indicated earlier in March, 1968 the assumed value thereof, with the result the firm got an unintended benefit to the extent of Rs. 0.92 lakh due to the price of the wool being actually less. In order to

avoid the recurrence of such costly lapses, the Committee would suggest that there should be a system of verifying with the help of agencies like State Trading Corporation, Mineral and Metals Trading Corporation etc., the assumed rate and value of raw materials to be imported with Government assistance.

35 2.128 Supply Deptt. of
Industrial Development

The Committee are unhappy to note that it took in all 16 months to issue import licence in this case. The explanations given that delay occurred in ascertaining the quantity required and the value of the wool to be imported and obtaining clearance from Finance in regard to foreign exchange is not at all convincing especially while processing an urgent indent to meet Defence requirements. The Committee consider that the delay in this case was unreasonable and hope that Government would look into the procedural bottlenecks and see that better sense of priority is displayed in future.

36 2.129 Supply

At present only copies of acceptances of Tenders are sent to Income-tax authorities in a routine manner. The Committee recommend that in the present and similar cases the income-tax authorities should be specially informed of such unintended profits as have been made in this case to help scrutiny of the relevant tax-returns.

37 2.139 Do.

The Committee feel that the delay that occurred in processing this transaction was avoidable. They would urge Government to ensure that the tenders are decided well before the expiry of the offers of the tenderers.

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38	2.140	Supply	<p>The Committee strongly feel that in this case the proposal for negotiation was itself not well conceived. It was only subsequently that a view was taken that "with regard to textiles the tendency has been to increase the prices all the time and therefore for sometime to come we may have to consider placing orders at whatever prices are available." The Committee would like to know how this fact was overlooked at the time the tenders were opened.</p>
39	2.159	Do.	<p>The Committee were informed that the delivery schedule was stipulated as 35,000 per month for the type of key bearing plates ordered taking the total capacity of firm 'B' into account. The Committee are at a loss to understand how this mistake was not corrected even after the firm had pointed out that they had offered the capacity in terms of the two types of the plates separately. The Committee hope that such omissions may not occur in future.</p>
40	2.160	Do.	<p>As against the original demand of 11.01 lakhs of two types of key bearing plates, risk purchases were made to the extent of 9.61 lakhs and damages amounting Rs. 5.23 lakhs had been claimed from firm 'A'. The Committee were informed that in a suit filed by the firm against the damages, the Calcutta High Court had held that there was no concluded contract and that the judgement was being examined. The Committee would like to know the outcome of the examination.</p>

According to the DGS & D firm 'B' finally backed out on account of the orders for the supply of sleepers placed on them by the Railway Board direct and the Committee note that firm 'A' had also similarly secured orders from the Railway Board. The Committee were given to understand that the cast iron bearing plates are purchased through the DGS & D whereas cast iron sleepers are purchased directly by the Railway Board. As some founderies make both of them, the Committee recommend that in order to have a co-ordinated procurement of these railway track items, the purchases should be entrusted to one agency. The Committee would like to be informed of the outcome of the reference made by the DGS & D to the Ministry of Supply for taking up the matter with the Railway Board in this connection.

Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI				
Jain Book Agency, Connaught Place, New Delhi	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	58
Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
Atma Ram & Sons, Kashmere Gate, Delhi-6.	2	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Gani, New Delhi.	88
J. M. Jaina & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
The Central News Agency, 25/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Narain-kari Colony, Kingsway Camp, Delhi-9.	96
The English Book Store, 7-L, Connaught Circus, New Delhi.	20	MANIPUR		
Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chasoba Singh, News Agent, Ramial Paul High School Annexe, Imphal.	77
AGENTS IN FOREIGN COUNTRIES				
Bahree Brothers, 188 Lal-patral Market, Delhi-6.	27	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON W.C.-2	59
Jayans Book Depot, Chapparwala Kuan, Karol Bagh, New Delhi	66			

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