

PUBLIC ACCOUNTS COMMITTEE

1955-56

NINETEENTH REPORT

[Appropriation Accounts (Defence Services), 1953-54]

VCL. I—REPORT



**LOK SABHA SECRETARIAT
NEW DELHI
August, 1956**

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†Earlier sittings relate to the 16th, 17th, 18th and 20th Reports of the Public Accounts Committee.

‡The observations etc. made in the proceedings of the 1st and 2nd sittings of the sub-Committee have been incorporated at appropriate places in the body of the Report. Hence not printed.

**References have been given to the various Appendices in the body of the Report. These appendices have been embodied in Volume II of the Report.

Composition of the Public Accounts Committee, 1955-56

Shri V. B. Gandhi—*Chairman.*

Members

2. Shri U. Srinivasa Malliah.
3. Shri Kamal Kumar Basu.
4. Shri Ramananda Das.
5. Shri Awadheswar Prasad Sinha.
6. Shrimati Ammu Swaminadhan.
7. Shri S. V. Ramaswamy.
8. Shri K. G. Deshmukh.
9. Shri Balwant Sinha Mehta.
10. Shri C. D. Pande.
11. Shri Diwan Chand Sharma.
12. Shri Y. Gadilingana Gowd.
13. Shri Uma Charan Patnaik.
14. Shri V. Boovaraghasamy.
15. Dr. Indubhai B. Amin.
16. Shrimati Violet Alva.
17. Diwan Chaman Lall.
18. Shri Ram Prasad Tamta.
19. Shri P. S. Rajagopal Naidu.
20. Shri Mohammad Valiulla.
21. Shri V. K. Dhage.
22. Shri B. C. Ghose.

SECRETARIAT

Shri S. L. Shakhder—*Joint Secretary.*

Shri V. Subramanian—*Deputy Secretary.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee to submit the Report on their behalf, present this Nineteenth Report on the Appropriation Accounts (Defence Services), 1953-54 and Audit Report thereon.

2. The Appropriation Accounts of the Defence Services for the year 1953-54 and Commercial Appendix thereto and the Audit Report, Defence Services, 1955 were laid on the Table of the House on the 22nd February, 1956.

3. The Committee examined these Accounts and Audit Reports thereon at their sittings held on the 25th, 26th, 27th, 28th and 30th April, 1956.

4. A brief record of the proceedings of each of the above mentioned sittings of the Committee has been maintained and forms Part II of this Report.

5. The Committee appointed a sub-Committee to consider the notes/memoranda furnished by the Ministry of Defence etc. pursuant to action taken by them on the earlier Reports of the Committee relating to the Defence Services Accounts, viz., Ninth and Fourteenth Reports. This sub-Committee held two sittings on the 21st and 22nd May, 1956. The important observations made by this sub-Committee have been embodied at appropriate places in Chapter VII of this Report which deals with the Outstanding Recommendations.

6. Another point which needs to be mentioned here is the decision taken by the Committee to take up from next year onwards the examination of the Statement of losses of cash, overpayments, irrecoverable claims, etc., due to theft, fraud and neglect or other causes contained in Appendices 'A' and 'B' to the Appropriation Accounts (Defence Services). To make a beginning in this direction, the Committee decided to take up a few selected items contained in the Appendices 'A' and 'B' to the Accounts under report. This task was also assigned to the afore-mentioned sub-Committee. With a view, however, to study the implications of the loss arising in each case and the remedial measures taken to prevent such losses as also to consider the adequacy or otherwise of the disciplinary action taken against the persons found at fault, the sub-Committee examined the Financial Adviser, Defence Services in this connection at their sitting held on the 26th May, 1956. The sub-Committee had to call for further information on certain points which emerged from their discussions. This is still awaited.

The proceedings of this sitting of the sub-Committee are also embodied in Part II of this Report.

7. A statement showing the summary of the principal recommendations/observations of the Committee is also appended to the Report (Appendix II).

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

V. B. GANDHI,
Chairman,
Public Accounts Committee.

SIMLA,
29th June, 1956.

I

**FINANCIAL WORKING OF THE GRANTS RELATING TO THE
DEFENCE SERVICES, 1953-54**

The following table compares the original and final grants and appropriations with the actual expenditure for the year 1953-54:

(In lakhs of rupees).

	Original Grant or Approp- riation	Final Grant or Approp- riation	Actual Expenditure
Total expenditure met from Revenue— (Voted) (Charged)	2,16,49 ·07	2,19,97 ·07	2,02,28 ·06
Total expenditure met from Capital— (Voted) (Charged)	18,00 ..	18,00 ..	10,69 ..
Grand Total :— (Voted) (Charged)	2,34,49 ·07	2,37,97 ·07	2,12,97 ·06

There was thus a saving of Rs. 2,500 lakhs or 10·5% over the final grant during the year 1953-54.

2. The following table shows at a glance the savings on voted grants as compared with the previous years:

(In lakhs of rupees)

Year	Final Grant	Savings	Percentag of Savings
1949-50	1,87,91	19,42	10·3
1950-51	2,03,10	17,08	8·4
1951-52	2,17,28	20,83	9·6
1952-53	2,33,66	25,51	10·9
1953-54	2,37,97	25,00	10·5

3. *Savings on voted Grants.*—Savings of Rs. 25 crores representing 10·5% of the total voted Grant occurred mostly under Army, Navy and Defence Capital Outlay during the year under report and were the highest under Capital Outlay, namely, 40·6 per cent. The corresponding percentages in 1951-52 and 1952-53 were 37 and 34·6 respectively.

4. Savings ranging from 8—10% in the sanctioned grants have become the *regular feature* of the Defence Grants during the last 5 years commencing from 1949-50.

5. *Control over expenditure.*—A few important cases of defective control noticed during the year under report are mentioned below.

6. The savings on Defence Capital Outlay, as in previous years, continued to be abnormally high, being nearly two-fifths of the total vote. One of the chief causes of the large savings in the grants

for Works Expenditure etc. lies in the practice of making budget provision for items which had not reached a stage of maturity sufficient to enable them to be executed in the budget year. Appendix G to the Appropriation Accounts contains a number of instances where savings were attributed to "slow progress of work" and "defective planning".

7. *Unnecessary supplementary grants.*—Of a total supplementary grant of Rs. 60 lakhs obtained under Grant No. 12-Army, Rs. 40 lakhs were accounted for under sub-Head 'D' Transportation and Miscellaneous. This provision, however, proved unnecessary as there was a final saving of Rs. 64.5 lakhs under the above sub-head.

8. *Non-surrender of savings.*—The Accounts under report also afford a few instances of inadequate surrender of savings under all the 5 Grants.

9. In Para 9 of their last Report on the Defence Services Accounts (Fourteenth Report), the Committee had drawn pointed attention to the lapse of appropriations which were indicative of defective preparation of Defence Estimates. The Committee regret to observe that these defects have continued in the Accounts under Report as well.

10. The Committee would like to re-affirm and repeat the observations made by them last year that lapses of funds immobilise large sums of money which could have been utilised for more beneficial purposes by the Government in other Departments or spheres of activities. The tendency on the part of spending Ministries and Departments to over-estimate and pad their needs for securing a safe margin shows not only a lack of planning on the part of the Ministries but would also, the Committee feel, be detrimental to the effective implementation of the development plan which the country has set for itself. It is, therefore, imperative that effective action should be taken by the Ministry of Defence in consultation with the Ministry of Finance (Defence) to evolve a better mechanism for budgetary control.

11. The Accounts under report also disclose that in one works project, nearly 31 per cent. of the total cost of stores collected was in excess of actual requirements. In another case, stores were procured for works even before administrative approval had been accorded and funds obtained. These cases go to indicate that the procedure relating to execution of works in the Defence Services needs strict enforcement.

12. The Committee's attention has also been drawn to another important feature, viz., that there had been undue rush of expenditure during the last month of the year, the expenditure in the last month being nearly three times the monthly average of the first eleven months of the year. The Committee understand that this was due to postponement of payments to contractors and settlement of claims till the closing month of the year. The Committee would suggest that payments should be spread out evenly throughout the year by meeting the liabilities as and when they arise, as payments made in haste at the end of the year might well lead to overpayments, errors and relaxation of prescribed checks.

II

WORKS EXPENDITURE—MILITARY ENGINEERING SERVICE AUDIT REPORT, DEFENCE SERVICES, 1955

13. *Para 7—Commencement of Works without technical sanction.*—According to this para. in 76 contracts costing Rs. 45.1 lakhs which were concluded during the year 1953-54, tenders had been issued before technical sanctions had been accorded to the works. In some cases the time-lag between the date of administrative approval and the date of technical sanction ranged between 6 and 30 months. All this was being done inspite of standing instructions to the contrary.

14. Similar irregularities were also reported through paragraph 8 of Audit Report, Defence Services, 1954 and the Committee had commented on them in paragraph 15 of their Fourteenth Report.

15. During the course of their examination, the Committee were informed that these irregularities occurred because of a misunderstanding of the instructions issued by the Ministry of Defence to the Engineer-in-Chief's Branch and it was only in October, 1952 that a clarification was issued to the effect that the works estimates should be prepared and technical sanction issued *before* tenders were invited.

16. The Comptroller and Auditor-General, however, pointed out that the 76 cases reported in the audit para related to cases which occurred after issue of the clarificatory orders cited above and that one Command alone was responsible for 73 out of the 76 cases and most of these were in non-operational areas.

The Committee learnt from the Engineer-in-Chief that the drawings, specifications and schedule of works were always prepared and finalised in all cases on the basis of estimates without which the tender documents could not be issued to contractors for submitting quotations. The technical sanctions in 43 of these cases were issued after the commencement of the work, ranging from 2 days to one year.

17. The Committee are not convinced with the explanation. They find it difficult to accept the plea that the orders in this regard issued by Government were ambiguous, inasmuch as this irregularity was conspicuous only in one Command. They find it further difficult to understand why the technical sanction could not be issued in time if all the codal requirements had been observed as claimed by the Engineer-in-Chief. In their opinion, the issue of technical sanctions after the commencement of the work does not rectify the original irregularity.

The Committee thought that the Ministry's decision to get the administrative approval to undertake a work at least six months before the actual construction was taken in hand—*vide* para 15 of their Fourteenth Report—was taken with a view to enable the

Military Engineering Service to adhere to this requirement even in cases of emergent work as far as possible. They, therefore, view with strong disfavour such deviations from the prescribed procedure.

18. *Para 8—Advance collection of stores for unsanctioned works.*—Stores worth Rs. 3·88 lakhs for two works were acquired before administrative approval had been accorded or funds allotted. The cost of acquisition of the stores was adjusted against other sanctioned works. The irregularity could thus escape immediate detection. As the works for which stores had thus been acquired were not finally sanctioned, the stores had either to be transferred to the Engineering Park in the Station or to other outside Divisions or utilised on other works in the station. Such premature acquisition of stores resulted in an infructuous expenditure of Rs. 28,191 on account of cost of transportation both inwards and outwards of the surplus stores which had ultimately to be transferred to outside Divisions.

19. In evidence, it was stated before the Committee that this case related to three works. Two of them related to provision of accommodation for vehicles; one of them had the administrative approval and allotment of funds; for the second work, there was administrative approval but no funds had been allotted. The third work which the Engineer-in-Chief himself admitted as a 'bad case' related to construction of accommodation for married officers for which there was neither administrative approval nor allotment of funds. In extenuation it was explained that as the work of construction of married officers' quarters was considered extremely urgent, in order to save time, the authorities had collected stores in advance of administrative approval and of provision of funds as there was difficulty about transport and procurement of stores in those days. The Committee could not, however, obtain nor was the Engineer-in-Chief in a position to adduce any reason why this work if it was at one time considered extremely urgent, had not been proceeded with.

20. The Committee view with concern the irregularity of debiting the estimate of sanctioned works with the cost of stores procured in advance in respect of unsanctioned works, inasmuch as it involved fictitious adjustment of the cost of these stores. In many cases the irregularity would escape detection unless the work in question was ultimately not sanctioned as it happened in the present case. The Committee were rather amazed at the attitude of the Engineer-in-Chief which meant that theoretically there was nothing objectionable in resorting to this expedient. The Defence Secretary, however, assured the Committee that steps would be taken to avoid similar irregularity in future. Such expedients which lead to fictitious adjustments in the accounts of works should be dealt with severely as they, if allowed to go unnoticed, would throw out of gear the mechanism of control over works expenditure.

The Committee observe from a note submitted to them (Appendix I) that the disciplinary aspect of this case is now being pursued, and that instructions are being issued to ensure that in no case stores acquired for one project are debited to another.

21. *Para 9—Loss and infructuous expenditure due to over-provisioning of stores for a works project.*—During the period 1948 to 1951 stores worth about Rs. 15·97 lakhs were acquired for a project while only Rs. 10·95 lakhs worth of stores were required and actually used in the project. There was thus an over-provisioning to the extent of Rs. 5·02 lakhs and it included the acquisition of stores like tin gusset sheds, sisoo loks etc. valued at over Rs. 99,000 which were not required in the works. This over-provisioning resulted in a loss of Rs. 44,967 on sales, deterioration and deficiencies of stores and on transportation, excluding handling and storage charges.

22. In evidence, the Committee were informed that this was a rush work and the project underwent changes from time to time during execution. Originally, there was to be an increase in the size of the project and then there came a reduction. This resulted in over-provisioning.

In reply to a question whether the responsibility had been fixed for the loss of Rs. 44,967 the representative of the Defence Ministry informed the Committee that the information he had was not sufficient for him to say whether in actual fact the enquiry was sufficiently detailed or not and he agreed to give the information to the Committee in due course. From a Memorandum (Appendix II) submitted by the Ministry the Committee note with regret that at this distant date Government found it difficult to hold any individual officer responsible for the irregularity and that, therefore, no disciplinary action was now possible. The Committee find it difficult to accept the explanation and regret that no action was taken in time.

23. *Para 10—Use of costly materials in building construction.*—Administrative approval for the construction of certain buildings in a factory stipulated that the floors should be of either poured cement or re-inforced cement concrete slabs. While the work was in progress, these specifications, were replaced by costlier specifications like polished coloured cement tiles, terrozo tiles and black marble at an additional expenditure of about Rs. 207 lakhs, for alleged 'engineer reasons' and for the reasons that the improved specifications were the minimum consistent with good finish, and that rainfall was heavy in that locality.

24. The Committee were informed by the representative of the Defence Ministry that during the course of execution, this project was visited by the then Defence Secretary, the Engineer-in-Chief and also the foreign experts who were in charge of the project and they decided that the flooring should be changed according to the new specifications. It is apparent therefore, the change over to costlier flooring was at the user's instance and not due to "engineer reasons". The administrative buildings of the factory were reported to have flooring only according to the original specification. In the opinion of the Committee, the extra expenditure of Rs. 2·7 lakhs incurred in this case lacked justification.

25. *Para 11—Infructuous expenditure involved in the provision of reserve storage of mechanical transport fuel.*—In September, 1952, sixteen tanks were erected at a station for reserve storage of

petrol at a cost of Rs. 7 lakhs approximately. Twelve of these tanks were not brought into use at all; in the remaining four heavy evaporation losses were noticed. The abnormal losses had been attributed to the fact that the tanks were of bolted type which was unsuitable for long-term storage of petrol. All the sixteen tanks were reported to be lying unused since January, 1955.

Before erection of these bolted tanks, the manufacturers' representative in India had stated as below:—

“The tanks are quite suitable for the storage of petrol and oil on a short term policy for which they are designed. It is, however, considered inadvisable to convert them either to rivetted or welded tanks due to their design”.

A big oil Company whose opinion was also sought stated as follows:—

“Bolted tanks have been used in war time for storage of 100 Octane fuel, but they cannot be considered a permanent structure. Our experience of such tanks in the past has been that, once the packing deteriorates between the joints it is most difficult to prevent the tank leaking or seeping and high working losses occur.”

26. In the course of their examination, the Committee were informed that the decision to erect bolted tanks was taken urgently to meet a temporary emergency, and erection of welded tanks, which undoubtedly would have prevented loss due to leakage and evaporation would have taken longer time. As these bolted tanks were available in stock it was decided to erect the bolted tanks notwithstanding the known disadvantages of these tanks.

27. The authorities had now on hand a scheme for the erection of welded tanks of 2½ million gallons capacity and the tanks needed in this connection were in their possession. In reply to a question as to why these welded tanks already in possession were not utilised in September, 1952, when it was decided to erect sixteen bolted tanks, the Committee were told that these tanks could not be salvaged in an emergency.

28. The Committee find it difficult to accept the above explanation. They are surprised why even after a period of seven years since the cessation of hostilities in 1945, these welded type of tanks could not be salvaged and kept in readiness for use in an emergency. The Committee regret the lack of diligence in this matter.

III

PURCHASE OF STORES

AUDIT REPORT, DEFENCE SERVICES, 1955

29. *Para 12—Purchase of Stores from the United Kingdom.*—As a result of the provision review conducted in July, 1951 of a certain item of store, it was estimated that by the end of March, 1954 there would be a deficiency of 1,26,247 numbers in that item, after setting off 4,000 numbers due under a previous indent pending in the United Kingdom, but without taking into account 2,92,000 numbers of that store due under the manufacture orders already placed partly in September, 1948 and partly in September, 1950 on the Director-General, Ordnance Factories. To meet the deficiency, the Master General of Ordnance placed an indent on the United Kingdom in August, 1951 for 2,50,000 numbers so as to have a surplus of 1,24,000 numbers as a reserve against possible deterioration in storage and also increase in demand. At about the same time, it was decided that the pending orders on the Director General, Ordnance Factories should neither be cancelled nor reduced as the supply from the United Kingdom would be problematical and that even if the quantities on both the orders materialised, the surpluses could be adjusted against future maintenance requirements. Subsequent provision reviews in April 1952, 1953 and 1954, however, disclosed that even without reckoning the supply from the Director General, Ordnance Factories there would be increasing surpluses after meeting the requirements of even extended periods upto March, 1957. According to the Audit Report, the placing of an order for 2,50,000 numbers on the United Kingdom in 1951 therefore lacked justification. Further, no effective action even after the 1952 review to cancel the orders was taken till March, 1954 when orders were issued to the Director General, Ordnance Factories to suspend production. This delay in cancelling the order on the Ordnance Factory involved a loss of Rs. 15.56 lakhs on the assembly of materials which could not be put to any other use, and another sum of Rs. 1.07 lakhs had been spent on trials.

30. Further, when placing the order on the United Kingdom, the Master General of Ordnance had distinctly stated that the stores should be of recent manufacture. But although the Military Adviser to the High Commission was aware that the stores should be of recent manufacture, he did not specifically put this requirement to the supplier. The sale agreement was marked with an unknown abbreviation 'N.S.'. The Military Adviser did not obtain any clarification of this abbreviation from the suppliers. The result was that stores of old war-time stock were supplied on the plea that the abbreviation 'N.S.' meant non-surplus. Thus, Government were saddled with the old stock of the value of Rs. 25.53 lakhs.

31. Explaining the reasons for not cancelling the orders placed on the Director-General, Ordnance Factories which resulted in the

accumulation of materials by the Ordnance Factories, the Defence Secretary stated that the orders were placed on the Director General, Ordnance Factories in the hope that he would execute them. Until now no use had been made of the materials assembled and it was with a view to use them that the Director General, Ordnance Factories had now asked for an order of 50,000 numbers being placed with him. This, the Defence Secretary added, was a kind of an 'educational order' with a view to use the stores worth Rs. 15.56 lakhs.

32. Explaining his side of the case, the Director General, Ordnance Factories informed the Committee that the factories experienced much difficulty in the earlier stages of production of this store especially because of non-availability of the right type of steel; he could not, however, state when the steel became subsequently available. He added that when the factories were nearing the production stage the orders were cancelled. He informed the Committee that if the order for 50,000 numbers was placed, he would be able to foreclose the order without loss to Government.

The Committee agree with Audit that the orders placed in September, 1948 and 1950 on the Director-General, Ordnance Factories which were still outstanding should have been cancelled immediately after the review in April, 1952. The Committee can see no reason why effective action was not taken till March, 1954, when at last production was suspended, although the matter was under correspondence between Army Headquarters and the Director General, Ordnance Factories from June, 1953. In any case, there was no justification for retaining the bulk order in tact when even after 4-5 years (the first bulk order was placed on the Director General, Ordnance Factories in 1948), the Director General, Ordnance Factories could not establish manufacture.

33. The Committee were surprised at the remark of the Defence Secretary that the Director General's present request for an order for the manufacture of 50,000 numbers of this store was in the nature of an "educational order". In the opinion of the Committee, it was rather too late at this stage for an "educational order" when two bulk orders had been placed years back and materials worth several lakhs had already been assembled. This kind of an explanation only raises grave doubts in the mind of the Committee about the way in which defence factories are allowed to work.

34. In the matter of promoting indigenous production of war-like stores by the Ordnance Factories with a view to make the Defence Services self-sufficient as far as possible, the Committee appreciate that occasional failures are inevitable in technical progress. They do not therefore want to make any comment which will discourage experimental zeal and initiative on the part of officers. Nevertheless, the Departments should constantly bear in mind the important financial as well as technical considerations involved in their decisions on such points and the Committee feel that the technical officers in charge should see that designs or processes involved have sufficiently passed the experimental stage to justify expenditure on a considerable scale upon them. They would, therefore, suggest that

normally the process should begin first with an experimental or educational order, with a view to establish the technique of production. Secondly, there should be a trial order for manufacture to determine the economic cost of production and finally orders on large scale can follow. In the matter of placing orders on Director General, Ordnance Factories by the Defence Services, the Committee would observe that while urgency of requirement may be an important consideration, delays in cancelling orders placed on the Director General, Ordnance Factories when there are surpluses and the stores are not needed immediately may be attended by financial as well as operational disadvantages. For instance, such delays might involve continued expenditure on obsolescent types and that, in times of rapid technical advance, the operational life of new types might uneconomically be shortened by their belated arrival into service. The Committee, therefore, suggest that in the interests of operational efficiency, all pending orders should be reviewed periodically with a view to reassess the needs in the light of the latest trends both in technique and demand.

35. Turning to the other point arising out of this case, viz., the purchase of stores from the U.K. which were not according to the specifications of the Master General of Ordnance the Committee were informed by the Master General of Ordnance that to the best of his knowledge, the abbreviation 'N.S' appearing in the sale agreement was not used in the Army, nor in the War Office in the United Kingdom and he could not say how this came to be interpreted as "new stock". The Defence Secretary admitted that too much had been made out of this abbreviation by persons who tried to explain why the stores were received in unsatisfactory condition; and the interpretation "New Stock" put thereon was an after-thought.

36. The Committee consider the entire sum of Rs. 25.53 lakhs as a dead loss to Government as the stores in question were more than 10 years old when they were supplied and should, therefore, have lost most of their operational efficiency. They deplore the heavy financial loss to Government which was due to a serious lapse on the part of the Military Adviser to the High Commissioner in London. Apart from the financial loss, another aspect which increases the magnitude of the lapse and to which the Committee would draw attention is that the supply of obsolescent stores instead of stores of recent manufacture urgently needed by the Defence Services, might seriously have undermined the defence of the country. The Defence Secretary informed* the Committee that the matter was under investigation and a further report would be submitted to the Committee. That Report is awaited.

37. *Para 13—Procurement of mechanical transport vehicles.*—In this case, the provision reviews of mechanical transport vehicles revealed a surplus of 7,875 for 1950-51, 3,474 for 1951-52 and 6,507 for 1952-53 in a particular type of vehicle (3 ton 4x2 type). In spite of these surpluses, orders were placed during 1950-51 and 1951-52 for 4550 new vehicles, with two Indian firms, at a cost of about Rs. 690 lakhs. According to Audit, the procurement of these vehicles was more in pursuance of an undertaking given to these firms to utilise their capacity than on the estimated requirements

* See Appendix III.

of the Defence Services. In these reviews of mechanical transport vehicles, only 50% of the repairable pre-1948 vehicles used to be counted as asset. This percentage was *ad hoc* and not fixed on the basis of condemnation reports issued by workshops. Even if the entire fleet of pre-1948 repairable vehicles was ignored, the stock of fit post-1948 vehicles exceeded the estimated requirements.

38. In his evidence, the Defence Secretary stated that at that time there was a deficiency of 3 ton 4x4 type vehicles and to meet this deficiency to a certain extent, Government placed an order with these two firms for 4x2 type of vehicles as the firms had not developed the manufacture of 4x4 type of vehicles and 4x4 type vehicles were unobtainable. He added that while this might be looked upon as certain consideration having been shown to the firms, the primary consideration for placing the order was not so much to encourage these firms as the urgent needs of the Defence Services for some new vehicles.

39. In reply to a question, the Committee were informed that the over-all surplus or deficiency in 4x4 and 4x2 type of vehicles was as under:—

Year	(+) Surplus (—) Deficiency	
	4 x 2	4 x 4
1950-51	+7,875	—2,127
1951-52	+3,474	—8,121
1952-53	+6,507	—3,671

40. The Committee regret to observe that no convincing reply could be furnished to them for the large deficiency in 4x4 type vehicles in 1951-52 in particular, the year in which the bulk of the orders was placed with the two firms.

41. The Defence Secretary informed the Committee that the Army Authorities were not satisfied with the condition of the so-called 'fit' vehicles and in order to assess the precise position, Government had obtained the services of a foreign expert to visit the depots and report on the condition of the vehicles. His report was still awaited. In fact, the General Staff had formulated a plan involving an outlay of Rs. 75 crores over a period of 5 years for acquiring a satisfactory fleet of vehicles which was under consideration.

42. While the Committee appreciate the necessity to equip the Defence Services with an adequate number of new vehicles they have got the impression that in the present case the needs of the Army were not uppermost in the minds of the authorities when the orders for 4x2 vehicles were placed with the firm to make up the deficiency in 4x4 vehicles. The impression was further reinforced when they were given to understand that 4x2 vehicles were of the civilian type meant for roads while 4x4 type vehicles were of the military type and meant for cross-country purposes.

43. The Committee were rather concerned at the statement of the Defence Secretary that the figures disclosed as a result of provision reviews did not reveal the correct position and that the Army

Authorities were contesting them. At the instance of the Committee, the Ministry of Defence have submitted to them a note (Appendix IV) stating the existing procedure for categorisation, discard and condemnation of vehicles. The Committee observe therefrom that all fit stocks of vehicles held by the units and depots are periodically inspected by the technical authorities and an elaborate procedure has been laid down in this behalf. As regards the *ad hoc* rate of 50% for reckoning pre-1948 repairable vehicles and 100% for pre-1948 fit and post-1948 vehicles as assets, the Committee observe from this note that in the Ministry's opinion, these formulae had their own limitations. While in technical matters the Committee would prefer to leave the decision to the Ministry in consultation with their technical experts, all that the Committee would desire is that adequate safeguards be provided against hasty discards.

The note adds that as a result of review in 1952, it was discovered that approximately 30,000 'B' Vehicles were surplus to Army requirements. Out of these, Government's approval for the disposal of 13,743 vehicles was obtained in 1953. Since then 8,434 vehicles were stated to have been already disposed of by the Director General, Supplies and Disposals and the remaining 5,309 vehicles were in the process of being retrieved and progressively declared to the Director General, Supplies and Disposals for disposal. The Committee should like to be informed of the latest position at the time they take up consideration of the next year's Accounts.

44. The Committee appreciate the need for equipping progressively the Defence Services with better, more reliable and later type vehicles; but they would like to emphasise that all vehicles rendered surplus in this process should be declared as surplus without any loss of time and disposed of before they lose their re-sale value.

45. *Para 14—Non-utilisation of spares procured for mechanical transport vehicles.*—Provision was made for spares at a cost of about Rs. 57 lakhs, for the overhaul of 39,000 pre-1948 mechanical transport vehicles (all types) on a three year programme beginning from 1st October, 1952. But the number of vehicles actually overhauled between 1st October, 1952 and 31st May, 1955 (that is 4 months short of 3 years) was 8,659 only which included 816 post-1948 vehicles. Audit suggested a re-examination and review of this position as according to them by the time the remaining 31,000 vehicles were overhauled, many of these might become unserviceable and large quantities of spares might be rendered surplus.

46. In the course of examination of this case, the Committee were informed by the Defence Secretary that after this was pointed out by Audit, indents to the value of approximately Rs. 30.5 lakhs had been cancelled. The Master General of Ordnance informed the Committee that when they first estimated their requirement of these spares, they anticipated that it would be possible for them to do the repairs to 39,000 vehicles on the scales of the type of repairs that were then in practice but subsequently they found that their capacity was not at the rate of 13,000 vehicles which was estimated at one time. He, therefore, admitted that the estimate of 13,000 was rather over-ambitious and conjectural. The Defence Secretary, however, assured the Committee that Government had set in motion

a project to improve the over-hauling capacity of the Workshops and hoped that the capacity would not fall down further. The Committee desire to be furnished with a note stating the present position of overhaul of the remaining 31,000 vehicles and also whether the existing workshop capacity was being fully utilised.

47. *Para 15—Infructuous expenditure due to cancellation of a demand.*—As a result of the provision review conducted in April, 1951, of a certain item of store, it was estimated that by the end of March, 1954, there would be a deficiency of 1,16,000 numbers, after taking into account the demands placed in 1948 on the United Kingdom and the Director-General of Ordnance Factories for 6,85,000 numbers and 6,20,000 numbers respectively which were outstanding to the extent of 6,85,000 and 3,71,340 respectively on 1st April, 1951. Accordingly the Master General of Ordnance placed a further indent for 1,16,000 on the Director-General of Ordnance Factories in September, 1951. The review conducted in October, 1951 disclosed an estimated surplus of 6,85,675 (excluding the order placed on the Director General of Ordnance Factories in September 1951) at the end of March 1953. Subsequent provision reviews revealed similar estimated surpluses. No action was taken either to cancel or to reduce the outstanding demands as a result of the review on 1st October, 1951. Action was initiated in October, 1952 (after the review on 1st April, 1952) to cancel the demand on the United Kingdom but intimation was received in February, 1953 that it could not be cancelled without financial repercussions. Orders on the Director General of Ordnance Factories to stop production were, however, not issued till May, 1954. Actual production was stopped from August, 1954. By this time, the Director General of Ordnance Factories had not only completed the previous outstanding of 3,71,340 numbers, but also 58,300 numbers (valued at Rs. 15.08 lakhs approximately) against the fresh order for 1,16,000 and for the remaining 57,700 numbers, stores worth Rs. 16.26 lakhs had been accumulated by the Ordnance Factories in various stages of manufacture. According to the Audit Report, no reasons had been adduced why action was delayed to cancel or reduce outstanding demands either in respect of the orders pending with the United Kingdom or with the Director General of Ordnance Factories.

48. The Committee were informed by the Defence Secretary that it was as a result of the provision review conducted in April, 1951, which disclosed a deficit, that the demand was placed with the Director General of Ordnance Factories, in September, 1951. In October, 1951 an interim review was conducted and it revealed a surplus. The subsequent regular review conducted in April, 1952 which was completed in August, 1952, also showed further surpluses and action was taken in October, 1952 to cancel the order placed for the supply from the United Kingdom. Stating the reasons why the order with the Director General, Ordnance Factories was not cancelled immediately, the Defence Secretary observed that the Director General, Ordnance Factories was expecting an order from a foreign Government which, however, did not materialise; and this was known in November, 1953 only. The results of the 1953 review were known in July, 1953 and action was immediately taken to restrict production by the Director-General, Ordnance Factories from 15,000 a month to 4,000 a month. The decision to discontinue

production by the Director General, Ordnance Factories was taken in June, 1954, after discussion between the Ministry and the Director General, Ordnance Factories. The Defence Secretary admitted that the time-lag of about 7 months between November, 1953 and June, 1954 when the decision to suspend the manufacture was taken was too long.

49. The Committee then desired to know the reasons for conducting a review in October, 1951. In reply, the Committee were informed that "the provision review in October, 1951 was carried out only in respect of the United Kingdom War Office Supply items with a view to placing firm demands on the United Kingdom for the following financial year as forecast demands only were placed on the United Kingdom as a result of the April, 1951 review". If the purpose of the review in October, 1951 was as stated by the Ministry, the Committee are at a loss to understand why the Ministry waited till October, 1952 to approach the United Kingdom authorities for cancelling the order. It was urged that "in view of the emergency conditions prevailing in the country in 1951 and thereafter, no action to cancel the demands on United Kingdom was undertaken". The Committee regret to observe that this is hardly convincing.

50. Nor were the reasons furnished for not cancelling or reducing the order on the Director General of Ordnance Factories as a result of the review in October 1951, acceptable. The Committee are not aware whether any formal orders were placed by the foreign Government on the Director General, Ordnance Factories for this store and, if so, when. They are amazed that the Director General, Ordnance Factories should have been allowed to continue production at full speed when there was a surplus of these stores with the Defence Services. Considering the financial implications involved (50,000 numbers of the store cost about Rs. 15 lakhs approximately) the Government should have, in accordance with ordinary business principle, asked for a firm order from the foreign Government. If such a demand had been received it should not have been allowed to be withdrawn without financial repercussions. The Committee regret to observe that this is one of the instances which indicate the unsatisfactory state of working of the Ordnance factories.

51. As regards the criticism of over-provisioning, it was urged by the Defence Secretary in extenuation that the surpluses were computed on the assumption that the supplies would be coming from the United Kingdom as expected; but in actual practice these assumptions proved wrong. Another consideration was the possibility of the stores getting older and consequently being rejected for which a margin was always necessary. Actually, 2,69,000 numbers were reported to have been rejected.

52. The Committee learnt from certain figures read out to them that the actual issue in 1950-51 for practice was only about 20% of the annual practice allowance and 15% in 1951-52. In reply to a question why the scales of annual practice allowance were fixed without any relation to the actual issues, the Ministry of Defence have stated* that the annual practice allowance has been fixed with the object of bringing the units back to the high standard of peace

*See Appendix V.

time training and to rectify the weakness of inadequate training during war time when units were not allowed facilities of range practice as available during peace time.

53. While the Committee appreciate the need to maintain the Services in good trim, they would reiterate their remarks in para 34. In the Committee's opinion, the existing system of provision reviews calls for a thorough and detailed investigation of the bases on which the provision reviews were made and the estimates of requirements were acted upon.

54. *Para 16—Acquisition of unwanted stores*—In November, 1953, an indent was placed on the Director General, India Store Department, London for a certain ordnance store and a contract for supply was concluded in April, 1954. The indenter, in May, 1954, asked for cancellation of the indent for the reason that this particular item had been superseded by another. The suppliers, when approached in June, 1954, did not agree to the cancellation of this item without full compensation, with the result that obsolete stores worth Rs. 36,000 had to be accepted. According to the Audit Report the fact of supersession came to the knowledge of the indenter in February, 1954 and if he had taken prompt action to cancel the indent, the loss would have been avoided, as the contract was made only in April, 1954.

55. The Defence Secretary admitted that there had been delay in taking steps to cancel the order and timely action would have avoided the placing of the order. The Committee were informed that the delay in cancelling the indent was not due to any defect in the existing procedure but due to non-compliance with the procedure. In the Committee's view, this case calls for disciplinary action. The Committee understand that this matter is now being looked into by the Ministry of Defence. The Committee should like to know in due course the action taken against the persons responsible.

56. *Para 17—Over-provisioning of stores*.—This para sets forth a number of cases where there had been over-provisioning of stores. Taking into account the "dues in" the extent to which savings could have been effected had timely action been taken to cancel or reduce the orders placed either in the United Kingdom or on the Director General. Ordnance Factories, as soon as surpluses were noticed, has been computed by audit to be Rs. 196 lakhs.

57. In his evidence, the Defence Secretary informed the Committee that as a result of the re-organisation of the Army and the rejection of a very large quantity of stock on the recommendations of an Expert Committee, the present position of the surpluses under various categories of stores as shown in Para 17 of the Audit Report had considerably changed.

58. Explaining the reasons for the non-cancellation or non-reduction of orders placed with the Director General, Ordnance Factories or in the United Kingdom in time when these surpluses were brought to notice as a result of successive provision reviews, the Defence

Secretary said that first, quite a lot of stock of these stores was likely to deteriorate very rapidly and the Army authorities were naturally unwilling to place too much reliance on the stock as it then existed and secondly so far as the Orders placed with the Director General, Ordnance Factories were concerned, they were rather unwilling to cancel them because they wanted the Ordnance Factories to develop the technique of manufacture and produce stock. He also added that the so-called surpluses were only on 'paper' as the figures given in the Audit Report did not represent the physical stock in hand.

59. As regards the first point, the Committee feel that heavy accumulation of stock will inevitably be accompanied by heavy discards and to avoid such a contingency, and consequential financial losses, periodical provision reviews have been devised to set right the position. If the results of such reviews do not disclose the position in its true perspective, as it is alleged, the Committee would urge that steps should be taken to remedy that defect.

60. As for placing orders on the Director General, Ordnance Factories the Committee appreciate the policy mentioned above. They do not, however, understand why such large orders should have been placed if the purpose was only "educational".

HINDUSTAN AIRCRAFT LTD.

61. *Para 19 of Audit Report, 1955—Purchase of unsuitable aero-engine bearings.*—Aero-engine bearing valued at Rs. 50,618 from "war surplus" stocks of the United States of America were purchased by the Hindustan Aircraft Ltd. (H.A.L.) in October, 1951 from a foreign firm through their representatives in India and were accepted on the testimony of Aircraft Inspectors licensed by the American Civil Aviation Authorities. Out of a consignment of 360 bearings, 241 valued at Rs. 33,856 were, however, found to be undersized in January, 1952. Instead of taking up the matter immediately with the supplying firm the Hindustan Aircraft Limited consulted the manufacturers of aero-engines about the suitability of these bearings. By the time the manufacturers declared the bearings unsuitable, nearly 15 months had elapsed and when the suppliers were addressed in the matter, they refused to replace the defective bearings and even contested that the undersized bearings were the ones supplied by them.

62. During the course of their examination, the Committee were informed that these bearings originated from war surplus stocks and were not received direct from the suppliers in United States of America who had since gone into liquidation.

In defence of their action in consulting the manufacturers of aero-engines, when it was detected that the bearings were undersized, it was stated that aero-engine manufacturers used all types of bearings and as the Hindustan Aircraft Ltd. had previously used undersized and alternative types of bearings when the engine manufacturers had certified to their suitability, it was considered worthwhile to consult them. While the Committee are not disposed to comment on this practice, they are of the opinion that the Hindustan Aircraft Ltd. were negligent in not addressing the suppliers simultaneously about the defective supply. Instead they waited for the

views of the aero-engine manufacturers for 15 months. In the Committee's opinion, had the representatives of the suppliers in India been apprised of the supply of undersized bearings in time, the possibility of the suppliers denying responsibility for the supplies could have been avoided.

63. The Committee were given to understand that the question of instituting legal proceedings against the representatives of the foreign firm in India was under consideration and that it would be possible to persuade the representative firm to take the defective bearings back.

64. The Committee would like to be apprised of the final outcome of the negotiations with the firm.

65. The Committee were anxious to know the present arrangements obtaining in the Hindustan Aircraft Ltd. for inspection of stores procured by them. They were informed that although in the present case, the Company had to rely on certificates given by the Civil Aeronautical Division in the United States of America, indents for stores were at present being routed through the India Store Department, London and India Supply Mission, Washington which had their own inspection wings. It is needless to emphasise the importance of inspection of stores especially intended for manufacturing aero engines and the like where a high degree of precision is essential. The Committee had occasion to comment in the past on such lapses in proper inspection and consequential loss to Government. The Committee trust that there are competent staff in the Inspection wing for this purpose.

IV

DEFENCE FACTORIES AND INSTALLATIONS

DIRECTOR-GENERAL OF ORDNANCE FACTORIES

66. *Para 20—*Planning and progressing of orders placed on Ordnance Factories.*—This para explains in detail the procedure in regard to planning and progressing of orders placed on the Ordnance Factories. It also indicates that planning and production in some of the Ordnance Factories had been defective. As many as 5,239 orders placed on Ordnance Factories upto the end of 31st March, 1952 were outstanding on the 31st March, 1954. More than half of these orders related to periods dating back from 3 to 6 years. The Committee were informed that Government had since appointed a Liaison Officer in March, 1955 to submit a detailed report about the delays caused in the execution of orders as also the steps taken to eliminate such delays etc. The Report submitted by this Officer was reported to be under the consideration of the Government.

Sub-para (iv) of Para 20 of the Audit Report outlines the procedure regarding the scrutiny of extracts outstanding with the Ordnance Factories in the following words:

“A scrutiny of outstanding Extracts is carried out periodically; and items which are of petty nature, where the preparatory and pre-production work required is excessive and out of proportion to the effective work load provided in the production sections of ordnance factories, are suggested for cancellation, provided no significant financial loss is involved.”

67. The Committee learnt that the procedure laid down in the above sub-para was “formally” decided upon at a meeting held in the Defence Ministry on the 8th November, 1954. The Director General, Ordnance Factories also stated that if this procedure had been introduced earlier there would not have been so many extracts outstanding. In the Committee’s opinion the above procedure is the usual procedure followed by any Production undertaking and as such should have been followed by the factories from the very beginning.

68. The Committee note that two detailed reviews have since been carried out as a result of which Indentors had been asked to cancel certain indents or to revalidate them. The number of outstanding extracts on 31st March, 1956 valued over Rs. 10,000 each is reported to be 39 for 1947-48, 408 for 1948-49 and 515 for 1949-50. These large outstandings indicate that neither the indenter nor the ordnance factories were functioning in the past in a business

*See also Appendix VII.

like manner. With a view to analyse the causes of delay in these cases, the Committee had asked for information on the following points:

- (a) the date of the order;
- (b) the date when action was taken to obtain the raw material;
- (c) date of arrival of the raw material; and
- (d) date when tests were carried out.

The information is still awaited.

69. The Committee also desire that they should be apprised of the recommendations made by the Liaison Officer in the matter of eliminating delays in the execution of orders in the Ordnance Factories and the action taken thereon by Government.

70. *Para 21—Manufacture in Ordnance Factories for stock purposes in excess of requirements.*—Ordinarily, the Ordnance Factories undertake manufacture only against firm demands from the Defence or other indentors. In certain cases, the factories manufacture items for stock in order to meet promptly any possible future requirements of indentors.

This para, however, indicates that stores required for stock purposes were manufactured in the Ordnance Factories without reference to issues during the previous years, resulting in unnecessarily large accumulation of stores. During the course of their examination, the Committee were informed that most of the stores have either been consumed or expected to be utilised in future production. The Defence Secretary also added that upto 1953, the production for stock purposes in Ordnance Factories was not based on any firm orders. The procedure has since been changed and now the Director General, Ordnance Factories could not undertake the manufacture of any item without a firm order.

71. From a note submitted to them, (Appendix VII) the Committee find that there were no "hard and fast rules" laying down the limit on the financial powers of the Director General, Ordnance Factories in incurring expenditure on manufacture of components for stock. "Depending on the nature of the stores, depending upon how easy or difficult it is to manufacture components against subsequent orders, depending on the idea of recurring requirements indicated, the Director General, Ordnance Factories has to make an intelligent anticipation if and to the extent to which stocks of certain components have to be built against anticipated requirements." The Committee are rather perturbed at this arrangement. Their examination of the Defence Accounts, as explained in the foregoing paragraphs led them to the impression that the demand for stores for the Defence Services was subject to violent fluctuations and unless carefully processed, would either result in heavy surplus entailing heavy condemnations for reasons of operational inefficiency because of long storage, or would hamper the efficiency of the Defence Services if in short supply. In fact, consecutive provision reviews disclosed in some cases exactly opposite results leading to subsequent cancellation of orders already placed on the

D.G.O.F. resulting in heavy financial losses. In these circumstances, the Committee doubt the wisdom of depending on the "intelligent anticipation" of the Director General, Ordnance Factories in the matter of anticipating the likely demand of the Defence Services. According to the Audit Report, the value of items manufactured for stock purposes in all the factories was Rs. 8.5 crores in 1952-53 as against Rs. 6.9 crores in 1951-52. The Committee would like a thorough survey of the existing stores in stock with a view to see what proportion of them could be declared to be operationally efficient and what will be the magnitude of obsolescent stock. Stock limits should also be fixed by Government.

72. *Para 22—Infructuous expenditure in an Ordnance Factory.*—In this case, an Ordnance Factory accepted an order for manufacture of 120 ingot moulds from another ordnance factory in January, 1952. Four moulds had to be supplied by November 1952 and thereafter 8 per month. The estimated cost was Rs. 1,940 per mould approximately. Till May, 1953, only 18 moulds could be supplied out of which 17 were rejected by the indenting factory as entirely unsuitable, having failed completely in test. The manufacture was, however, continued till January, 1954 by which time 24 more moulds had been manufactured all of which were rejected by internal inspection. At this stage, the Director General, Ordnance Factories transferred the order to the extent of 100 moulds to another factory and directed that the factory should improve its method of manufacture and supply 20 moulds in replacement of the rejected ones. The total expenditure incurred by the first factory in its attempt to manufacture moulds was Rs. 1,27,832 most of which proved nugatory.

73. In the opinion of the Committee this is clearly a case where a trial order should have preceded with a view to establish production before manufacture in bulk was undertaken. Had this procedure been followed in this case the infructuous expenditure to the extent of Rs. 1.27 lakhs would have been considerably reduced if not wholly avoided.

GENERAL OBSERVATIONS

74. The Committee are disturbed to observe that the preceding paragraphs disclose many shortcomings in the administration and working of the Ordnance Factories.

The previous Committee had also expressed the same opinion in para 36 of their Fourteenth Report, where they recommended the overhauling of the administration of the Ordnance Factories so as to utilise fully their installed capacity. The Committee note that the Ministry of Defence have since set-up a Defence Production Board under the chairmanship of the Minister for Defence Organisation with a view to securing fuller utilisation of the capacities of the Ordnance Factories and better co-ordination between the Defence industry and the Civil industry.

With the setting up of the Defence Production Board the Committee trust that increasing attention will be given to questions of

efficiency and to the close collaboration between technical and production branches and that things would improve in so far as production of stores for the Defence Services is concerned.

In the course of the visits to some of the Factories undertaken by the Committee for an on-the-spot study of their working, the Committee found that there was difficulty in finding work in certain factories and alternative works had to be taken to keep the organisation and skilled manpower together as war potential.

It might be necessary for preserving war potential and in the context of the wider policy of Government of maintaining full employment and of using productive capacity to the maximum extent possible, that Ordnance Factories should seek commercial orders. And it is a matter of policy.

75. The Committee would add that where open competition becomes effective, it is essential to adopt the most efficient and economic methods of production. For this purpose, the Committee would suggest increasing use of technical efficiency returns (i.e., returns of man-hours, percentage of waste etc.) and periodical investigation of comparative costs of production. To stimulate manufacturing efficiency, the Committee would recommend for the consideration of the Ministry the grant of incentives.

76. The Committee understand that the Ordnance Factories Re-organisation Committee (Baldev Singh Committee) have submitted a Report to Government in the matter of utilisation to the full idle capacity of the Ordnance Factories by undertaking manufacture of items of civil consumption. They would like to be furnished with a statement showing the recommendations and the action taken by Government to implement them.

V

STORE ACCOUNTING AND STOCK VERIFICATION

AUDIT REPORT, DEFENCE SERVICES, 1955

77. *Para. 23-Arrears in the linking of invoices with packing accounts.*—For stores purchased in the United Kingdom for the Defence Services, the Director General, India Store Department, London sends invoices showing details of quantities of stores, to the Controller of Defence Accounts concerned. Packing accounts in duplicate showing identical details are also sent by him to the consignees in India. One copy of the packing account with the certificate of the receipt of stores endorsed thereon is required to be sent by the consignee to the Controller of Defence Accounts through local Audit Officers who, after linking it with the relevant invoice received direct by him, is required to transmit it to the Director General, India Store Department London. The linking of the invoice with the receipted packing account ensures that all the stores paid for in the United Kingdom have been received in India and taken on charge in the books of the consignee in the Defence Services.

78. It has been reported by Audit that 4,475 invoices relating to the period 1948-49 to 30th September, 1954 remained unlinked till 31st March, 1955. These outstandings represent the value (£32,87,635 sterling) of the stores purchase overseas and paid for but the receipt of which in the consignee depots in India had not been verified.

79. During the course of their examination the Committee were informed that there had been some improvement in the state of affairs and that the position as on 29th February, 1956 was that only 1,649 invoices covering stores costing £12,67,687 sterling still remained to be linked with packing accounts. Out of these 1,649 outstanding invoices, 55 related to 1948-49; 145 to 1949-50; 116 to 1950-51; 181 to 1951-52 and 164 to 1952-53. The value of stores pertaining to these invoices was £2,67,000 sterling. The balance of about 1,000 invoices pertained to periods subsequent to 1952-53. The representative of the Ministry of Defence observed that the real problem was the linking of these 600 odd invoices relating to periods prior to 1952-53. In reply to a question regarding the steps taken to liquidate these old arrears. The Committee were informed that the matter had been taken up with the Indian High Commission in London and two officers had been deputed for the sole purpose of having these invoices linked with packing accounts. The Committee would like to watch the progress made by the special team.

80. Delay in the linking of invoices with packing accounts might entail losses due to shortage, pilferage or misappropriation and prevent fixation of responsibility in such cases of losses. The

Committee understand that these are valuable stores. They would, therefore, like to emphasise the importance of the timely linking of the invoices with the packing accounts. The war-time risks of stores going astray or documents being lost on high seas are no longer there now and the Committee see no good reason why the linking process could not proceed smoothly and efficiently. The Committee trust that linking of invoices relating to 1952-53 and onwards would be completed soon.

81. *Para 25—Stock verification in Army units and formations (other than factories).*—At the end of World War II, the Ordnance Depots were left in a very chaotic condition inasmuch as the units located outside sent back all the stores left with them to the depots without proper documentation. Even in the case of stores which arrived during the war, there was no proper documentation and as a result thereof no track could be kept of what was contained in different packages. To set matters right a process of re-organisation was started in June, 1950. It entailed the opening of all doubtful packages (the contents of which had not been verified in the past) and identification, checking, preservation and repacking their contents. The process disclosed considerable surpluses and deficiencies.

82. It has also been reported by Audit that in two of the depots in which the Reorganisation Scheme had been completed on 31st December, 1952, the first annual verification after the completion of the reorganisation disclosed the following surpluses and deficiencies:—

	Surpluses	Deficiencies
	Rs.	Rs.
**First Depot.	2,31,423	1,11,468
Second Depot	35,30,658	31,89,612
**(The value of discrepancies in respect of 571 items is still awaited).		

These discrepancies were attributed to the following clerical errors in posting, non-posting of official receipts, storage difficulties, discrepancies found in packages which were checked 5 per cent. at the time of receipt, certain location of stores remained unrevealed and issues made not supported by issue vouchers etc.

83. The Committee regret to observe that so long after the end of the war store accounts should still be inadequate. Unless the quantity and location of stores are known with reasonable accuracy, the Committee think, full operational efficiency of the Services cannot be reached. Likewise, physical check of stock is important from the point of view of administrative control and provisioning. Unless stock-takings are undertaken regularly, losses, if any, cannot be detected. The Committee therefore, trust that all possible steps would be taken to ensure that store-keeping and store-accounting are brought to a satisfactory level without further delay so that the current accounts accurately record the quantities in stock.

*See also Appendix VIII

VI

MISCELLANEOUS IRREGULARITIES

AUDIT REPORT, 1955

84. *Para. 27—Disposal of Blankets.*—The provision review upto 31st March, 1954 carried out in 1952 disclosed 4,157 blankets for Ratings surplus to requirements. Out of this surplus 4,000 new blankets (received in 1950-51) were declared surplus to the Director-General Supplies and Disposal on 31st March, 1953, without taking into account future requirement beyond 31st March, 1954. although, in accordance with the policy for the retention of surplus stores, requirements upto an additional period of 5 years could be retained out of the surplus. The quantity declared surplus in this case would have covered only about a year's requirements. In November, 1953, the Director General, Supplies and Disposals was addressed with a view to withdrawing from disposals 3,000 blankets to meet requirements shown by the review carried out in 1953, but the Director General, Supplies and Disposals regretted his inability to the withdrawal as he had already made firm commitments for their disposal. An indent was, therefore, placed in January, 1954 on the trade for the supply of 3,500 blankets.

Out of the blankets declared for disposal, 370 were withdrawn and the remaining 3,630 disposed of for Rs. 32,670 against the book value of Rs. 76,230 resulting in a loss of Rs. 43,560 to the Government.

85. In the Committee's opinion it was very unwise to have declared new blankets as surplus to Director General, Supplies and Disposals for disposal when in accordance with the policy for the retention of surplus stores, requirements upto an additional period of 5 years could well be retained out of the surplus. The Officer who declared the new blankets for disposal clearly failed in his duty and the Committee desired to know the disciplinary action taken against him. The Defence Secretary assured the Committee that he would look into this aspect. The Committee, therefore, desired that a report of the enquiry in this case and the measures taken to prevent recurrence of such hasty discards should be submitted to them.

86. It is seen from the note (Appendix IX) submitted to the Committee that the disciplinary action against the officers concerned had been initiated. The Committee also note that instructions have been issued to avoid cases of hasty discards and trust that such cases would not recur.

87. *Para. 28—Delay in publication of payment issue rate.*—Naval ratings are paid a monthly cash allowance for the maintenance of their uniforms. They obtain on payment from the Ships stocks the articles of clothing required by them for repairs or replacement of uniforms.

The contract rate of a consignment of cloth received by the Naval Stores Officer between May, 1953 and August, 1953 was Rs. 1-7-6 per yard as against the then prevailing payment issue rate of annas six per yard. The normal procedure for fixing the payment issue rate obtaining at that time was as follows:—

Paid bills relating to stores received by the Naval Stores Officer were sent to the Controller of Defence Accounts (Navy) and the payment issue rate was worked out on the average price per quarter as reflected in these paid bills. The revised rates were then intimated to the Naval authorities concerned for publication. In the case under consideration, the paid bills were received by the Controller of Defence Accounts (Navy) on 17th September, 28th November and 24th December, 1953. In the normal course the rates ought to have been revised by January, 1954. Actually, however, the revised payment issue rate worked out by the Controller of Defence Accounts at Rs. 1-10-0 per yard was intimated only in April, 1954 to the Naval Headquarters, who published it in December, 1954—after a delay of another 8 months—to take effect from 1st January, 1955. During the interval of 20 months from May, 1953 to January, 1955, 44,566 yards of cloth had been supplied by the Naval Stores Officer to various ships and establishments for issue at the old rate of annas six per yard. The inordinate delay in the working out of the revised rate in the office of the Controller of Defence Accounts and its publication by the Naval Headquarters had, according to Audit, resulted in a loss of Rs. 52,881/- to Government.

88. In regard to the delay of 4 months, in his Department, the Controller General, Defence Accounts informed the Committee that necessary departmental action had been taken by him against the officers responsible and that the work itself had now been taken over by the Ministry of Finance (Defence). For the delay of over 8 months at the Naval Headquarters in publishing the revised rate, the Committee could see absolutely no justification. The Defence Secretary informed the Committee that disciplinary action had been instituted against the Naval Stores Officer who was primarily responsible for not communicating the revised rate to all concerned and that the proceedings had not yet been completed. The Committee would like to be informed in due course of the result.

89. In reply to a question, the Committee were assured that there was no evidence of malafides in this case. The Committee would, however, like to comment on the procedural aspect of the matter arising out of this case, which they consider important. Although the stores were received from May, 1953, even under the then existing procedure, the revised rate of issue could have been published, at the earliest, only to take effect from 1st January, 1954 i.e., after 8 months. For stores issued during this period, recovery would have been made only at the old issue rate of annas six per yard. Thus some loss would have been inevitable even if the apparatus worked to schedule. The Committee, however, note that the procedure in this regard has since been revised and that payment issue rates will have effect from the first of the month in which the stores are received.

90. Para 30 of Audit Report, 1955—*Ex-gratia* payment to a private firm.—An *ex-gratia* payment of Rs. 10,51,084 was sanctioned by Government in May, 1950 towards the re-imbusement of sales tax

to a supplier on whom orders were placed in 1948 for the supply of jeeps at a firm price. There was no stipulation in the contracts regarding payment of sales tax. The Government Solicitor pointed out that under the law, sales tax was payable by the seller and not the purchaser unless it was otherwise specified in the contract, and advised that Government would be within their rights to refuse payment of sales tax in these cases. Payment in re-imbusement of sales tax was, however, sanctioned *ex-gratia* without calling upon the supplier to prove losses, if any.

91. During the course of the examination of the Ministry of Works, Housing and Supply who were responsible for this transaction, the following further facts came to light. There were two contracts placed with this firm. In the first case, the order was placed on the basis of negotiated rates without inviting or accepting any tender; in the other, although the tender quoted by the firm contained a clause that the sales tax, if payable, would be to the account of the purchaser, in the acceptance of tender sent to the firm by Government there was no mention of payment of sales-tax and this acceptance of tender was acknowledged by the Company. The price offered per jeep in the second contract was the same as that accepted in the first contract. The omission of any reference to sales tax in the acceptance of the second contract was, however, pointed out by the firm but on the Ministry informing the firm that the question of sales tax was under consideration, the firm acknowledged the acceptance of the contract. The payment to the firm was made by the Government after deducting the amount included in the bill as sales-tax. Thereupon the firm wrote to the Government in March 1949 inviting reference to its earlier letter regarding the liability of the purchaser for sales tax. The matter was then referred to the Special Solicitor in June, 1949, in the following terms:

“The proposal amounts to a variation in the terms of the contract. The Special Solicitor may please be consulted and his opinion on this aspect of the case obtained”.

92. The Government Solicitor's opinion of the 20th June, 1949 on both the contracts against the payment in re-imbusement of sales-tax was in clear and unambiguous terms as would be seen from the extracts reproduced below:—

“Regarding the second A/T, the tender of the firm contained a clause that the sales tax, if payable, would be to the account of the purchaser. Negotiations, however, followed after that. Some settlement took place, and ultimately the A/T in question did not contain any clause about the payment of the sales tax. This appears to have been accepted by the firm. The relevant portion is ‘the work will be taken in hand in terms thereof’.

* * * * *

“In view of what I have said †above, I agree with the above note that it would be varying the terms of the A/T if

†Referred to the note recorded by an Under Secretary, Ministry of Finance (Cft. Appendix X of Vol. II)

we agree to amend it so as to undertake payment of sales tax by us. The law is that sales tax is payable by the dealer and not by the purchaser unless it is so specifically mentioned as one of the terms of the contract, which is wanting in both the A/T”.

93. In view of the categorical opinion of the Government Solicitor, the Committee desired to know the consideration that prevailed upon the Ministry to sanction in May, 1950, after about a year, an *ex-gratia* payment of about Rs. 10 lakhs to the company towards the re-imburement of sales tax.

In a note (Appendix X) furnished to the Committee, it has been stated—

“As the legal opinion was not in favour of making any payment, no action was taken on these communications from the firm. Subsequently, however, the firm’s representatives *apparently* made verbal representations which were followed up by their communications dated 29th and 30th July, 1949, reminding the Director General, Supplies and Disposals about their claim. In the light of this representation the Director General, Supplies and Disposals took up the matter further with their accredited Finance, who in turn referred the case to the Finance accredited to the Industry and Supply Ministry proper....”.

Agreeing to the payment on grounds of equity, the following note was recorded by a Deputy Secretary in the Ministry of Finance on 17-9-1949:—

“Joint Secretary, Ministry of Finance handed over this file to me. He agrees that in equity, the claim appears to be reasonable. However, he desired an investigation by me whether payment of sales tax to.... would embarrass us in the matter of payment of the Bengal sales tax for the period 1946-49. He suggested that I should satisfy myself in consultation with the Special Solicitor whether any such embarrassment would be caused. The Special Solicitor has been consulted on a separate file, and I am satisfied with the finding that payment of sales tax to.....in this case on grounds of equity will not be a precedent in regard to the claims from West Bengal. *I, therefore, reiterate my earlier agreement to the payment of sales tax to.....* against both the acceptances of tender on grounds of equity”.

94. From the facts enumerated above, it is quite apparent that the administrative Ministry were clear in their minds about the inadmissibility of any payment to the firm in re-imburement of sales tax and had accordingly deducted the claim from the bill preferred by the firm. They did not even consider it necessary to consult the Ministry of Law before deducting the claim. On receipt of letters in March, 1949 from the firm protesting against the said deduction, the Ministry took legal opinion in June 1949 and in the light thereof apparently felt reassured in their earlier decision not to reimburse the payment of sales tax. The Committee, therefore,

find it difficult to understand the precise implication of the following statement in the Ministry's note referred to above:—

“As the legal opinion was not in favour of making any payment, no action was taken on these communications from the firm”.

In fact Government proceeded to take legal opinion only on receipt of the communication in March 1949 from the firm. Having got the legal opinion the Committee consider that it was the duty of Government to have informed the firm of this decision especially when the firm had been advised earlier that the question of sales tax was under consideration (*vide* para 91 above).

95. On the other hand, the Committee observe that the question of reimbursement to the firm on grounds of equity was taken up by the office of the Director General, Supplies and Disposals *suo moto* on 16-7-49. According to the note from the Ministry this action was taken on verbal representations made by the firm's representatives which were followed up by the firm in its communications dated the 29th and 30th July 1949 reminding the D. G. S. and D. about its claim.

96. It has, however, been pointed† out by Audit that although those letters referred to sales tax, they did not make any mention of any verbal representation made earlier on this question. But the Secretary, Ministry of W.H. and S. had contended—

“That the fact that no communication was sent to the firm in reply to their letters dated 10-3-49 and 24-3-49 that the Sales Tax was not payable on the basis of the legal opinion obtained is not surprising as considering the conditions of work of D.G.S. and D. then prevalent, the issue of formal reply after obtaining the opinion of Assistant Director (Law) on 20th June, 1949 would have normally taken well over three weeks. *This fact would further substantiate that the firm's permanent representative in Delhi must have made representations to the D.G.S. and D. as a result of which the case was reopened by the Assistant, presumably on the orders of his officer, in his note dated the 16th July, 1949, even though this fact may not have been mentioned specifically in either the noting or in the correspondence from the firm dated the 30th July, 1949*”.

The Committee are unable to understand the logic of the above reasoning. In their opinion the facts stated above neither lead to nor warrant the conclusion that the firm should have made verbal representations and that therefore the office of the D.G. S. and D. did not act *suo mctto* in re-opening the case.

97. Even in regard to the question of payment on grounds of equity the Committee feel that equity considerations could only arise if the firm had established to the satisfaction of Government that it had incurred a loss in this deal. From the facts placed before them, the Committee could hardly find any such indication.

106. *Item 27—Para 35 of the Fourteenth Report—Attempted manufacture of Dry Batteries in an Ordnance Factory.*—The Committee regret to note from the comments furnished by the Ministry of Defence that correct information in regard to the value of surplus material to be disposed of in this case had not been furnished to their predecessors when they examined this case. While the Committee have no further comments to make on this case, they consider it necessary to point out that the representatives of the Ministries concerned should see that they are properly briefed and are in possession of all the factual and relevant information when they appeared before the Committee.

107. *Item 37—(i) Para 53 of the Ninth Report—and (ii) Para 47 of the Fourteenth Report—Irregular disposal of Engineer Stores.*—This case which disclosed a loss of Rs. 78,801 sustained by Government as a result of irregular disposal of a Saw Mill with two Prime movers valued at Rs. 1,54,050 (found to be surplus) had been original dealt with in para 53 of the Ninth Report of the Committee of 1953-54.

The Committee had asked Government to fix the responsibility on the persons whose actions did not safeguard the interests of the Public Exchequer. The Committee also desired to know why the Saw Mill was released at 40 per cent. of the book value when the party had agreed to the sale at cost price plus 10 per cent. *vide* para 47 of their Fourteenth Report.

The Committee had also referred to the fact that the late Ministry of Industry and Supply (now Ministry of Works, Housing and Supply) decided to reverse their earlier decision, taken in consultation with the legal advisers in June, 1949 to ask the party to return the plant if it was not prepared to pay the balance of Rs. 1,31,335.

108. The Committee observe from the note now furnished by the Ministry of Works, Housing and Supply (Appendix XXI), that after the Committee of 1953-54 had adversely commented upon this case in para 53 of their Ninth Report, that Ministry sought a second legal opinion on the 15th March, 1955 obviously with the intention of strengthening the stand which they had taken earlier in this case. The Committee are unable to appreciate the reasons that led that Ministry to seek an *ex-post-facto* legal opinion six years after the decision of Government to settle the deal by negotiation. Nor was the legal opinion quite decisive. Indeed the Government's right to claim back the machinery had been admitted therein. The Committee are not convinced of the reasons advanced in the Ministry's note that led them to settle the issue by compromise. In their opinion, Government should have claimed back the machinery in case the purchaser failed to abide by the commitment made by him to pay the cost price of the plant plus 10 per cent.

109. *Item 38—(i) Para 54 of the Ninth Report—and (ii) Para 48 of the Fourteenth Report—Amendment of the Army Act to ensure adequate disciplinary action in cases involving financial irregularities.*—From the note furnished by the Ministry of Defence (Appendix XXII), the Committee note that as the existing provisions in the Army Act are quite adequate and that in view of this, that Ministry do not consider it expedient to amend the Act as suggested by the

Committee earlier. The Committee, however, observe that this fact should have been brought to their notice at the time they raised this issue. Instead they were informed that disciplinary action could not be taken in such cases because the time limit of three years had elapsed. Anyhow, as requested by the Ministry, the Committee agree not to press the matter further.

SIMLA,
29th June, 1956.

V. B. GANDHI,
Chairman,
Public Accounts Committee.

PART II

**Proceedings of the sittings of the Public Accounts
Committee held on the 25th, 26th, 27th, 28th and 30th
April and 29th June, 1956**

Proceedings of the Twenty-first *sitting of the Public Accounts Committee held on Wednesday, the 25th April, 1956.

110. The Committee sat from 3.10 to 5 P. M.

PRESIDENT

Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri U. Srinivasa Malliah.
3. Shrimati Ammu Swaminadhan.
4. Shri S. V. Ramaswamy.
5. Shri Diwan Chand Sharma.
6. Shri Y. Gadilingana Gowd.
7. Shri U. C. Patnaik.
8. Shri V. Boovaraghasamy.
9. Shrimati Violet Alva.
10. Shri P. S. Rajagopal Naidu.
11. Shri B. C. Ghose.

Shri A. K. Chanda, *Comptroller and Auditor-General of India.*

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri R. P. Sarathy, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES.

Ministry of Defence:

Shri M. K. Vellodi, I. C. S., *Secretary.*

Shri B. B. Ghosh, *Joint Secretary.*

Shri N. N. Wanchco, I. C. S., *Joint Secretary.*

Shri C. S. Ramachandran, I. C. S., *Joint Secretary.*

Maj. Gen. R. E. Asrappa, *Engineer-in-Chief.*

Maj. Gen. S. D. Verma, *Master-General of Ordnance.*

Maj. Gen. Tara Singh Bal, *Quarter-Master-General.*

Maj. Gen. H. M. Mohite, *Director of Supplies and Transport.*

*Earlier Sittings relate to the 16th, 17th and 18th Reports of the Committee (1955-56).

Ministry of Finance (Defence):—

Shri S. Ratnam, *Financial Adviser, Defence Services.*

Shri A. Subrahmanyam, *Controller-General, Defence Accounts.*

Ministry of Finance (E. A. Deptt):—

Shri Shiv Naubh Singh, *Deputy Secretary.*

MINISTRY OF DEFENCE

111. *Appropriation Accounts, Defence Services, 1953-54 and Audit Report, 1955.*—At the outset, the Chairman asked the Secretary, Ministry of Defence to make some general observations on the various budgetary lapses, over-provisioning and purchase of stores in excess of requirements etc., commented upon in Chapter I—Introductory of the Audit Report, Defence Services, 1955.

The Secretary, Ministry of Defence stated that one of the major reasons for the lapses of appropriations resulting in savings was the non-receipt of stores according to anticipations. He, however, admitted that there was considerable scope for improvement in budgeting and also in the manner in which they executed their projects. He assured the Committee that they were taking all possible steps to improve matters in this regard. Referring to the execution of the projects, he said that they had issued instructions that no project should be undertaken until the administrative approval in respect thereof had been accorded.

112. On the Committee drawing attention to sub-para (iv) (a) of para 6 of the Audit Report according to which the supplementary grant of Rs. 60,00,000 obtained under Grant No. 12—Army, proved unnecessary as there was a final saving of Rs. 64,45,000 under another Sub-Head, the Defence Secretary explained that it was a 'new service' and the Supplementary Grant was asked for in connection with the despatch of Custodian Forces to Korea and at that time, it could not be foreseen whether funds would be available under some other Head during the course of the financial year to meet this expenditure.

AUDIT REPORT, DEFENCE SERVICES, 1955.

113. *Para 7 (read with para 21 of the Appropriation Accounts, 1953-54)—Commencement of works without technical sanction.*—Despite standing instructions to the contrary and assurances given to the last Public Accounts Committee that works would be administratively approved at least 6 months before funds were allotted and actual construction was taken in hand, works continued to be undertaken without technical sanction. 76 contracts costing Rs. 45.1 lakhs were found to have been concluded during 1953-54 where tenders had been issued before technical sanctions were accorded to works. In some cases, the time-lag between the date of administrative approval and the date of technical sanction ranged from 6 to 30 months.

114. The Committee wanted to know the steps taken to ensure that administrative approvals to the execution of works were obtained sufficiently in advance and technical sanctions were accorded without delay. The Secretary, Ministry of Defence, informed the

Committee that instructions had since been issued in 1954 clarifying the position and added that the cases pointed out in the Audit Report, related to a period earlier to the issue of these instructions.

115. Referring to the 76 cases in which tenders were invited before technical sanction was given as reported in this para, the Engineer-in-chief said that there were only 43 such cases and the remaining cases fell under the category of 'Maintenance Services' or 'petty works' under Rs. 5,000/-, in respect of which no technical sanction on costed schedule form was required. 41 out of these 43 works, he added, were the legacy of the War. He assured the Committee that after issue of the amending instructions in September, 1954, sanctions had been accorded to all the outstanding works and in the course of the current year, there would not be any instances of a work being started before technical sanction was obtained.

116. Winding up the discussions on this para, the Defence Secretary also assured the Committee that every step had been taken to see that the time-limit of six months was acted upon by all the Officers in-charge of the projects.

117. *Para 8 (read with para 21 of Appropriation Accounts, 1953-54) —Advance collection of stores for unsanctioned works.*—In this case, the premature acquisition of stores worth Rs. 3.88 lakhs for two works before administrative approvals had been accorded or funds allotted, resulted in an infructuous expenditure of Rs. 28,191 on account of cost of transportation both inwards and outwards of the surplus stores which had to be transferred to outside Divisions as the works were not finally sanctioned. The cost of acquisition of the stores was adjusted against other sanctioned works and the irregularity thus escaped immediate detection. The Engineer-in-Chief admitted that this was a 'bad case' and in extenuation he stated that it was the urgency of the situation that pressure was brought upon them by the Army authorities to execute the work in anticipation of administrative approval and technical sanction.

118. The Defence Secretary agreed with the Committee that it was irregular to have shown stores indented for a particular project on another project. He assured the Committee that such cases would not be repeated in future. The Committee, however, desired to be furnished with a *note stating whether the Ministry had fixed the responsibility for the irregularity committed in this case and also the steps taken by them to ensure the strict observance of the rules and the authorised procedure in such matters.

119. *Para 9—Loss and infructuous expenditure due to over-provisioning of stores for a works project.*—Stores worth about Rs. 18.93 lakhs were acquired for a project while only Rs. 10.95 lakhs worth were necessary and actually used in the project. There was thus over-provisioning to the extent of Rs. 7.98 lakhs; besides it included the acquisition of certain stores which were not actually required for the work. This over-provisioning resulted in a loss of Rs. 44,967 on sales, deterioration and deficiencies of stores and on transportation, excluding handling and storage charges. The Engineer-in-Chief stated that the work was executed urgently in this case and many additions and alterations were made in the pro-

*See Appendix I.

ject from time to time. The correct amount of stores purchased, he pointed out, was Rs. 15·9 lakhs and not 18·93 lakhs as stated in the Audit Report, and there was thus an over-provisioning to the extent of Rs. 4·53 lakhs only. In reply to a question, he stated that when the project was planned, they thought it was necessary to purchase certain stores which later were not used in the works. The Committee, however, desired to *know the steps which the Ministry proposed to take to avoid recurrence of such cases in future.

120. *Para 10—Use of costly materials in building construction.*—In this case, while the work was in progress, the sanctioned specifications were replaced by costlier specifications like polished coloured cement tiles and black marble etc. at an additional expenditure of about Rs. 2·7 lakhs for alleged “engineer reasons” that the improved specifications were the minimum consistent with good finish and that rainfall was heavy in the locality. Prior administrative approval to the changing of specifications and provision of costlier flooring was not obtained. The Committee wanted to know what action was proposed to be taken to prevent such cases.

121. The Defence Secretary explained that in the original specification, it was mentioned that the floor should be of either poured cement concrete or reinforced cement concrete slabs. During the course of execution of this project, which was visited by the then Defence Secretary, in the company of the foreign Experts, who were in charge of it, and the Engineer-in-Chief, it was decided that the floor should be of polished coloured tiles and black marble etc. He added that although it involved extra cost, the decision was taken by the people who were responsible for the execution of the project.

122. In reply to a question whether there were not other materials that could have apparently served the purpose from the expense point of view, the Defence Secretary replied in the affirmative.

123. *Para 11—Infructuous expenditure involved in the provision of reserve storage of mechanical transport fuel.*—In September, 1952, 16 tanks were erected at a station for reserve storage of petrol at a cost of Rs. 7 lakhs approximately. 12 of these tanks were not brought into use at all; in the remaining 4, heavy evaporation losses were noticed. The abnormal losses had been attributed to the fact that the tanks were of the bolted type which was unsuitable for long storage of petrol. All the 16 tanks were reported to be lying unused since January, 1955.

124. The Defence Secretary stated that at the time this project was conceived, the situation in the Persian Gulf was critical and the supplies from that source uncertain. While admitting that there had been a lack of proper technical appreciation, he urged in extenuation that it was a very critical time and they had to put up these tanks very urgently and make the best use of the material they had for the purpose. Explaining his viewpoint, the Quarter Master General stated that, no doubt, the welded tanks would have been better and would have lasted longer than the bolted ones, but as these were erected for a temporary emergency, they resorted to bolted tanks which were only then available in stock. In

*See Appendix II.

reply to a question, the Committee were informed that the expenditure of Rs. 7 lakhs represented not the cost of the material, but cost of movement, erection etc. The Defence Secretary pleaded that these tanks were intended to serve an emergency and they were not then sure about the duration of the emergency.

125. The Director, Supply and Transport, Army Headquarters informed the Committee that they intended to dismantle the tanks in question and put new packing and use them again, for storage of aviation turbine where the evaporation loss was practically nil. He added that they had also got a scheme for the erection of welded tanks of 2½ million gallons capacity and most of these tanks were already with them. In reply to a question why these tanks in their possession were not erected earlier, the representative of the Ministry replied that it was a long process to salvage these tanks which they could not do in an emergency. Referring to the losses due to evaporation the percentage of loss on account of evaporation from these 4 tanks were stated to be as below:—

1952	...	0·56%
1953	...	0·31%
1954	...	0·34%

126. The Defence Secretary summed up to say that it was an 'insurance measure' for the period of an emergency and that the persons responsible for erection of the tanks thought that it was the best that they could do at that time.

127. The Committee then adjourned till 3 P.M. on the 26th April, 1956.

**Proceedings of the Twenty-second sitting of the Public Accounts
Committee held on Thursday, the 26th April, 1956**

128. The Committee sat from 3.5 to 5 P.M.

PRESENT

Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri U. Srinivasa Malliah
3. Shrimati Ammu Swaminadhan
4. Shri S. V. Ramaswamy
5. Shri Diwan Chand Sharma
6. Shri Y. Gadilingana Gowd
7. Shri Uma Charan Patnaik
8. Shri V. Boovaraghasamy
9. Shrimati Violet Alva
10. Shri P. S. Rajagopal Naidu
11. Shri B. C. Ghose.

Shri A. K. Chanda, *Comptroller and Auditor-General of India.*

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General.*

Shri R. P. Sarathy, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence:

Shri M. K. Vellodi, I.C.S., *Secretary.*

Shri B. B. Ghosh, *Joint Secretary.*

Shri N. N. Wanchoo, I.C.S., *Joint Secretary.*

Shri J. M. Shrinagesh, *General Manager, Hindustan Aircraft Ltd.*

Shri K. K. Framji, *Director-General, Ordnance Factories.*

Maj. Genl. S. D. Verma, *Master-General of Ordnance.*

Ministry of Finance (Defence):

Shri S. Ratnam, *Financial Adviser, Defence Services.*

Shri A. Subramanyam, *Controller-General, Defence Accounts.*

Ministry of Finance (E. A. Deptt.):

Shri Shiv Naubh Singh, *Deputy Secretary.*

MINISTRY OF DEFENCE (Contd.)—

AUDIT REPORT, DEFENCE SERVICES, 1955

129. *Para 19—Purchase of unsuitable Aero-engine bearings.*—In this case, Aero-engine bearings valued at Rs. 50,618 from the U.S.A. “war surplus” stocks were purchased by the Hindustan Aircraft Ltd. (H.A.L.) in October, 1951 from the Aircraft Commercial Corporation, U.S.A. (which had now gone into liquidation) through their Bombay representatives and these were accepted on the testimony of Aircraft Inspectors licensed by the American Civil Aviation Authorities. Out of a consignment of 360 bearings, 241 valued at Rs. 33,856 were, however, found to be undersized in January, 1952. Instead of taking up the matter immediately with the supplying firm in Bombay, the H.A.L. consulted the manufacturers about the suitability of these bearings. By the time the manufacturers declared the bearings unsuitable, nearly 15 months had elapsed and when the suppliers were addressed in the matter, they refused to replace the defective bearings and even contested that the undersized bearings were supplied by them. The Committee wanted to know why the matter was not taken up straightaway with the suppliers in January, 1952 when the bearings were found to be unserviceable and thus the loss avoided.

130. The General Manager, H.A.L. stated that these bearings originated from war surplus stocks and they did not come direct from the suppliers. The supply was found to be defective not in material, but in type. The bearings were a bit smaller than the ones the H.A.L. normally used, and it was detected only at the time of fitting them into the aero-engines. He added that they did not refer the matter to the suppliers in Bombay but took it up with the manufacturers in the U.S.A. He agreed with the Committee that they should have simultaneously referred the matter to the manufacturers’ representatives in Bombay against whom, he said, they were now contemplating to institute legal proceedings. At the same time, they were also persuading them to take back the goods.

131. When questioned about the practice obtaining in the H.A.L. for the inspection of stores procured by the Company, the General Manager stated that at the time they purchased these bearings, they had no machinery to inspect the sizes and they had to rely on the certificate given by the Civil Aeronautics Administration in the U.S.A. that these stores conformed to the prescribed specifications. Now, he said, they were making purchases through the I.S.D., London and I.S.M., Washington.

132. *Para 12—purchase of stores from the United Kingdom.*—As a result of the provision review conducted in July, 1951 of a certain item of store, it was estimated that by the end of March, 1954, there would be a deficiency of 126,247 numbers, after setting off 4,000 numbers of the store due under a previous indent pending in the U.K., but without taking into account 2,92,000 numbers of the store due under the manufacture orders already placed partly in September, 1948 and partly in September, 1950 on the Director-General, Ordnance Factories (D.G.O.F.). To meet the deficiency, the M.G.O.

placed an indent on the U.K. in August, 1951 for 2,50,000 numbers which was intended to have a surplus of 1,24,000 numbers as a reserve against possible deterioration in storage and also increase in demand. Subsequent provision reviews, however, disclosed that without reckoning the supply from the D.G.O.F., there would be increasing surpluses after meeting the requirements of even extended periods upto March, 1957. Audit pointed out that in view of these large surpluses, the placing of an order for 2,50,000 numbers on the U.K. in 1951 lacked justification. Audit also pointed out that no effective action even after the 1952 review to cancel the orders was taken till March, 1954 when indigenous production was suspended. This involved a loss of Rs. 15.56 lakhs on the assembly of materials which could not be put to any other use and another sum of Rs. 1.07 lakhs had to be spent on trials.

133. Audit further pointed out that when placing the order on the U.K., the M.G.O. had distinctly stated that the stores should be of recent manufacture. But the Military Adviser to the High Commissioner in the U.K. took the letters 'NS' appearing on the sale agreement to mean 'New Stock' while what the suppliers meant was 'Non-Surplus'. The Military Adviser did not obtain any clarification of this abbreviation from the suppliers nor did he specify clearly the stores required which resulted in the Government of India being saddled with obsolescent stock of the value of Rs. 25.53 lakhs.

134. The Committee first wanted to know the reasons for non-cancellation of orders placed on D.G.O.F. in time which resulted in the accumulation of stores by the factories. The Defence Secretary stated that upto now no use had been made of the materials assembled and it was with a view to use them that the D.G.O.F. had asked for an order of 50,000 numbers which was under consideration. It was a kind of an 'educational order' and would not cover the entire stores worth Rs. 15.56 lakhs. The D.G.O.F. explained to the Committee that in the earlier stages they experienced much difficulty in getting the right type of steel which they had to import from abroad and the loss in this case was due to cancellation of the order, when the factory was nearing the production stage. When asked whether it would not have been prudent to arrange for a smaller quantity of raw materials pending trial production, instead of for the whole order, the D.G.O.F. stated that they did not place the order for the full quantity of raw materials as they could not get the material of the required specification locally. Continuing, he further stated that the bulk of the material imported from abroad had been utilised and if they got an order for 50,000 numbers, they would have been able to foreclose the order without loss to Government.

135. When asked how they dealt with the stores when no order was placed after the factories had processed the materials, the D.G.O.F. stated that they were treated as work in progress.

136. As regards the apportioning of the responsibility for the cancellation of the order, the Defence Secretary explained that the order was placed on the D.G.O.F. in the hope that it would be possible for the latter to execute it. But the provision reviews conducted from time to time revealed that owing to revision in the

annual practice allowance after 1951 and other reasons the quantity that would be supplied by the manufacturers was not quite necessary and therefore it happened that orders had to be cancelled. He added that it did not follow that there had been lack of appreciation on the part of the General Staff of the need for careful planning; nor it will be possible to say that the D.G.O.F. did not endeavour to execute the order.

137. As regards the 'obsolescent stores', he said that it should not be understood to mean that the entire stock was condemned but according to his information every bit of these stores was capable of being used. In reply to an observation by the Committee that while the earlier order had not been complied with, the second order should not have been placed or accepted by the D.G.O.F., he stated that it was not that the Organisation of the D.G.O.F. was ignorant of the technique of manufacturing this particular item of stores, but it was actually trying to get suitable material. Expressing his own view, he said that he did not agree that the D.G.O.F. was wrong in accepting an order of this kind. As regards the second order, he urged that he was not in a position to explain why it was placed by the General Staff. He, however, agreed with the Committee that the order could have been cancelled earlier than March, 1954.

138. In reply to a question, the D.G.O.F. stated that in case order for 50,000 numbers was placed with him, the stores worth Rs. 15.6 lakhs could be substantially utilised.

139. The Committee then asked the M.G.O., who was the indenter in this case, to explain his side of the case. The M.G.O. after explaining to the Committee the method followed in placing such orders and conducting of periodical provision reviews stated that until such time as the indigenous production of certain types of stores could be depended upon, they had to provide for surpluses by placing orders abroad to meet any emergency that might arise.

140. Explaining the reason for suspending the order on the D.G.O.F. as a result of the surplus reflected in the subsequent reviews, the M.G.O. observed that while they ought to develop the technique of manufacture in the country, they did not like to take the risk of paying compensation to foreign firms in the event of their cancelling the orders placed with them.

141. Intervening, the Defence Secretary admitted that there had been undoubtedly over-provisioning while placing orders for the supply of the stores referred to in this para. As to why the D.G.O.F. accepted the order, he reiterated his earlier view that the latter was hoping to produce that item of store and that he did not act wrongly in having accepted the order.

142. When asked about the steps taken to establish co-ordination between the two wings *viz.*, the M.G.O. and the D.G.O.F., the Defence Secretary stated that Government had very recently appointed a Defence Production Board. One of the main purposes in appointing this Board was to ensure that co-ordination was brought about between the various services and the organisation of the D.G.O.F. and other suppliers and manufacturers of stores. He expressed the hope that with the institution of this Board, necessary co-ordination would be established and in future the losses would be reduced.

143. Reverting to the purchase of stores from the U.K. which were not according to the specific requirements of the M.G.O., referred to in sub-para (iii) of this para, the Defence Secretary stated that there was no evidence to show in what terms the requirements were communicated to the manufacturers by the Military Adviser to the High Commissioner for India in London.

144. Referring to the use of the abbreviation 'NS' to mean 'Non-Surplus', the M.G.O. stated that to the best of his knowledge, this was not used in the Army nor in the War Office in the U.K. and he could not say how this was interpreted in this manner. The Defence Secretary further stated in this connection that under the existing practice, the inspection of stores purchased through the Ministry of Supply in the U. K. was done by the Inspectors appointed by that Ministry and they generally relied on it. In this case, he said, the Military Adviser to the Indian High Commission in London did not seem to have carried out the specific instructions communicated to him by the Army Head-quarters in India that they required stores of 'recent manufacture'. He assured the Committee that they had since taken steps to ensure that these lapses did not recur.

145. Before the Committee rose, they desired to be furnished with information* on the following points arising from this case:—

- (a) Who was the officer responsible for using the abbreviation 'NS' and not showing the full nomenclature of this abbreviation or indicating the specific type of stores required?

How did he interpret 'NS' to mean 'New Stock'; did he obtain a clarification from the suppliers?

What action is proposed to be taken against him for his failure to specify clearly what was wanted?

- (b) Was the entire stock received in one consignment or in a number of consignments? In the latter case, the dates may be given. How much of it has been used so far; how much remains to be used and out of the portion to be used, what is the proportion of the stores which has been rejected?

What is the approximate amount of financial loss sustained by Government in this case?

146. The Committee then adjourned till 3 P.M. on the 27th April, 1956.

*Since furnished see appendix III.

**Proceedings of the Twenty-third sitting of Public Accounts
Committee held on Friday, the 27th April, 1956.**

147. The Committee sat from 3 to 5 P.M.

PRESENT

Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri U. Srinivasa Malliah
3. Shri S. V. Ramaswamy
4. Shri Diwan Chand Sharma
5. Shri Y. Gadilingana Gowd
6. Shri Uma Charan Patnaik
7. Shri V. Boovaraghosamy
8. Shrimati Violet Alva
9. Shri P. S. Rajagopal Naidu.

Shri A. K. Chanda, *Comptroller and Auditor-General of India.*

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General.*

Shri R. P. Sarathy, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence:

Shri M. K. Vellodi, I.C.S., *Secretary.*

Shri N. N. Wanchoo, I.C.S., *Joint Secretary.*

Shri K. K. Framji, *Director-General of Ordnance Factories.*

Maj. Gen. S. D. Verma, *Master-General of Ordnance. Army Headquarters.*

Ministry of Finance (Defence):

Shri S. Ratnam, *Financial Adviser, Defence Services.*

Shri A. Subrahmanyam, *Controller-General, Defence Accounts.*

Ministry of Works, Housing & Supply:

Shri S. Ranganathan, *Joint Secretary.*

Ministry of Finance (Works Division):

Shri P. K. Basu, *Joint Secretary.*

Ministry of Finance (E. A. Deptt.):

Shri Shiv, Naubh Singh, *Deputy Secretary.*

MINISTRY OF WORKS, HOUSING & SUPPLY

148. Para. *30 —*Ex-gratia payment of sales-tax to a private firm.*— In this case, an *ex-gratia* payment of Rs. 10,51,084 was sanctioned by Government in May, 1950 towards reimbursement of sales-tax to a supplier on whom orders were placed in 1948 for the supply of jeeps at a firm price. There was no stipulation in the contracts regarding payment of sale-tax. Despite the advice given by the Government Solicitor that under the law, sales-tax was payable by the sellar and not the purchaser unless it was otherwise specified in the contract, Government sanctioned *ex-gratia* payment to the suppliers without calling upon them to prove losses, if any. The representative of the Ministry of W. H. & S. stated that there were two contracts which were placed with this firm—one for 1,000 jeeps and the other for about 1,900 jeeps. In the first case, the order was placed on the basis of negotiations without inviting any tender and in the absence of any stipulation about the payment of sales-tax, the Assistant Director, Law, gave his opinion on 20th June 1949 that the claim for the payment of sales tax was not tenable and he advised that the claim should be repudiated. As regards the second contract, although, the tender form contained a clause that the sales-tax, if payable, would be to the account of the purchaser, no provision to that effect existed in the contract entered into with the firm.

149. The representative of the Ministry of W.H. & S. read out to the Committee certain extracts from the note recorded in one of the files wherein it was mentioned that the then Joint Secretary, Ministry of Finance (I and C Dn.) agreed that in equity, the claim for payment of sales-tax appeared to be reasonable. The Committee wanted to know who raised this question of equity and whether that Joint Secretary acted *suo motu* despite the advice given by the Solicitor. The Committee were informed that the question was taken up for consideration because of a letter from the firm. The letter in question was, however, dated March, 1949, which was with Government when the legal opinion not to accept liability for sales-tax was given in June 1949. The Committee then asked why the opinion given by the Ministry of Law was not accepted and the firm asked to go to a court of law if they pressed their claim for the payment of sales-tax. The representative of the Ministry of W.H. & S. observed that as he could see from the papers with him, the Officers who were handling the case felt that there was a case for making payment on grounds of equity and before making such payment they again held another discussion with the Special Solicitor. In reply to a question whether Government made any attempt to know if the firm in question had incurred any loss in the transaction, in which case alone the question of an *ex-gratia* payment could arise, the representative of the Ministry said that except for the technicality of description, this payment did not fall within the scope of the definition of *ex-gratia* payment.

*See also Appendices X and XI.

MINISTRY OF DEFENCE (contd.)—

AUDIT REPORT, DEFENCE SERVICES, 1955

150. The Committee then reopened discussion on para. 12 (iii) of the Audit Report, relating to the purchase of stores from the U.K. in excess of requirements (a mention about which has been made in the proceedings of the sitting of the Committee held on the previous day) and wanted to know why it was not considered necessary to make it abundantly clear that the stores indented for from the U.K. Ministry of Supply were of 'recent manufacture' and whether any specific mention to this effect had been made in the indent or in the covering letter to the Military Adviser to the High Commissioner for India in London.

151. The Defence Secretary stated* that they had sent a telegram to the Indian High Commission in London a few days back enquiring whether the fact that the stores should be of 'recent manufacture' was specifically communicated to the War Office and if so, what was the reply given by them. He added that they were still awaiting the reply from London and on receipt of that he would apprise the Committee of the correct position as also the action taken against the Officers concerned who were responsible for not seeking clarification about the specification of the stores to be supplied.

152. *Para 13**—Procurement of mechanical transport vehicles.*—In the case of a particular type of vehicles, the provision review, even after ignoring 50 per cent. of the repairable pre-1948 vehicles which is counted as asset in the provision review of mechanical transport vehicles (the percentage is fixed on an *ad hoc* basis and not on the basis of workshop condemnation reports), showed a surplus of 7,875 for 1950-51, 3,474 for 1951-52 and 6,507 for 1952-53. In spite of these surpluses, orders were placed during 1950-51 and 1951-52 for 4,550 new vehicles, with two Indian firms, at a cost of about Rs. 680 lakhs. According to the Audit Report, the procurement of these vehicles was more in pursuance of an undertaking given to these firms to utilise their capacity than on the estimated requirements of the Defence Services. Further even after discarding 50 per cent. of the pre-1948 repairable vehicles, there were already surpluses.

153. The Committee wanted to know the reasons for ignoring 50 per cent. of the pre-1948 repairable vehicles on an *ad hoc* basis for purposes of provision review and also the undertaking given to the two firms in this case.

The Defence Secretary explained that it was primarily with a view to encourage the establishment of an automobile industry in the country that the Commerce and Industry Ministry after consulting the Ministry of Defence about their requirements of the particular type of vehicles gave an undertaking to these two firms. As regards the procurement of new vehicles in face of the surpluses disclosed in the Audit Report, he stated that as a result of the provision review for 1955-56 of these vehicles, it had been found that after deducting wastage as on 31st December, 1954, the fit

* See also Appendix III.

** See also Appendix IV.

vehicles (pre-1948) were 3,900. This actually related to vehicles which were imported in 1944-45 and according to his information, some of these vehicles were not fit. He further informed the Committee that in order to satisfy themselves about the condition of the so-called 'fit' vehicles, they had recently obtained the services of an expert from the Tata-Mercedes who were building diesel trucks in India. They were awaiting the report from this expert.

154. Coming to the percentage of 50 fixed in the case of the repairable stock, the Defence Secretary stated that it was a purely arbitrary figure and it might be 40 or even 60 per cent. He admitted that it was not a very fair method of deciding whether a vehicle was fit or not. It was only by proper examination in the workshop that it could be said that a vehicle was fit or not. Citing some facts and figures, he contended that there had been no over-provisioning in this case. He, however, averred that certain amount of consideration had been shown to these two firms inasmuch as while the Army needed 4×4 vehicles, they placed orders for 4×2 type because at that time the manufacture of 4×4 type of vehicles had not been established in the country.

Continuing he stated that there also the main consideration for placing that order was not to encourage these firms but because they just could not manage with the vehicles that they had and the Army desired that they should have some new vehicles.

155. When asked to explain the deficiency of 4×4 type of vehicles when orders were placed for 4×2 type, the Defence Secretary stated that in the year 1950-51, there was a surplus of 7,875 vehicles of 4×2 type, while the deficiency under 4×4 type was 2,137. In the year 1952-53, there was a surplus of 6,507 of 4×2 type and a deficit of 3,671 in 4×4 type. Elucidating the matter further, he stated that the so-called surplus of 4×2 type of vehicles included also the pre-1948 vehicles. As desired by the Committee, the Defence Secretary promised to furnish them figures of pre-1948 repairable vehicles at the time the order for the purchase of new vehicles (4×2 type) was placed. He further expressed the view that he did not think that it was unwise to have placed an order for 4×2 type of vehicles since they could not get 4×4 type then.

156. When asked to explain the present position, the Defence Secretary stated there was a surplus of 5,333 vehicles of 4×2 type and a deficit of 2,870 vehicles of 4×4 type. As regards the manufacture of 4×4 type of vehicles, he informed the Committee that the firms concerned had established the manufacture only recently. Referring to the disposal of vehicles, declared by the Army as surplus, he said that it was the responsibility of the D. G., S & D. to dispose them off.

157. When asked whether the above figures had been vetted, the representative of the Ministry of Finance explained that the increase in the quantum of deficiency of 4×4 vehicles to 8,768 was due to an increase in the unit entitlements which accounted for 2,262 vehicles; reduction in the number of fit holdings which accounted for 5,130 vehicles; reduction in the repairable holdings which accounted for 982 vehicles and increase in reserves by 394 vehicles.

158. The Committee then drew attention to the case of a certain firm having used second-hand parts in the new vehicles supplied to the Army. The Defence Secretary stated that this matter was under investigation.

159. *Para 14.—Non-utilisation of spares procured for mechanical transport vehicles.*—Provision was made for spares at a cost of about Rs. 57 lakhs, for the overhaul of 39,000 pre-1948 mechanical transport vehicles (all types) on a three-year programme beginning from 1st October, 1952. But the number of vehicles actually overhauled between 1st October, 1952 and 31st May, 1955 (that is, 4 months short of 3 years) was 8,659 only which included 816 post-1948 vehicles. Audit suggested a reexamination and review of this position as according to them by the time 31,000 vehicles were overhauled, many of these might become unserviceable and large quantities of spares might be rendered surplus.

160. The Defence Secretary informed the Committee that after this para. had been inserted in the Audit Report, indents to the value of approximately Rs. 30.5 lakhs had been cancelled. The M.G.O. stated that the spares which they had ordered now were required for 16,000 vehicles out of which nearly 9,000 had been repaired by now. The balance of the spares, he said would be used on the remaining vehicles, which when repaired, would leave no surplus stock. He however, admitted that when they first estimated their capacity to undertake the repairs at the time they placed orders for the supply of spares, they worked on certain unrealistic figures and their estimate proved to be wrong.

161. The Committee then adjourned till 10 A.M. on Saturday, the 23rd April, 1956.

Proceedings of the Twenty-fourth sitting of the Public Accounts Committee held on Saturday, the 28th April, 1956

162. The Committee sat from 10-25 A.M. to 12-35 P.M.

PRESENT

Shri V. B. Gandhi.—*Chairman.*

MEMBERS

2. Shri U. Srinivasa Malliah
 3. Shri K. G. Deshmukh
 4. Shri Diwan Chand Sharma
 5. Shri Y. Gadilingana Gowd
 6. Shri Uma Charan Patnaik
 7. Shrimati Violet Alva
 8. Shri P. S. Rajagopal Naidu
- Shri A. K. Chanda, *Comptroller and Auditor-General of India.*
- Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General.*
- Shri R. P. Sarathy, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence:

- Shri M. K. Vellodi, *I.C.S. Secretary.*
- Shri N. N. Wanchoo, *I.C.S., Joint Secretary.*
- Maj. Genl. S. D. Verma, *Master-General of Ordnance, Army Headquarters.*
- Shri K. K. Framji, *Director-General of Ordnance Factories.*

Ministry of Finance (Defence):

- Shri S. Ratnam, *Financial Adviser, Defence Services.*
- Shri A. Subrahmanyam, *Controller-General, Defence Accounts.*

Ministry of Finance (E.A. Deptt.):

- Shri A. Subrahmanyam, *Controller-General, Defence Accounts.*

MINISTRY OF DEFENCE (*contd.*)

AUDIT REPORT, DEFENCE SERVICES, 1955

163. Para. 15.—*Infructuous expenditure due to cancellation of a demand.*—As a result of the provision review conducted in April, 1951, of a certain item of store, it was estimated that by the end of

March, 1954, there would be a deficiency of 1,16,000 numbers, after taking into account the demands placed in 1948 on the U.K. and the D.G., Ordnance Factories, for 6,85,000 numbers and 6,20,000 numbers respectively which were outstanding to the extent of 6,85,000 and 3,71,340 respectively on 1st April, 1951. Accordingly, the M.G.O. placed a further indent for 1,16,000 on the D.G. O.F. in September 1951. Subsequent provision reviews disclosed huge surpluses as estimated at the end of March, 1957. No action was taken to cancel or reduce the outstanding demands as a result of the review on 1st October, 1951. Action was initiated in October, 1952 (after the review on 1st April, 1952) to cancel the demand on the U.K. but intimation was received in February, 1953 that it could not be cancelled without financial repercussions. Orders on the D.G.O.F. to stop production were, however, not issued till May, 1954. Actual production was stopped from August, 1954. By this time, the D.G.O.F. had not only completed the previous outstanding of 3,71,340 numbers, but also 58,300 numbers (valued at Rs. 15.08 lakhs approximately) against the fresh order for 1,16,000 and for the remaining 5,700 numbers, stores worth Rs. 16.26 lakhs had been accumulated by the ordnance factories in various stages of manufacture. According to the Audit Report, no reasons had been adduced why action was delayed to cancel or reduce outstanding demands.

164. Explaining the reasons for the delay in cancelling this demand, the Defence Secretary stated that as a result of the provision review conducted in April, 1951 which disclosed deficit, the demand was placed with the D.G.O.F. in September, 1951. In October, 1951, an interim review was conducted and it revealed a surplus. The subsequent regular review conducted in April, 1952, which was completed in August, 1952, also showed further surpluses and action was taken in October, 1952 to cancel the order placed for the supply from the U.K. When asked why the order with the D.G.O.F. was not cancelled immediately, he stated that the D.G.O.F. was expecting an order for the supply of these stores from a foreign Government. It was as a result of the fresh review which was completed in July, 1953 that action was immediately taken to reduce the order placed on the D.G.O.F. from 15,000 a month to 4,000 a month. In November, 1953, they received information that the expected order from the foreign Government would not be placed; the discussion between the Government and the D.G.O.F. took some time and the decision to suspend the manufacture completely was given only in June, 1954. The Defence Secretary, however, admitted that the time-lag between the receipt of definite information about the foreign Government not being interested in the supply and the decision to suspend manufacture, seemed to be too long.

165. In reply to a question, the Defence Secretary stated that the surpluses were calculated on the assumption that the supplies would be coming from the U.K. but actually these calculations went wrong. The other fact that seemed to have weighed with the authorities concerned in placing orders was the likelihood or the certainty of the stores getting older and consequently being rejected. Actually, 2,69,000 numbers, he said, had been rejected.

166. In reply to a question, the Defence Secretary stated that in 1950-51 no action was taken on interim review, but the practice had changed now.

167. The Committee pointed out that the surpluses were mainly due to reduction in General Staff Reserve, Annual Practice Allowances and operational requirements. As the actual issues were much less than even the reduced annual practice allowances the Committee wanted to know why the scales of annual practice allowances were fixed on such a high side. The M.G.O. admitted that it was a fact that the scales in 1951 were higher than the actual issue of stores for the training of army personnel. The Defence Secretary, however, promised to furnish the Committee with a detailed note* on the subject explaining the reasons for divergence between the actual annual practice allowance and the issues and also why an interim review was held in October, 1951. The Committee also wanted to know who was responsible for fixing the scales of annual practice allowances on such a high side.

168. The Committee then asked the reasons given by the U.K. Government in refusing to cancel the order. As the Defence Secretary was not in a position to answer this question, he promised to look into it and submit a note to the Committee.

169. The Committee also wanted to know what action had been taken to utilise the stores worth Rs. 16.26 lakhs accumulated by the Factories.

170. *Para. 16.—Acquisition of unwanted stores.*—In November, 1953, an indent was placed on the D.G., I.S.D., London for a certain ordnance store and a contract for supply was concluded in April, 1954. The indenter, in May, 1954, wanted cancellation of the indent for the reason that this particular item had been superseded by another. When approached in June, 1954, the suppliers did not agree to the cancellation of this item without full compensation, with the result that obsolete stores worth Rs. 36,000 had to be accepted. The fact of supersession came to the knowledge of the indenter in February, 1954; and if he had taken prompt action to cancel the indent, the loss would have been avoided, as the contract was made only in April, 1954.

171. While the Defence Secretary admitted that there had been delay in taking steps to cancel the order, he pointed out that the stores in question could be used for the vehicles in the Army. Intervening, the M.G.O. stated that it was not quite correct to say that the stores had become 'obsolete' in this case. The practice obtaining with the manufacturing firms, he said, was that if a little improvement or slight modification to any particular item was made, they sent out, in due course, a 'supersession list' in which it was listed that such items had been modified or slightly changed. Normally the person placing the order did not know that the particular item had been superseded until such time as the manufacturer's list arrived in the Technical Development Establishment. In this case, the information that the stores in question had been superseded came from the T.D.E. in January 1954 and it took till May,

*See Appendix V.

1954 to communicate this to London and have the order cancelled. The Defence Secretary admitted that timely action would have avoided the placing of the order and the Ministry was looking into the disciplinary aspect of the case.

172. *Para. 18.—Over indenting for stores.*—This para discloses two cases wherein owing to incorrect assessment of requirements at the time of placing indents for procurement of stores, the following stores in excess of requirements had been obtained and were held as surplus stock:

(a) Despite the provision review of the requirements of telephone sets conducted in April, 1954, which showed a surplus of 1,724 sets, indents placed earlier for 1,770 sets valued at about £ 6,000 were re-affirmed during that month. In working out the requirements, stocks of certain other sets were reported to have been inadvertently ignored. The provision review as on 1st April, 1954 showed a surplus of 2,393 sets.

(b) Indents were placed in June, 1953 on the D.G., S. & D., for the supply of various sizes of boots to meet requirements necessitated by the issue of a second pair to certain troops. A provision review carried out in July, 1953 (*i.e.*, a month after placing the indent), however, showed large surpluses due mainly to less issues in the previous year and increase in stock due to receipts from units. The cost of boots indented for in excess in June, 1953, in respect of two sizes, was about Rs. 1,70,160.

173. The M.G.O. admitted that the order for the supply of telephone sets was erroneously placed not realising that they had in stock enough quantities of an alternative set which could be used for the purpose. He assured the Committee that the stores in question were likely to be used and that they would not make any further provision of the other type until such time as the alternative stocks were exhausted.

174. Referring to the boots, the M.G.O. pleaded that considering the large number of boots that were required by the Army every year, the total surplus or the total over-provisioning that had resulted was not 'very unreasonable'. He further told the Committee that it would be adjusted in the next lot.

175. When questioned about the manufacture of boots in the Harness and Saddlery Factory, Kanpur, the Defence Secretary stated that the policy of the Government was not to manufacture in the Ordnance Factories all the goods that could be purchased in the open market. Moreover, this Factory had not got the machinery to manufacture boots at present. When asked further whether there existed a boot manufacturing plant in this factory during war-time, the Defence Secretary promised to look into the matter and furnish the requisite information.*

176. *Para. 20.**—Planning and progressing of orders placed on ordnance factories.*—This para. explains the procedure in regard to planning and progressing of orders placed on ordnance factories. It also indicates that planning and production in some of the Ordnance Factories had been defective. As many as 5,239 orders

* See Appendix VI.

** See also Appendix VII.

placed on Ordnance factories upto the end of 31st March, 1952 were outstanding on the 31st March, 1954. Government appointed a Liaison Officer in March, 1955 to submit a detailed report about the delays caused in the execution of orders as also the steps taken to eliminate such delays etc. During the course of discussion, it was stated that the report submitted by this Officer was under consideration of the Government.

177. Audit also suggested that it might be useful to evolve a new procedure under which indents more than 3 to 5 years old would lapse automatically unless they were reinstated by replacement orders.

178. At the outset, the D.G.O.F. explained some of the difficulties experienced by his Organisation in clearing this large number of outstanding items, a number of which were of a petty nature. Many of the items were outstanding as trial demands and indigenous manufacture had to be established. Further in case of trial demands they did not often have the bare particulars such as, specifications, drawings etc. and the procedure itself was rather long, involved and time absorbing because they had got to produce against the sample another prototype and that prototype had got to be approved. It was only when the prototype was finally approved and sealed that they could really get along with the business of manufacture. Then in the matter of procurement of materials through the D.G., S. & D., it normally took 8 months or so.

179. Further, the indents were categorised under 'high' and 'low' priorities according to the nature and demand of the stores and this procedure resulted in the 'high-priority' items swamping on the low-priority' items of earlier years. Then there were certain specialised items of stores which it took them five to seven years to establish manufacture on a mass scale. Continuing, he said, they were not so well advanced, particularly, in respect of designs, tool making etc. Therefore, some of these items which were complex in nature necessarily required time.

180. Referring to the number of outstanding indents as shown in the Audit Report, he informed the Committee that it had since been reduced from 5,239 to 3,400. To sum up, he said that the cumbersome procedure which they had to follow and with their limited resources, they could not clear more than about 1,000 old Extracts and 2,000 new Extracts a year because of the pressure of priority requirements and the bottle-necks in the pre-production sections (planning, design and tool making.)

181. In reply to a question, the D.G.O.F. informed the Committee that he had been pointing out for a considerable time the difficulties to the D.O.S. etc. in executing these petty orders which required the same amount of pre-production work as large orders. He stated that the procedure of cancelling petty orders was introduced as a result of a high-level meeting held on the 8th November, 1954 and if it had been introduced earlier, there would not have been 5,239 Extracts outstanding on the 31st March, 1954.

182. When asked to give his views about the practicability of the suggestion made by Audit (referred to above), the D.G.O.F. stated while it would be of much help to his Organisation, a distinction

would also have to be made between educational orders requiring more than 3 to 5 years for establishment and orders for established items. Intervening, the Defence Secretary stated that they could accept the Audit suggestion if the trial orders were separated from regular orders.

183. *Para. 21.—Manufacture in ordnance factories for stock purposes in excess of requirements.*—Ordinarily, the ordnance factories undertake manufacture only against firm demands from the Defence or other indentors. In certain cases, the factories manufacture items for own stock in order to meet any possible future requirements of indentors. Audit suggested that it was necessary to fix stock level for each item of manufacture to avoid unnecessary accumulations.

184. The Committee wanted to know the action taken by the Ministry of Defence to implement the suggestion made by Audit. The Defence Secretary stated that until 1953, the production in Ordnance Factories was regulated in accordance with a target programme, but now under the changed procedure, the D.G.O.F. could not undertake any manufacture without a firm order. Government had recently appointed a Defence Production Board presided over by the Minister of Defence Organisation, the executive authority of which was the Controller-General of Production, who supervised all defence production. He further informed the Committee that they would seriously consider the suggestion made by Audit and place it before the Board.

185. Referring to the criticism of excess manufacture for stocks in a number of factories mentioned in this para., the D.G.O.F. stated that many of these figures of excessive manufacture for stock were largely due to the paper procedure that was followed in the Ordnance Factories in the processing of work order. The Committee, however, desired to be furnished with a note* stating the existing procedure followed in the Ordnance Factories in accounting the manufacturing cost of articles for 'stock' and how later on it was adjusted against firm orders; what check was exercised over the stock items thus manufactured and how were the stores and labour charges apportioned. They also wanted to know whether there was any limit on the financial powers of the D.G.O.F. in the incurring of expenditure on manufacture for stock purposes.

186. The Committee then adjourned till 3 P.M. on Monday, the 30th April, 1956.

*See Appendix VII.

Proceedings of the Twenty-fifth sitting of the Public Accounts Committee held on Monday, the 30th April, 1956

187. The Committee sat from 3-10 to 4-50 P.M.

PRESENT

Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri U. Srinivasa Malliah
 3. Shri S. V. Ramaswamy
 4. Shri K. G. Deshmukh
 5. Shri Y. Gadilingana Gowd
 6. Shri Uma Charan Patnaik
 7. Shrimati Violet Alva
 8. Shri P. S. Rajagopal Naidu.
- Shri A. K. Chanda, *Comptroller and Auditor-General of India.*
- Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General.*
- Shri R. P. Sarathy, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Ministry of Defence:

- Shri M. K. Velodi I.C.S., *Secretary.*
- Shri N. N. Wanchoo, I.C.S., *Joint Secretary.*
- Maj. Gen. S. D. Verma, *Master-General of Ordnance, Army Headquarters.*
- Shri K. K. Framji, *Director-General, Ordnance Factories.*

Ministry of Finance (Defence):

- Shri S. Ratnam, *Financial Adviser, Defence Services.*
- Shri A. Subrahmanyam, *Controller-General of Defence Accounts.*

Ministry of Finance (E.A. Deptt.):

- Shri Shiv Naubh Singh, *Deputy Secretary.*

MINISTRY OF DEFENCE (contd.)

APPROPRIATION ACCOUNTS, DEFENCE SERVICES, 1953-54 AND AUDIT REPORT, DEFENCE SERVICES, 1955

188. At the outset, the Committee drew attention to the recommendations made by the last Committee in Para 36 of their Fourteenth Report for overhauling the administration so as to utilise

fully the installed capacity of the factories and wanted to know the action taken by the Ministry thereon. The Defence Secretary stated that with a view to ensure better administration of the Ordnance Factories, they had now set up a Defence Production Board, which was presided by the Minister for Defence Organisation. One of the main tasks of this Board, he said, was to see that the production in all the Defence installations including the Ordnance Factories was looked after and organised properly.

189. The Committee then proceeded to take up further consideration of the Audit Report, Defence Services, 1955.

190. *Para 17—Over-provisioning of stores.*—This para. sets forth a number of cases involving several lakhs of rupees in which savings could have been effected had timely action been taken to cancel or reduce the orders placed either in the U.K. or on the D.G.O.F. as soon as surpluses were noticed.

191. The Defence Secretary stated that as a result of the re-organisation of the Army and the rejection of a very large quantity of stock on the recommendations of an Expert Committee, the present position of the surpluses under various categories of stores as shown in this para. had considerably improved. He quoted the following figures of surpluses/deficits in respect of the various categories of stores listed in this Para:

Category	As shown in the para.	Date	Present position surplus (+) / Deficit (-)
Store 'A'	5,22,543	1.1.54	- 66,352
Store 'B'	9,87,061	1.1.56	- 34,596
Store 'C'	1,91,666		5,66,082
Store 'D'	27,106		-39,892
Store 'E'	Figures yet to be collected)		
Store 'F'	25,271		-6,514

Referring to Store 'C' in particular, the Defence Secretary stated that they were in a very difficult position and were now frantically trying to get supplies thereof from various sources.

192. Explaining the reasons for non-cancellation or non-reduction of orders placed with the D.G.O.F. or in the U.K. in time when these surpluses were brought to notice as a result of successive provision reviews, the Defence Secretary stated that it was due to two reasons, viz., firstly, quite a lot of stock of these stores was likely to deteriorate very rapidly and the Army authorities were naturally unwilling to place too much reliance on the stock as it then existed and secondly, so far as the Orders placed with the D.G.O.F. were concerned, they were rather unwilling to cancel them because it was their own organisation and they wanted to give every chance to the Ordnance Factories to produce stock.

193. As regards the surpluses, he contended that these existed on paper only as the figures shown in the Audit Report did not actually reveal the exact arrival of stores in the M.G.O's Organisation because in many cases though they had indented for supplies,

they did not come in time. To illustrate his point, he stated that while under Store 'A', there was a surplus on paper of 8,22,453 on 1st January, 1954, that did not represent all the stock that they had of that particular store.

194. The Committee desired to know* the quantities produced, quantities delivered and the delivery dates in respect of stores 'A', 'B' and 'C'. The Defence Secretary stated that in the case of Store 'A', the order was placed with D.G.O.F. for 2,62,000 on 1st April, 1951 and the number had been progressively reduced to 14,000 on 1st January, 1956.

195. *Para 22—Infructuous expenditure in an ordnance factory.*—An ordnance factory accepted an order for manufacture of 120 ingot moulds from another ordnance factory in January, 1952. 4 moulds had to be supplied by November, 1952 and thereafter 8 per month. The estimated cost was Rs. 1,940 per mould approximately. Till May, 1953 only 18 moulds could be supplied out of which 17 were rejected by the indenting factory as entirely unsuitable, having failed completely in test. The manufacture was, however, continued till, January, 1954 by which time 24 more moulds had been manufactured all of which were rejected by internal inspection. At this stage, the D.G.O.F. transferred the order to the extent of 100 moulds to another factory and directed that the factory should improve its method of manufacture and supply 20 moulds in replacement of the rejected ones. The total expenditure incurred by the factory in its attempt to manufacture moulds was Rs. 1,27,332, most of which proved infructuous. Audit pointed out that the prudent course to adopt was to establish manufacture on a trial order before attempting large-scale manufacture.

196. The Defence Secretary informed the Committee that out of 54 moulds, 46 moulds had been retrieved and accepted. 8 moulds, he said, had been rejected. He agreed with the audit criticism that they should have placed trial orders and satisfied themselves about the technical competence of the factory before taking up bulk production.

197. The D.G.O.F. informed the Committee that the order for 120 moulds placed in January, 1952 was subsequently reduced to 54 only and the Ordnance Factory concerned manufactured them in three batches—one of 24, another of 18 and the third of 12. In reply to a question whether they collected the raw materials against the original order for 120 moulds, the D.G.O.F. stated that since the Ordnance Factory used their own scrap for 54 moulds, the question of supplies of raw materials did not arise. Further, some of these moulds, 23 in number, were rectified in the Metal and Steel Factory to which they were finally sent, without any additional cost, because it involved only the fitting of a bottom plate and scraping of steel which was done during the operations of melting and casting of ingots in these moulds. The total cost of manufacture upto date of these 54 moulds was stated to be Rs. 1,32,487.

198. *Para 23—Arrears in the linking of invoices with packing accounts; and Para 24—Non-linking and non-production of vouchers.*—These paras. pointed out large arrears in the linking of invoices

with packing accounts. Para 23 disclosed that 4,475 invoices remained unlinked till 31st March, 1955. The Defence Secretary stated that there had been considerable improvement in this case and he quoted the latest figure of such invoices outstanding on 29th February, 1956 as 1,649 valued at £12,67,687. Out of these outstanding invoices, 55 related to 1948-49; 145 to 1949-50; 116 to 1950-51; 181 to 1951-52 and 164 to 1952-53. When asked about the steps taken to set right matters in this direction, the Defence Secretary informed the Committee that they had taken up this matter with the High Commissioner for India in London and in fact they had placed at his disposal the services of one or two Officers who were engaged in the linking of these invoices.

199. When questioned whether they had received all the stores for which payment had already been made to the U. K. Government as shown in the Audit Report, the Defence Secretary stated that he could not give an answer to it. He pleaded that all these invoices related to several years past and the main difficulty that confronted them was that they had not got the relevant documents. As regards the current transactions, they had issued definite instructions to ensure that these things did not recur.

200. *Para 25—Stock verification in Army units and formations other than factories.*—This para. disclosed huge surpluses and deficiencies as a result of the annual verification in the two Depots after the reorganisation scheme. The M.G.O. stated that the discrepancies were due to clerical errors in posting, non-posting of official receipts, difficulty in controlling storage, shortages found in packages which were checked 5 per cent. at the time of receipt, issues made without recording the same in Issue Vouchers etc. The Committee, however, desired to be furnished with:

- * (a) A note stating the latest position about the verification of the stock carried out in these two depots and also the steps taken to reconcile the discrepancies, the money value of the surpluses and deficiencies to be indicated.
- * (b) A note stating the reasons how soon after the reorganisation scheme, large discrepancies came to be noticed in the case of these depots, especially the second depot where the number was fairly large.

201. *Para 26—Stock verification in ordnance and clothing factories.*—Stock verification disclosed surpluses amounting to Rs. 20,91,758 in 20 factories and deficiencies amounting to Rs. 11,14,047. Further large surpluses were repeatedly noticed in one factory from 1951-52 onwards. The D.G.O.F. explained that the reason for this was the considerable volume and variety of items arising from war-time production scattered and mixed up throughout the factories over a wide area for want of proper storage accommodation, which hampered close control by the Stores staff concerned. These were, therefore, not true surpluses. Continuing, he stated that in this factory, the stores conditions were investigated by a Board of Inquiry who accepted the position as explained by him as being beyond the control of any individual. The position, he said, had been progressively

* See Appendix VIII.

improving year by year both in respect of the number of items verified and in respect of surpluses and deficiencies found.

On being pointed out that the Defence Services were holding very large stores which might not be of use to them in future years and which apart from occupying a valuable storing space involved considerable expenditure on their custody etc., the Defence Secretary undertook to look into the matter.

202. *Para 27—Disposal of Blankets.*—The provision review upto 31st March, 1954 carried out in 1952 disclosed 4,257 blankets for Ratings, surplus to requirements. Out of the surplus of 4,257 blankets, 4,000 new blankets (received in 1950-51) were declared surplus to the D.G., S. & D. on 31st March, 1953, without taking into account future requirement beyond 31-3-54 although, in accordance with the policy for the retention of surplus stores, requirements upto an additional period of 5 years could be retained out of the surplus. The quantity declared surplus in this case would have covered only about a year's requirements. In November, 1953, the D.G., S. & D. was addressed with a view to withdrawing from disposals 3,000 blankets to meet requirements shown by the review carried out in 1953, but the D.G., S. & D. regretted his inability to the withdrawal as he had already made firm commitments for their disposal. An indent was, therefore, placed in January, 1954 on the trade for the supply of 3,500 blankets.

203. Out of the blankets declared for disposal, 370 were withdrawn and the remaining 3,630 disposed of for Rs. 32,670 against the book value of Rs. 76,230. Audit had pointed out that this hasty action resulted in a loss of Rs. 43,560.

204. The Defence Secretary agreed with the Committee that it was very unwise to have declared new blankets as surplus. In reply to a question, he stated that no action had been taken against the Naval Stores Officer. The Committee desired to be furnished with a note* stating:

What action had been taken to avoid such cases of hasty dis-cards? What action was proposed to be taken against the Naval Stores Officer in this case.

205. *Para 28—Delay in publication of payment issue rates.*—Naval ratings are paid a monthly cash allowance for the maintenance of their uniforms. They obtain on payment from the Ships' stocks the articles of clothing required by them for repair or replacement of uniforms. The contract rate of a consignment of cloth received by the Naval Stores Officer between May, 1953 and August, 1953 was Rs. 1-7-6 per yard as against the then prevailing payment issue rate of annas six per yard. The paid bill for the consignment was received by the Controller of Defence Accounts in September, 1953 and the revised payment issue rate worked out by him at Rs. 1-10-0 per yard was intimated in April, 1954 to Naval Headquarters who published it in December, 1954 to take effect from 1st January, 1955. During this interval of 20 months from May, 1953 to January, 1955, 44,566 yards of the cloth had been supplied by the Naval Stores Officer to various ships and establishments for issue at the old rate of annas six per yard resulting in a loss of Rs. 52,881. The Committee wanted to know the action taken by the Ministry to cut out the delay in the

*See Appendix IX.

existing procedure to avoid such losses in future and also whether any responsibility for the inordinate delay in this case had been fixed. The Defence Secretary stated that no instructions had been issued by them in this matter.

206. The Controller General of Defence Accounts stated that in this case, he had communicated his displeasure to the Officers concerned who took such a long time to communicate the revised payment issue rate to the Naval Authorities. The work of revising of prices, he said, had since been taken over by the Ministry of Finance (Defence) and he expressed the hope that such a situation would not recur.

207. The Defence Secretary further informed the Committee that so far as the delay on the part of the Naval Stores Officer was concerned, disciplinary action had been instituted against him by the Naval Headquarters. So far as the Headquarters Staff was concerned, a recorded warning had been given to the Officer at fault.

208. *Para 29—Double claims preferred by certain Air Force Officers.*—The C. and A. G. suggested to the Committee that in view of the disciplinary action having been taken against the Officers concerned, this para need not be pressed.

209. The Committee then proceeded to take up consideration of the Appropriation Accounts, Defence Services, 1953-54.

210. *Para 12—Penultimate sub-para—Check of pension payments to Indian military pensioners.*—The C. G. D. A. informed the Committee that the Treasury Accounts themselves did not come to them in time in spite of their best efforts, particularly in the case of Part 'B' States. He added that they had since taken necessary action and the position had improved considerably.

211. *Page 63 of the Accounts—Appendix 'B'—Statement showing Stores losses.*—The bulk of losses are in respect of vehicles, ordnance and clothing stores, and building and engineering stores. The Defence Secretary stated that they had since tightened the security arrangements and there was now a gradual decline in the figures of losses.

215. *Paras 11—14—Canteen Stores Department (India).*—The receipts and expenditure of the Canteen Stores Department are still being kept outside the Government Account. The Committee wanted to know whether any decision had been arrived at in the matter as recommended by the P. A. C. in para 40 of their Fourteenth Report. The Defence Secretary stated that this question was still under consideration.

216. Before the Committee rose, the Chairman informed the Defence Secretary that any other points arising from these Accounts and Audit Report thereon on which they would require further information would be forwarded to him in due course.

217. As regards the consideration of notes/memoranda etc., submitted by the Ministry of Defence pursuant to action taken on the outstanding recommendations made by the P. A. C., it was decided to appoint a sub-Committee to examine them.

218. The Committee then adjourned *sine die*.

Proceedings of the Thirty-first* sitting of the Public Accounts Committee held on Friday the 29th June, 1956 at Gorton Castle, Simla.

219. The Committee sat from 10 A.M. to 1 P.M. and 3 P.M. to 4-30 P.M.

PRESENT

1. Shri V. B. Gandhi—*Chairman*.

MEMBERS

2. Shri Ramananda Das.
3. Shrimati Ammu Swaminadhan.
4. Shri S. V. Ramaswamy.
5. Shri K. G. Deshmukh.
6. Shri Balwant Sinha Mehta.
7. Shri C. D. Pande.
8. Shri Uma Charan Patnaik.
9. Shri V. Boovaraghasamy.
10. Dr. Indubhai B. Amin.
11. Shrimati Violet Alva.
12. Diwan Chaman Lall.
13. Shri Ram Prasad Tamta.
14. Shri P. S. Rajagopal Naidu.
15. Shri Mohammad Valiulla.
16. Shri V. K. Dhage.
17. Shri B. C. Ghose.

Shri A. K. Chanda, *Comptroller and Auditor-General of India*.

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General*.

Shri R. P. Sarathy, *Director of Audit, Defence Services*.

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary*.

220. At the outset the Committee decided that the Statement furnished by the Delhi Road Transport authority setting forth the details of the routes operated by the D.T.S., income per mile etc. should be included as an Appendix in their Twentieth Report on the Accounts of the D.R.T.A. for the years 1950-51, 1951-52, 1952-53 and 1953-54.

221. The Committee then took up consideration of their Draft Nineteenth Report on the Appropriation Accounts (Defence Services) 1953-54.

*Earlier sittings relate to the 16th, 17th, 18th and 20th Reports of the Public Accounts Committee.

222. It was decided that the following paras of the Draft Report should be re-drafted in the light of the discussions held by the Committee:—

Chapter II.—Paras 26 to 28 (Relating to para 11 of the Audit Report).

Chapter III.—Paras 35 to 38 (Relating to para 12 of the Audit Report).

Chapter IV.—Paras 94 to 103 (Relating to para 30 of the Audit Report).

Para 71 was deleted. The Committee approved the remaining portion of the Report subject to certain additions and alterations, here and there.

223. This being the last sitting of the Committee, the Chairman thanked the out-going Members for the interest they had taken in the deliberations of the Committee. He expressed the view that the system of retirement from the Committee by rotation after two years should be changed to three years to enable the Members to contribute fully to the work of the Committee.

Some of the retiring Members of the Committee also thanked the Chairman and the Comptroller and Auditor-General for the guidance given to them.

The Comptroller and Auditor-General praised the work of the Committee. He also thanked the out-going Members for the support he had received from them.

224. The Committee then adjourned.

**Proceedings of the Third Sitting of the sub-Committee of the Public
Accounts Committee to consider the notes/memoranda etc. relating
to the Defence Services Accounts held on the 26th May, 1956.**

Proceedings of the Third* Sitting of the sub-Committee of the Public Accounts Committee to consider notes/memoranda etc. relating to the Defence Services Accounts held on Saturday, the 26th May, 1956

225. The sub-Committee sat from 3 to 4-25 P.M.

PRESENT

1. Shri V. B. Gandhi—*Chairman.*

MEMBERS

2. Shri S. V. Ramaşwamy

3. Shri Uma Charan Patnaik.

Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General.*

Shri R. P. Sarathy, *Director of Audit, Defence Services.*

Shri P. C. Ghosh, *Deputy Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

WITNESSES

Shri S. Ratnam, *Financial Adviser, Defence Services.*

Shri A. Subrahmanyam, *Controller-General, Defence Accounts.*

APPROPRIATION ACCOUNTS (DEFENCE SERVICES)—(Contd.)—

MINISTRY OF FINANCE (DEFENCE)

226. At the outset, the Chairman pointed out that the Committee had decided to take up in future examination of the statement of losses of cash, overpayments etc. pertaining to the post-partition period as contained in Appendices 'A' and 'B' of the Appropriation Accounts (Defence Services). To start with, he said, they had decided to take up a few selected items contained in the Appendices 'A' and 'B' of the Appropriation Accounts (Defence Services), 1953-54.

*First and Second Sitzings relate to the consideration of the Statement showing action taken or proposed to be taken on the outstanding recommendations of the Public Accounts Committee relating to the Accounts (Defence Services) contained as Appendix I to this Report—Proceedings not printed.

APPENDIX 'A'

I

227. Page 47—S. No. 13—Loss amounting to Rs. 27,282 on account of irregularities in the cash and store accounts of an Anti-Tank Regiment during October, 1949 to August, 1950.—In this case, loss occurred due to bad accounting to receipt and issue of rations, issue of ration articles to non-entitled persons, misappropriation of Government money realised through issue of rations on payment, preparation of ration returns being in arrears, failure to verify ration balances periodically etc.

The Financial Adviser, Defence Services informed the Committee that adequate punishment had been meted out in this case to the Officer Commanding and the Quartermaster staff who were responsible for these irregularities.

II

228. Page 53—S. No. 5—Extra expenditure caused due to the supply of water and electricity at a hill station to families of the military officers occupying Government accommodation when the officers were not posted at that station on bonafide Government duty during the years 1948 to 1950.—The Sub-Committee wanted to know how the erroneous supply of electricity and water was made in this case. The Financial Adviser, Defence Services stated that this happened during the troublous days following the Partition of the country when there were quick movements of troops; families of Officers had to be quartered in tents at certain hill stations for want of adequate accommodation. He further said that the Ministry of Finance had held that there had been no loss as such for the simple reason that the charges for electricity and water of the M.E.S. were averages for the whole of India and it might happen that in a particular station the Municipal rates were higher than those charged by the M.E.S. and there was obviously no need for taking action for writing off the loss in this case.

229. Page 54—S. No. 7—Loss amounting to Rs. 12,320 due to a hired building at a Military Station remaining unoccupied from 1st January, 1948 to 31st July, 1949.—In this case, a building had been hired originally for a purpose other than the Training Centre for anti-malaria operations as stated in the Accounts. The Financial Adviser, Defence Services stated that presumably the Army authorities could not get the sanction for the anti-malaria training school, and they went on retaining the building in the hope that the sanction would be forthcoming, which, however, did not come. The sub-Committee desired to be furnished with a note stating the purpose for which the building in question had been originally hired as also the reasons for the delay caused in issuing the sanction in this case which resulted in the building being kept vacant for about 18 months.

ANNEXURE TO APPENDIX 'B'

I

230. Page 74—S. No. 29.—Loss amounting to Rs. 12,864 due to certain irregularities in the ration account of a military hospital during the period May, 1948 to September, 1949.—The Financial Adviser, Defence Services stated that the main charge against the Havildar responsible for loss in this case was that the ration returns were not posted by him immediately the transactions took place. This led to discrepancies in stocks and the deficits were presumed to be loss. The disciplinary aspect of this case, he further said, was examined by the Government of India in the light of the summaries of evidence recorded by the Judge Advocate-General and it was decided that as no *prima facie* case could be established against the personnel concerned, this particular case should be dropped.

231. Page 75—S. No. 33—Five cases of losses (value ranging from Rs. 9,975 to Rs. 3,45,460) due to damages caused to aircraft in accidents in certain Air Force Wings while on authorised duty in the year 1951-52.—The Financial Adviser, Defence Services gave the following break-up of the loss amounting to Rs. 6,32,365 caused in these cases:

- (i) Rs. 26,980
- (ii) „ 9,925
- (iii) „ 1,50,000
- (iv) „ 3,45,460
- (v) „ 1,00,000

In the first case, the Financial Adviser, Defence Services informed the Committee, that the pilots who happened to be in the aircraft in two of the cases died later. In the third case, it was stated that the Flying Officer handed over the control of the aircraft to the Navigator. In the fourth case, the loss of the aircraft was due to the reason that the pilot while carrying out test exercise did not check his position which ultimately resulted in his making a belly-landing. In the fifth case, the reason stated was the pilot while landing at night asked for permission of the Flying Control to do single-engine landing. While doing so, he lost height and speed and his attempt to restart the starboard engine proved unsuccessful. As the speed of the aircraft dropped below the critical speed the pilot could not maintain directional control and he therefore, decided to land on grass. While touching down, the wheels hit a drain and the aircraft crashed. In reply to a question, the Financial Adviser, Defence Services stated that while all these flights were authorised, low flying which was responsible for the loss of the aircraft in case (iv) and the handing over of control of the aircraft to the Navigator in case of (iii) were unauthorised.

232. Page 77—S. No. 38—Loss of stores amounting to Rs. 1,12,286 found deficient in an Ammunition Factory at the time of stock verification carried out in November, 1949.—The deficiencies were attributed to heavy receipts and accumulations of stock during the war period and to the abnormal conditions then prevailing. The

Financial Adviser, Defence Services stated that in this case the original count of stock was done on the basis of counting the packing cases and not the individual contents.

233. Page 77—S. No. 40—Loss of Rs. 3,112 due to incorrect weighing of stores in an Ammunition Factory in 1951-52.—The Financial Adviser, Defence Services promised to submit a note stating the facts of this case.

II

234. Page 78—S. No. 4—Loss of Rs. 93,765 due to non-receipt of stores issued on hire to civil establishments by an Ordnance Depot in February, 1950.—The sub-Committee wanted to know on what basis the authorities came to the conclusion in this case that no theft, fraud, or neglect was suspected. The Financial Adviser, Defence Services stated that the Ministry of Finance had been told that the records both on the issuing and receiving sides were not available. It was, therefore difficult for them to say whether the conclusions reached were correct.

235. Page 84—S. No. 23—68 cases of losses due to deficiencies in mechanical transport stores, ordnance stores, etc. noticed during stock verification of the Ordnance Depots.—The amount involved in this case was Rs. 82,93,456. The deficiencies were attributed to fictitious surpluses taken during the previous stock-taking; incorrect marking on the war-time packed cases wrong classification of stores at the time of receipts etc.

The Financial Adviser, Defence Services stated in extenuation that during the war years in view of the heavy inflow of stores into the depots, a cent per cent check was found almost impossible.

236. Page 93—S. No. 58—Loss of Rs. 4,31,501 due to deterioration of parachutes and fabrics in an Air Force Station.—The sub-Committee wanted to know whether any inspection was carried out at the time of taking over the stocks. The Financial Adviser, Defence Services stated that according to the information in his possession, the inspection could not be completed on taking over the stock for want of adequate staff.

237. Page 97—S. No. 71—Loss of stores amounting to Rs. 5,25,393 due to their being declared as unserviceable for use, and their subsequent destruction.—The Financial Adviser, Defence Services stated that this again was a war-time supply made during 1944.

238. Before the sub-Committee rose, they desired to be furnished with a statement showing the amount of losses detected in the various Ordnance Factories and Depots during the years 1950-51, 1951-52, 1952-53 and 1953-54, the reasons therefor and the extent to which these have been written off.

239. The sub-Committee then adjourned *sine die*.

APPENDICES

APPENDIX I

*Statement showing action taken or proposed to be taken on the recommendations of the Public Accounts Committee,
Defence Services Accounts*

Sl. No.	Reference to Para No. of the Report	Ministry/Department concerned	Particulars of the Item.	Remarks of the Ministry	Comments
1	2	3	4	5	6
1	52(IX)*	Defence	An early decision should be taken in the matter of the implementation of recommendation made in the second sub-para of para 6 of the Report of the Public Accounts Committee on the Appropriation Accounts 1947-48 (Post-Partition) regarding setting up of (Arbitration Tribunals to decide cases of disagreement under Works contracts.	The Ministry of Defence have submitted a memorandum No F. 59/14/53/674-E/D (E & Q1g), dated the 20th January, 1955. (Appendix IX to the 14th Report of the P.A.C.).	See Para 102 of the Report
2	57(IX)	Defence	The Local Audit Officers of the Defence Accounts Department should also carry out surprise checks of cash with the Imprest Holders and the Defence authorities should render them all necessary facilities to carry out such checks.	A note has been submitted. (See Appendix XII)	
3	58 (IX)	Defence	The Ministry of Defence, should examine the adequacy of the various internal checks including checks by the Defence Accounts Department of the cash accounts in consultation with the Controller-General of Defence Accounts, the Ministry of Finance (Defence)	A note has been submitted. (See Appendix XIII)	See Para 103 of the Report.

*Denotes Ninth Report of the P.A.C. on the Appropriation Accounts (Defence Services), 1949-50 and 1950-51.

4	64 (IX)	Defence	<p>and Comptroller & Auditor General and suggest improvements, if any.</p> <p>Government should take all possible steps to enforce recoveries of the existing heavy outstandings on account of stores supplied or services rendered to private individuals by Ordnance and Clothing Factories during the years 1944-48.</p>	<p>In continuation of their remarks communicated to the P.A.C. of 1954-55 as shown against item No. 25 of Appendix I to the Fourteenth Report of the P.A.C., the Ministry of Defence have stated the position in February, 1956 as below:—</p> <p>'Out of the total amount of Rs. 9.22 lakhs outstanding from fabricating contractors of Branch Harness and Saddlery Factories the amount outstanding on 30th November, 1954 was shown as Rs. 7.26 lakhs. This amount has now been slightly reduced due to certain recoveries and adjustments and stands at Rs. 7.14 lakhs on the 1st October, 1955. D.G.S. & D. who is responsible for recovering or writing off these amounts, is making all efforts to finalise these cases as quickly as possible. But since most of the contracts were placed prior to partition and the whereabouts of some of the firms are not known and in many cases the matter is pending before law courts or arbitrators the process is bound to be protracted.</p> <p>2. Regarding the sum of Rs. 3.29 lakhs due from firms for stores supplied against orders placed by them, it was last stated by this Ministry that the balance outstanding on 30th November, 1954 was Rs. 1.47 lakhs. This figure, however, included a sum of Rs. 0.24 lakhs due from a firm which was not included in the total of Rs. 3.29 lakhs. It is regretted that this was not explained previously</p>	<p>A further report about the amount outstanding should be submitted to the Committee at the time they take up consideration of the next year's Accounts.</p>
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			<p>due to an oversight. The correct position, however, was that out of the total sum of Rs. 3.29 lakhs originally shown in the P.A.C. Report, only Rs. 1.23 lakhs were outstanding on 30.11.54. Or, in other words, out of a total of Rs. 3.53 lakhs, a sum of Rs. 1.47 lakhs was outstanding. Since then the amounts of the claims against two firms have been increased by Rs. 11,107/- which means that the total initial outstandings would be further raised to Rs. 3.64 lakhs. Out of this sum, the total still outstanding on 1.11.55 was only Rs. 1.12 lakhs roughly. Every effort is being made to expedite the finalisation of the remaining cases but the process is bound to be protracted for the reasons, already stated in para. 1 above, which are equally applicable in these cases.</p>			
5	65 (IX)	Defence	<p>The question of allocation of the unaccounted expenditure in the case of the projects for the erection of a Factory at a certain stations [referred to in para 7 of the Audit Report on the Commercial Appendix to the Appropriation Accounts (Defence Services), 1949-50] should be settled and necessary adjustments made as early as possible.</p>	<p>At Memorandum has been submitted [Memorandum No. 47 (3)/55/12063/D (Fy.) dated 16.12.55] (See Appendix XIV).</p>	<p>No Comments.</p>	77
	73 (IX)	Finance (Defence)	<p>The High Commissioner for India in London should be asked to pursue the question of early settlement of outstanding claims against the U. K. Government, which amounted to £3,788,100 at the end of March, 1953 at high level with the War Office as further delay is likely to complicate matters.</p>	<p>A note has been submitted (Appendix XV).</p>	<p>Further report may be expedited.</p>	
7	74 (IX)	Defence	<p>The Committee desire that the Ministry of Defence should in consultation with the Ministry of Finance (Defence) and Audit evolve a method to clear off the backlog of</p>	<p>In order to clear the back log of audit objections outstanding since long, special <i>ad hoc</i> Committees were set up in consultation with the Ministry of Finance (Defence) and D.A.D.S.,</p>	<p>No comments.</p>	

unimportant audit objections which are outstanding since long.

to examine and settle outstanding objections relating to losses and irregularities which occurred prior to 1.4.50. The bulk of these objections were settled by these Committees and the few cases relating to this period which have remained to be reviewed, have now been referred to the new *ad hoc* Committees which have been recently set up to deal with all audit objections relating to cases of losses and irregularities raised during the period 1.4.50 to 31.3.55 and remaining unsettled. Besides, to speed up the process of settling the audit objections, detailed instructions have since been issued to all the authorities prescribing the procedure and a Defence time schedule for the settlement of the objections raised in audit.

8 115 (IX) Defence.

The Ministry of W.H. & S. should take up the question of making advance payments to the U.K. Govt. for the supply of certain stores to the Govt. of India in consultation with the Defence Ministry.

The Ministry of Defence communicated the following remarks to the P.A.C. of 1954-55, who postponed their consideration until they took up the next year's accounts, when they desired to examine the representatives of the Ministries of Finance, Defence and W. H. & S. (*c.f.* Para 51 of the Fourteenth Report):—

“The matter was taken up by the High Commissioner with the U.K. Govt. and the Ministry of Supply U.K. proposed on 19th January 1953 that in future—

- (a) 80% advance payments should continue to be made for short terms delivery orders, *i.e.*, where delivery will not be later than 12 months; and
- (b) in the case of long term delivery orders pre-payment will be of expenses of U.K. Govt. incurred from date of placing of order till delivery begins and there-

after pre-payment of 50% per annum of value of deliveries in a given year; the balance to be paid against documents.

The Ministry of Supply explained that they had to have these advances in order to provide for supplies, which are made either for production by Government Ordnance factories or purchase from the trade and sometimes from stocks. The Ministry has to make payments for purchase of raw material, labour charges, etc. and their budgetary grants are not sufficient to provide for their own supplies and to meet demands for procurement made on them. The payments they receive from us and similar customers are taken in reduction of the expenditure and the vote of U. K. Parliament is sought only for the net amount.

This matter was carefully examined by this Ministry in consultation with the Ministry of Finance (Defence) and it was accepted that there is no alternative to making advance payments as required by the U.K. Government but our High Commission in London was asked to ensure that the system of advance payments applied to us is the same as that applied to other Commonwealth Governments. The advances should be the minimum necessary for the purpose and should not remain unadjusted for long periods. We wanted the High Commission to lay down a procedure in consultation with their Financial Adviser indicating the

broad basis for calculating the amount of such advance payments and also the period on the expiration of which the store should materialise or the advance should be refunded. Ministry of W.H. & S. has also agreed with the above view, which has since been communicated to our High Commissioner in London”.

The Ministry of Defence have now stated as below:—

“No action is necessary at present. This will be examined by the P.A.C. at the time they take up next year’s accounts *i.e.* 1953-54.

In our earlier reply to the P.A.C., we had stated that the High Commissioner has been asked to lay down a procedure in consultation with his Financial Adviser indicating the broad basis for calculating the amount of advance payment and also the period on the expiration of which stores should materialise or advance should be refunded. So far the High Commission has not laid down the procedure and they are being expedited in the matter. As soon as such a procedure is laid down, the P.A.C. will be informed.”

A further report about the procedure laid down should be submitted to the Committee as early as possible.

9 9(XIV)* Defence

Large savings and lapses of appropriations disclosed in the Appropriation Accounts (Defence Services), 1951-52 and 1952-53 indicate a laxity in the preparation of estimates as well as series lacunae in both planning and execution of capital projects.

S. Nos. 9 and 10.
Necessary instructions have been issued to all concerned to exercise greatest care in the preparation of the Budget Estimates with a view to avoid large savings and lapses.

10	10(XIV) Defence	<p>The Committee would observe that lapse of funds on such a large scale not only indicates that the plans for which provision is made in the Budget of the Ministry of Defence are not being implemented as contemplated, but it also immobilises large sums of money which might have been diverted for more beneficial purposes by the Government in other Departments or spheres of activities.</p>	<p>Various measures have been taken to collect periodically information from the various authorities on the basis of which the Budget Estimates can be prepared or scrutinised intelligently. For example, arrangement has been made for obtaining bi-monthly statements from the High Commission in London, Ministry of Food, etc., indicating their expectations regarding supply of stores. The Ministry of Works, Housing and Supply have also been requested to ensure that all efforts are made to arrange for deliveries in time in accordance with the delivery schedules.</p>	<p>See Paras. 10-12 of the Report.</p>
		<p>Large savings arising from unnecessary or unnecessarily large supplementaries or what in the event proved to have been excessive provision in the original Estimates themselves, continue to be a feature of the Defence Appropriation Accounts for the last four years (<i>i.e.</i>, from 1949-50 onwards). In the opinion of the Committee "safe" supplementaries and or estimates "erring on the safe side" are features which are not less serious than excesses over estimates. In the interests of defence programme as a whole, closer estimating is very essential so as to ensure that the greatest possible use is made of the money available.</p>	<p>In so far as, capital works projects are concerned, arrangements have been made to ensure that the works projects are approved at least 3 or 5 months before the beginning of the year. Monthly statements of progressive capital works expenditure are also received in the Ministry from the services Headquarters.</p>	
			<p>Recently, a Budget Cell has been created in the Ministry to keep a constant watch over the progress of expenditure against budget allotment throughout the year and to assist the officers in the Ministry in the detailed scrutiny of the estimates, furnished by the Services Headquarters.</p>	
11	11(XIV) Defence	<p>The position of stock verification in Army Ordnance Depots is still not satisfactory. Reconciliation of ledgers should be made at regular intervals for all the items of stores in the depots after conducting at physical verification of the ground balances</p>	<p>Instructions already exist for the proper maintenance of stores accounts and stock verification. There has been a steady improvement in the implementation of these instructions by stock holding units. Having regard to the vast store holdings of the Services, it is</p>	<p>See Para 83 of the Report.</p>

*Denotes Fourteenth Report of the P.A.C. on the Appropriation Accounts (Defence Services), 1951-52 and 1952-53.

of the various categories of stores and immediate action taken to reconcile the discrepancies.

The Committee are unable to accept the opinion that the stores accounts are generally satisfactory. They would like to draw the attention of the Ministry of Defence to the recommendations made by the previous Committees of Public Accounts stressing the need for an adequate standard of stores accounting, in the interests both of economical administration and operational efficiency.

A periodical review of stocks is necessary to avoid large resources being immobilised. The Ministry of Defence should review the whole position regarding procurement, stocking and accounting of stores and set it on a more rational and scientific footing.

difficult to avoid occasional failures. In some cases the failures are due to the absence of adequate covered accommodation and the dispersal of stocks which makes it physically impossible to conduct 100% stock verification. However, the disposal of surpluses has proceeded well during the last year and as a result more space will become available in the Depots for the proper storage and re-organisation of the holdings, which will facilitate both stores accounting and stock verification. In consequence the implementation of the existing instructions on the subject is expected to improve further. The attention of all concerned has been drawn once again to the matter and the implementation will be watched closely. A copy of the instructions issued is attached. (See Appendix XVI.)

As regards periodic review of stocks to avoid placing of indents for items or stores where surpluses exist, the existing procedure provides for periodic reviews of stocks and their comparison with liabilities with a view to assessing whether a fresh demand should be placed or not. Where large surpluses are revealed as a result of the reviews, action is already being taken to declare the surpluses for disposal, so as to prevent unnecessary locking up of funds and to clear storage space. The attention of all concerned is, however, again being drawn to the necessity for this procedure being carried out systematically and to take action for cancellation of the indents in time, if stores surplus to requirements are revealed. A copy of the instructions issued on the subject is attached. (See Appendix, XVII.)

Over provisioning and over indenting of stores indicate lack of planning and co-ordination between the different branches of the Defence Services. Action to indent stores should be initiated only after firm and final decisions have been reached on the type and quality of equipment and stores required.

The present system of provisioning of stores should be thoroughly overhauled so that surpluses do not occur.

Provisioning is strictly based on the data relating to strength and composition of the Army, the various reserves and other commitments approved by the General Staff with the concurrence of the Ministry of Defence and the Ministry of Finance (Defence) every year. The requirements in respect of main equipments/stores/vehicles are calculated on the basis of various scales (initial and wastages) authorised to units in their peace establishments/war establishments or peace equipment tables/war equipment tables and the wastage scales issued by General Staff with the concurrence of the Ministries of Defence and Finance (Defence). As regards spares and other items, the maintenance requirements are based on the past average issues, the detailed calculation and the ultimate demands are vetted by the Ministry of Finance (Defence) in each case and where the cost of item exceeds Rs. 5 lakhs, the approval of the Ministry of Defence is also obtained before the demands are placed.

See Paras 53, 59 & 60 of the Report.

The basis of provisioning is worked out 2 years in advance taking into account the expected strength of the Army during the period for which provisioning is carried out. Projected increases or decreases are also taken into consideration to avoid over-provisioning. Only the actual requirements of a unit in accordance with its operational or non-operational role is taken into account. The use of 'in lieu' items wherever possible is also insisted upon. The scales of equipment are constantly reviewed to ensure that they are reduced to the inescapable minimum. In case surpluses are revealed as a result of

previous reviews due to reduction in scales/wastages/ reserves or change in equipment policy, immediate steps are taken to reduce/cancel outstanding demands, if any, without financial repercussions and these items are put to alternative use or maximum quantities thereof are retained commensurate with their shelf life for utilisation towards foreseeable requirements. The balances, if any, are offered to other Defence Services before they are finally declared surplus for disposal.

Ad hoc reviews are also carried out, as and when the stock position undergoes a radical change, during the course of the year. In addition, a review of outstanding indents on various sources of supply is carried out periodically with a view to progressing supply and/or cancelling/reducing demands if surplus in requirements is revealed. This enables adjustment of anticipated liabilities against existing assets, namely, stocks plus outstanding demands previously placed on various agencies and placing/adjustment of demands on supplier for the relevant financial years.

It will be seen from the above that ordinarily there should not be any over-provisioning except due to error of judgement. It is only if certain reductions or reorganisation which affects the store requirements are decided upon, as a matter of policy, after provisioning action has been initiated the stores already demanded may be found unnecessary. In such cases, steps are taken

to cancel the demand or where this cannot be done, every attempt is made to make use of the stores. It is felt that barring failure of the human agency the existing system of provisioning described above is already very comprehensive and systematic.

The above describes the procedure mainly in regard to Ordnance Stores.

13 13(a) (XIV)	Defence	(i) The Ministry of Defence should, in consultation with the Ministry of Finance (Defence) and the Comptroller and Auditor-General, examine the feasibility of suggestion made by the Engineer-in-Chief before the Committee that cent per cent stock verification should be confined to major items only and a percentage or test check prescribed for the rest taking care to see at the same time that a relaxation of the quantum of checks does not expose the system of stores control to undue risks or abuses.	(i) The Ministry of Defence is inclined to think that the present system of annual verification of all stores should be allowed to continue except possibly where the nature of the item and the manner in which it is stored make a relaxation necessary. The matter is however under detailed examination and a final reply will follow.	A further report should be expedited.
13(b) (XIV)		(ii) with the stock-verification in the M. E. S. now having been completed, the Defence authorities should conduct a review of all the outstanding indents for the purchase of stores and take necessary steps to cancel the orders for stores placed abroad which are no longer required.	(ii) There are no outstanding indents in the M.E.S. which require to be cancelled as a result of stock verification. A standing directive, which envisages an annual review of all Engineer stores, according to a phased programme, has already been issued. This review will enable annual checking of assets and liabilities and avoid over-provisioning.	No Comments.
13(c) (XIV)		(iii) The Committee note that want of adequate finances was an important factor which stood in the way of increasing covered accommodation, but in the ultimate analysis the financial effect of the	(iii) Government share the views of the Committee regarding the importance and urgency of constructing adequate covered accommodation for stores that are liable to deterioration, and intend to do their	See Para 104 of the Report.

deterioration due to exposure might well be greater than the expenditure in constructing covered storage.

best to make up the existing deficiencies subject to the limitations of manpower and material. It is proposed to increase the allotment of funds for this purpose during the next five years. The total outlay in this period on covered accommodation alone is likely to be of the order of 30 crores according to present indications.

14 14 (XIV) Defence

The Ministry of Defence should evolve a suitable procedure in consultation with the High Commissioner for India in the U. K. whereby it would be possible to ensure that in respect of all purchases for which payments are made abroad the stores have actually been received in India and have been taken on charge by the receiving depots. Every effort should be made to tighten up the procedure for control by the Services Headquarters over the receipt and account of such stores.

The procedure for linking of invoices with packing accounts is already explained in para 17 of Audit Report 1954 and the only thing is for the Defence Services authorities to ensure that the packing accounts with certificate of receipt of stores are sent to the Controller of Defence Accounts concerned with the least possible delay. This will enable the CDA to link up with the relevant invoices and forward them back to the DGISD, London.

See para 80 of the Report.

All concerned in the Defence Services have issued instructions to their lower formations to the effect that packing accounts should be cleared as soon as possible after the receipt of stores, and wherever necessary, fresh instructions for the guidance of new staff have also been issued to give them a clear idea of the procedure to be followed to link the ISD invoices with packing accounts.

With a view to further tightening the procedure for linking of invoices with packing accounts and to ensuring that the packing accounts are sent to the CDAs concerned with minimum delay, we have issued fresh instructions.

The Committee note with satisfaction that the authorities have agreed that works will be administratively approved at least 6 months before funds are allotted and actual construction work is taken in hand. The Committee would like to be furnished with a copy of the instructions issued in this behalf.

It would be in the interest of the Defence Services as well as the Ministry of Defence to have a forward programme of works prepared indicating approximately how much funds would be available for the execution of various works during a given period so that a general overall picture is available on the basis of which the Services could prepare their plans and estimates. The Committee would be glad to know, in due course, the action taken by the Ministry to implement this suggestion.

We are undertaking a fresh examination of the problem with a view to remedying the existing state of affairs. The procedure with regard to stores obtained from USA will also be reviewed.

A copy of the instructions issued in this behalf under No. F. 1(11)/54/1051-D(E&Qtg), dated 10-3-1955, is enclosed. (See Appendix XVIII). While it should be possible to comply with the instructions in the vast majority of cases, some exceptions are inevitable but the intention is that no project should be sanctioned for execution in the particular year after the date prescribed in the instructions without an assurance from the Engineers that they would be able to undertake the project in spite of the delay in sanctioning it. It cannot be said that the time-table suggested in the above letter has been fully adhered to during the current year in respect of the next year's programme of works but it is hoped that it would be possible to show distinct improvement next year in respect of projects to be started during 1957-58. The Services Headquarters have been advised to plan ahead and to submit their proposals for works projects to be undertaken during the three years from 1958-59 to 1960-61 by October, 1957. This will indicate that every endeavour is being made to advance the actual issue of administrative approvals so that the Engineers have plenty of time to plan out the details of projects for execution.

To assist the Services to plan ahead the probable size of the Capital Works budget for the next five year period (subject of course to the approval of the Parliament) has been indicated.

The Committee would like to watch the result of the instruction issued by the Ministry of Defence in this case through, the next year's Audit Report.

1	2	3	4	5	6
16	17	Defence	(i) The Committee consider that Government should not have placed their Note in connection with the Committee's recommendation made in Chapter V of their Ninth Report regarding the contracts for the purchase of Jeeps in the U. K. and the two contracts for the purchase of ammunition in a European country on the Table of the House without affording a reasonable time to the Committee for considering the note. In accordance with well-established parliamentary practice, consideration by the House should arise only when the Committee have made their final recommendations after reconsideration of their previous view, if this is considered necessary.	A *note has been submitted to the Committee. No comments. (See Appendix XIX)	
	19	—Do—	(ii) In respect of the first Jeep contract and the first contract for the purchase of Defence stores, it was, perhaps, not possible to adhere to the normal contracting arrangements or to obtain supplies without the intervention of intermediaries because of the urgent demand. In so far as the selection of the particular intermediaries is concerned, however, the Committee reaffirm their earlier views, <i>viz.</i> , that there was no necessity or justification for the intervention of intermediaries in this case.		
	21	—Do—	(iii) As the relevant record of the proceedings of the sub-Committee of Ministers is not before them, the Committee are unable to decide whether the material and the evidence placed before the sub-Committee were the same as that which the Public Accounts Committee had		

before them when they suggested a judicial enquiry. The Committee would like further to draw attention to a disturbing feature, namely, employment of the same intermediaries for the execution of some other contract involving Government in financial loss which have come up for examination by the Committee.

(iv) On the facts of the various cases, the Committee have made their views known from which they see no reason to deviate; but obviously what further action is to be taken is essentially a matter for Executive determination.

17 23(XIV) Defence

The Committee are not convinced about the urgency for the purchase of the stores in the case referred to in para 11 of Audit Report (Defence Services), 1953, which in the opinion of the Ministry necessitated the placing of the order with an unapproved firm deviating from the established procedure. This is another instance where the recognised procuring agency of the D. G., I. S. D., London was by-passed without any justification. Even in cases where trial orders involved possible expenditure on further bulk supplies, they should be processed only through the normal channels and deviations therefrom should be scrutinised closely and suitably dealt with.

We have no more comments to make in connection with this case and the observations made by the P. A. C. will be borne in mind for guidance in future transactions. No comments.

68

18 24(XIV) Defence

The Committee are distressed to note that the purchase of goods valued at such large amounts (£5,00,000 in 1950-51 and £3,00,000 in 1951-52) should have been left to be arranged by a comparatively junior officer with very little experience, in the

Ministry of Works, Housing & Supply have stated that in so far as the India Stores Department's Officers are concerned, that Ministry have already delegated their purchase powers commensurate with their status etc. No comments.

*See also the Statement made by the Defence Minister in the Lok Sabha on the 29th September, 1955 (Appendix XIXA).

Indian High Commission in London, and trust that suitable action will be taken by Government to see that powers vested in the Officers are commensurate with their status, experience, etc.

In so far as the Commerce Department of the High Commission of India, London, is concerned, Ministry of Commerce & Industry have referred the matter to the High Commissioner for India in U.K., London, and are also asking him to review the position and ensure that the powers vested, if any, in the officers of the Commerce Department in London, are commensurate with their status, experience, etc. as recommended by the Public Accounts Committee.

19 27 (XIV) Defence

In the case referred to in para 10 of the Audit Report (Defence Services) 1953 regarding the contract for the purchase of asbestos cement sheets, the Committee view with much disfavour such a patent lapse on the part of the D.G., I.S.D., London contrary to all the accepted principles of normal commercial dealings in :—

- (1) following an unorthodox and unconventional procedure in placing the contract with a firm not borne on the list of approved contractors; and
- (2) having failed to inform the indentor about the sizes and the changed specifications of the cement sheets according to which the contract was placed.

S. Nos. 19 & 20.

The Ministry of Defence have stated as below :—

“The matter is being dealt with by the Ministry of Works, Housing & Supply who have undertaken to furnish the necessary reply.”

The Ministry of W.H.&S. have stated as below :—

“A note for the P.A.C. is being finalised in consultation with the Ministry of Defence and after it has been seen by the C. & A. G., it will be submitted to the P.A.C.”

The Committee await the note promised by the Ministry of W.H. & S.

—Do—

20 28(XIV) Defence
W.H.&S.

- (1) The Committee cannot help commenting adversely on the repeated failure of the Inspecting Staff in the I.S.D. London to carry out proper inspection

of goods purchased from abroad before their shipment to India. Such a reckless disregard of the primary duties merits much stronger punitive action than what the Government have, because of the retirement of the Inspector concerned, been disposed to take against him.

Defence
W. H. & S.

(ii) The Committee wish to express their displeasure at the delay in the submission of the information called for by them on points which arose from the discussion they had with the representatives of the Ministries of Defence and Works, Housing & Supply in this case. This should be made available to them forthwith so as to enable them to examine this case in further detail.

21 29 (XIV) Defence

The Committee endorse the observations of the Comptroller and Auditor General that if the negotiations in this case relating to the purchase of an Italian tanker (referred to in Para 9 of Audit Report, 1954), had been conducted with the manufacturers direct by the Director-General, I.S.D., London, who had the necessary technical staff and whose jurisdiction extended to purchases on the continent also, it might have resulted in securing an advantageous price, more particularly as he was fortified with an offer from a very well-known firm in respect of the same tanker. The Committee feel that Government should have waited till the other offers were also looked into and then only proceeded to negotiate the deal directly with the manufacturers through the D.G., I.S.D., London instead of through the Rome Mission.

The remarks of the Committee have been noted by Government. No comments.

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22	30(XIV)	Defence	<p>Since these Ordnance Factories are under the control of the Ministry of Defence and they have to be maintained not only as war potential but also on a care-and-maintenance basis, some formulae should be evolved by the Ministry of Defence in consultation with the Financial Adviser, Defence Services, under which these factories would make supplies not only to the M. E. S. but to other Defence and Civil Organisations as well, at competitive rates, treating the difference, if any, between the cost of manufacture and the sale price as a standing charge of the Factory concerned.</p>	<p>The suggestion made by the Public Accounts Committee is that articles should be supplied to the M.E.S. and other Defence and Civil Organisations at competitive rates and that wherever the production cost of the factories exceeds competitive market rates, the difference in the production cost and the market rate may be treated as a standing charge of the factory concerned. The position regarding these is fully explained below :—</p> <p>(a) <i>Supplies to the Defence Services.</i></p>	No Comments.
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Instructions already exist that Defence Services will not place orders outside the Ordnance Factories for items for which capacity exists in the Ordnance Factories. That being the position, it does not matter what prices are charged by the Ordnance Factories to the Defence Services. If lower prices were charged then their full cost of production, while the stores portion of the Defence budget would show a saving, the Ordnance Factories portion of the budget might show a loss, the net result to the Defence budget as a whole being "nil". In practice under the stabilised 'on cost' system certain fixed overhead charges of the Ordnance Factories are not levied on the stores supplied, these charges being treated as the fixed over-heads (unabsorbed) of the Factories.

(b) *Civil indentors, Government or private.*

The costs of items to be supplied are first worked out on two bases.

(i) *Minimum costs* : These include direct labour, *direct* materials and variable overheads. In cases where the load in any of the sections concerned with the manufacture is less than 75% of the capacity load, the percentage of variable charges to be levied will be further scaled down by the ratio which the actual load of the section concerned bears to 75% of the capacity load.

(ii) *Maximum costs* : These include all charges, including over-heads excepting that portion of fixed charges kept under-absorbed. Factories are empowered to quote any suitable price between the minimum and the maximum against civil order, having regard to competitive market price.

23 31(XIV) Defence

There should be a closer coordination between the Master General of Ordnance Branch and the Director-General, Ordnance Factories in the matter of production, as the demands for supplies of the various categories of stores do not remain static. Steps should, therefore, be taken to safeguard the recurrence of cases similar to that reported in Para 2(a) of the Commercial Appendix to the Appropriation Accounts (Defence Services), 1951-52.

We are fully aware of the importance of close coordination between the DOS and the DGOF in processing the demands, and with a view to ensuring this we have recently posted a Liaison Officer from the Ordnance Services Directorate to the DGOF's organisation. This Liaison Officer has been in position for the last 6 months and has been very useful in interpreting/clarifying the requirements of DOS and progressing the various demands on the Ordnance Factories apart from effecting the closest co-ordination between the indenter and the producer. Moreover, Government have recently approved the establishment of a Production Board with a Controller General of

The Committee would like to watch for some time the working of the Defence Production Board.

Defence Production and both the DTD and the DGOF have now come under the direct control of the CGDP. Necessary instructions emphasising the importance of such coordination have been repeated to all concerned.

24 32(XIV) Defence . . . The installed capacity of the Ordnance Factories should be utilised to the fullest possible extent so as not only to restrict imports but also to reduce overheads. Only stores which cannot be manufactured in these factories should be imported.

Every effort is already being made to utilise the idle capacity in the various Ordnance Factories to the maximum extent by undertaking manufacture of items of civil consumption. A circular letter was issued to all Ministries of the Government of India in December, 1953 giving a list of the various civilian items which Ordnance Factories can produce and asking them to obtain their requirements of these articles from the Ordnance Factories if the price charged by Ordnance Factories approximates to the market price. Again, in order to enable Ordnance Factories to quote competitive prices to the various Government Departments and the civil trade, discretion has been allowed to the Supdts./the D.G., O.F. to quote any price between the minimum and the maximum cost of production, the minimum cost being calculated by excluding the entire fixed overheads and a certain percentage of variable overheads. In addition, the officers of the D.G., O.F. keep in contact with the main customers, such as the Railway Board, the D.G., P & T. etc., so as to find out their requirements and settle the price etc. expeditiously. As a result of these efforts, the value of civil work done in the Ordnance Factories

See Para 76 of the Report.

has been increasing from year to year as shown below:—

Year	Value of work done.
1952-53 . . .	Rs. 79.70 lakhs
1953-54 . . .	Rs. 188.54 ,,
1954-55 . . .	Rs. 392.67 ,,
1955-56 . . .	Rs. 166.72 ,, (roughly)

(till October 1955).

Some of the main items of civil production which have so far been manufactured are steel castings, spring billets, etc.; non-ferrous sheets, sections and castings; shot guns; leather and textile items, scientific and optical instruments (*e.g.*, microscope, binoculars); mathematical and surveying instruments; and chemicals (*e.g.*, nitrocellulose, acetone). In addition, a number of items are under development *e.g.* photo-enlarger, 35 m.m. sound projector, sporting rifles, .32" pistol, ammunition for shot gun and sporting rifles.

2. As regards the restriction of imports to only such items as cannot be indigenously manufactured, there is already an Imported Stores Screening Committee which has undertaken the screening of all demands for imports. With the help of a large number of sub-committees, this Committee has just completed the examination of all items of stores, and has drawn up a master list of stores which can be imported. The master list has been drawn up consisting of items whose indigenous manufacture possibilities in the near future are extremely remote or impossible, and of items the requirements of which are so small that they will not provide an economic workload. The list will be reviewed from time to time by this Committee which will function

25 33(XIV) Defence

Attention is drawn to the following irregularities in the contract for the establishment of a Machine Tool Proto-type Factory, referred to in Para 13 of Audit Report, 1954:—

- (i) The ceiling figure of Rs. 2.226 crores was stated to have been worked out on the basis of negotiations with the firm and no agreed list of machinery, equipment or other particulars of expenditure were found detailed in the agreement. In the absence of the individual costs of the various items having been indicated in the list appended to the agreement, the payment of 25% advance should have been made on a guess.
- (ii) Besides the payment of advance, further sums to the tune of Rs. 157.95 lakhs have been paid to the firm, in contravention of the terms of the agreement, without the forwarding agents' receipts.
- (iii) The contract gave full discretion to the foreign company in the matter of purchase of stores and did not stipulate that the Company should buy in a competitive field or observe other conditions which were essential in any purchase activity.

under the direction of the Defence Production Board.

Full facts relating to this case have already been furnished to the Public Accounts Committee during the course of discussions on the 2nd April 1955. The Committee, however, now wishes to be informed:

- (i) how far the factory, in its present state, would be able to meet the Defence requirements and
- (ii) what steps Government propose to take for utilising the installed production capacity fully.

2. As regards (i) the position is that the variety of machine tools used by the Defence Services, specially the Ordnance Factories, is very large and inconstant. It was never the intention, nor is it intended now, to manufacture *all* the different types of machine tools at this factory. Broadly speaking, the machine tool requirements of Defence establishments can be classified into the following four categories:—

- (i) General purpose machine tools whose manufacture has already been established or is proposed to be established in the private sector or at Hindustan Machine Tools, Bangalore.
- (ii) General purpose machine tools of a precision type, not planned for manufacture by the private sector or at H.M.T.

See Para 105 of the Report.

(iv) The Ministry of Defence failed to exercise any check on the reasonableness, or otherwise, of the prices at which purchases were made by the foreign company although a provision to this effect existed in the contract. They relied, instead, on the certificate of the Company's Auditors.

(v) The Company had failed to train adequately Indian personnel as agreed upon, as 13 foreign technicians are still continuing.

(vi) The absence of an agreed schedule of detailed production programme as part of the agreement is highly defective and has resulted in the Company's demands for formal closure of the contract before establishing beyond doubt that the factory could go into full production.

From the above irregularities, it is demonstrably clear that the whole project had been planned in an unrealistic manner and executed perfunctorily. The Committee note, however, that the contract with the foreign firm has ended for all practical purposes; they would, however, like to be apprised, in due course, as to how far the factory in its present state would be able to meet the Defence requirements and what steps Government propose to take for

(iii) Semi-specialist and specialised machines required in reasonable numbers by the Ordnance Factories and/or other Defence Installations.

(iv) Specialised machines and single-purpose machines required in very small numbers by Ordnance Factories.

The Machine Tool Prototype Factory, Ambar-nath has been conceived and planned to produce only machine tools of categories (ii) and (iii) above. Those in category (i) have been left out in order to avoid unnecessary duplication and competition with the private sector and the H.M.T., while those in category (iv) cannot be produced, for the present at any rate, due to limited design facilities.

3. The average value of imports of machine tools for Ordnance Factories was estimated at in 1949 when the factory was projected about Rs. 55 lakhs per year and it was estimated that about 50% of this could be produced in India if a machine tool section was also added to the contemplated Prototype factory. Thus, in terms of money value, the production envisaged was about Rs. 27.5 lakhs per year. As against this, the value of completed machine tools produced in 1954-55 was about Rs. 4 lakhs (based on market price) and for 1955-56 it is expected to be about Rs. 13 lakhs (based on market price). The total value of work done, including components, prototype etc.,

utilising the installed production capacity fully.

during the last 3 years in this factory is as follows:—

1953-54 . . .	Rs. 9.57 lakhs
1954-55 . . .	Rs. 9.03 lakhs
1955-56 . . .	Rs. 15.15 lakhs (estimated).

The latest production programme for the next three years envisages production to the following extent:—

1956-57 . . .	Rs. 30 lakhs
1957-58 . . .	Rs. 35 lakhs
1958-59 . . .	Rs. 39 lakhs

Thus the quantum of production originally conceived will not only be attained but is also expected to be exceeded during the next three years. This will be made possible by the facts that (i) the Ordnance Factories own requirements are likely to be greater as a result of the recommendations of the Ordnance Factories Re-organisation Committee to modernise and replace old machine tools quickly and (ii) some requirements of the Railways and of the private sector (as indicated by the Ministry of Commerce & Industry) have also now been included in the production programme of this factory.

4. As regards (ii) of para 1 above, it may be reiterated that, as already explained in para 154 of the P.A.C's report in question, this factory has been planned primarily as a factory for the development and production of Prototypes of weapons. Accordingly, it has had to be provided with various machines capable of doing practically every machining operation that might

be required for the prototypes. Inevitably this large variety of machines would not be used all the time. Apart from this, sample surplus capacity had to be provided so that at any time if a design was to be tried out, machines would not be lacking for the manufacture of prototypes. It is only to bring some return from the capital invested and to keep the technique of skilled workmen alive that it was decided to couple machine tool manufacture with prototype development. Thus, it is hardly practicable to ensure that all the machines provided are always kept in use, but every effort is being made to utilise them to the maximum extent possible by increasing the out-put of machine tools. One of the steps taken in this direction is to include, as already stated above, the requirements of the Railways etc. and the private sector in this factory's production programme. Again, the possibility of obtaining licences from reputed manufacturers for production of a few machine tools of their design is being examined. This would cut out the delay involved in the development and design of these machine tools and would result in increasing the total production at a quick pace. Lastly, the Ministry of Commerce & Industry have recently appointed an expert Committee to study the problems of the machine tool industry in the country as a whole. One of the terms of reference of this Committee is:—

“To suggest ways and means of utilising the existing capacity fully and developing it further to meet the requirements of the country.”

“..... machine tools.”

Any suggestions that this Committee may give in regard to fuller utilisation of the capacity at Ambernath will receive careful consideration by Government. Until their report is received, the factory will go on with its present production programme.

26 34 (XIV) Defence

The Committee are in full agreement with the Audit comments contained in para 14 of the Audit Report, 1954 on this transaction relating to the establishment of a fully equipped modern plant for the manufacture of certain latest types of ammunition; the *raison d'etre* for this contract was the urgent need for the ammunition, which was completely nullified by the delay of more than four years in the commissioning of the plant. There was undue haste in concluding the agreement though the Ministry of Defence were not ready at their end with the necessary buildings.

Full particulars of this are already given in para 14 of the Audit Report Defence Services 1954 and the matter was again discussed before the P.A.C. on the 2nd April 1955. Certain further information *called for by the Committee at these discussions was furnished on the 8th June, 1955. Government have noted the observations of the Committee.

No comments.

There had been a total lack of foresight and proper planning in these two cases and the Committee regards them as most unfortunate. They are constrained to observe that the projects were ill-conceived and the terms of the contracts were also heavily weighted in favour of the foreign company.

27 35 (XIV) Defence

(i) The economics of the manufacture of Dry Batteries in an Ordnance Factory on such a large scale were not properly considered before embarking upon this experiment which has cost the Public Exchequer more than Rs. 1 lakh. The Committee

All the facts of the case have already been placed before the Public Accounts Committee the course of discussions on the 4th April, 1955 *vide* paras 160 to 165 of their 14th Report and the further information asked for in para 165 was also furnished on

See para 106 of the Report.

are not at all satisfied with the manner in which this scheme was conceived and executed and they would have appreciated if the technique of the manufacture of batteries had been acquired by the Ordnance Factory before attempting to undertake the job.

- (ii) The Committee suggest that all avenues including the possibility of re-starting the production unit should be explored to utilise the material to the best advantage of the Government.
- (iii) While the Committee recognise the difficulties of controlling expenditure on research and development, they find that the history of this case clearly establishes that this particular effort was neither in the nature of a development nor of research.

the 2nd June, 1955. It is seen from para 165 of the Report that during the course of discussion it was then stated on behalf of the Defence Ministry that the value of surplus materials to be disposed of was about Rs. 3 lakhs and that these had already been sent for disposal. It is, however, regretted that this information was not quite accurate. The total value of the materials rendered surplus when the project was given up has now been properly calculated to be about Rs. 4.57 lakhs; out of this, materials worth about Rs. 1.36 lakhs have already been utilised in various Ordnance Factories and the remaining items valued at about Rs. 3.18 lakhs are shortly going to be declared to the D.G.S. & D. for disposal. These could not be declared earlier because the requirements of various factories and other Defence Installations had to be first ascertained and met.

The above accounts for a total of only Rs. 4.54 lakhs out of Rs. 4.57 lakhs. The difference of Rs. .03 lakhs is accounted for by normal loss/wastages that take place in transit.

2. As regards the suggestion of the Committee to restart the production of these batteries in the Ordnance Factories in order to utilise the surplus materials, the following considerations have to be taken into account. Initially the development and manufacture of these batteries was attempted by the Defence Ministry because these were not being manufactured in the country and the private firms which were consulted either showed no interest owing to the small size of the peace-time requirements or

* See Appendix IV and XII to the 14th Report of the P.A.C.

insisted upon monopoly for manufacture. Although based on the technique developed by the Technical Development Establishments, Dehra Dun, a number of batteries was produced by the Ordnance Factory Dehra Dun, which passed technical tests, experience showed that further improvements in the technique would be necessary before they could be produced on a mass scale. Besides, considerable difficulties were experienced in finding plastic trays, which were an important component. Also, in the meantime, certain private firms had shown interest in the work and one of them had planned to produce this type of battery on the basis of the 'know how' already made available to them by their foreign principals.

3. In view of the circumstances explained above, it was decided in 1952 to discontinue the efforts in the Ordnance Factories and to pass on the 'know how' acquired by them to the firms interested, without any commitment on the part of the Government. This was also in accordance with the general policy of the Government not to undertake normally fresh manufacture of articles (except arms/ammunitions) which can be indigenously produced in the country. The result of our experiments and experience was passed to two firms in July 1952. Since then, one of these firms has produced samples of a layer type battery for the Army to the Technical Development Establishment technique which have been tested and found acceptable. This firm has now asked for an order of 500 batteries as a preliminary to embarking on regular mass production.

4. Again, as explained in para 1 above, about 1/3 of the materials has already been dispersed and utilised elsewhere; also certain specialised equipments which had been taken on loan from other establishments have been returned to them. In view of all the considerations explained above, it would appear that it is neither feasible nor desirable to restart production of these batteries in the Ordnance Factories now.
- 28 36 (XIV) Defence . . . Planning or production in these well-established units under the Ministry of Defence have not so far been in the best national interests. The Committee, therefore, urge that an overhaul of their administration should be immediately undertaken so that a fuller beneficial utilisation of installed capacity could be secured. A Defence Production Board under the chairmanship of Minister for Defence Organisation has been constituted in order to secure fuller utilisation of the capacities of the Ordnance Factories and better coordination between the production and development as also between the Defence industry and the civil industry. **See Para 74 of the Report.**
- 29 37(XIV) Defence . . . (i) The Committee are distressed to note that adequate disciplinary action had not been taken against the Officers concerned who joined hands in securing for themselves 7 refrigerators at a very low price of Rs. 725 and that nor even an entry regarding the communication of the displeasure of the Engineer-in-Chief to these officers had been kept in their confidential records. Government have taken note of the observations of the Public Accounts Committee. **No comments.**
- (ii) The Committee would like to express their strong disapproval of the manner in which these refrigerators were disposed of in utter disregard of all canons of financial propriety.

the cause of fire that occurred in the Naval Stores Depot. The Ministry's version of the case leading to their conclusion that no disciplinary action was called for in respect of the persons who were alleged to have resisted audit inspection does not fit in with facts. The position should, therefore, be further examined by the Ministry of Defence and a report made to the Committee after showing it to Audit.

Board of Enquiry; he was only present during the proceedings. It was but fair and equitable that, if an officer's action was in question he should be allowed to be present on an enquiry when witnesses were being examined. A provision to this effect is already laid down in the Regulations for the Indian Navy. This procedure is also in force in the Army. The presence of the Captain Superintendent, Dockyard, during the proceedings of the Board of Enquiry was thus in accord with the regulations on the subject in regard to the allegation relating to his prompting the court. Necessary instructions are being issued to ensure that this does not recur.

As regard the allegation of resistance to audit inspection. Mr. Pidler who was the Naval Stores Officer responsible for issuing orders that the documents under audit should no longer be made available for audit purposes is no longer with the Indian Navy, having left it in September, 1950. In the circumstances, no disciplinary action has been possible. However, as a remedial measure, instructions are once again being issued to impress on all concerned the need for co-operation with Audit.

(iii) The Committee should be informed, in due course, of the decision arrived at in the matter of evolving a uniform procedure in all the three Services with regard to reporting of cases of loss or fire to the Police.

(iii) The matter is under consideration.

The Committee await further report in the matter.

36 45(XIV) Defence

The Committee should like to know, in due course, the action taken against the person or persons responsible for not verifying the credentials and financial standing of the firm concerned, in the case relating to the purchase of Aviation Stores commented upon in para 33 of their Ninth Report.

The Ministry of Defence have stated:— "The question of fixing administrative responsibility is still under correspondence between the High Commissioner for India in the U.K. and the Ministry of Works, Housing and Supply."

The Committee await a further report from the Ministry of W. H. & S.

The Ministry of W.H. & S. have stated as below:—

"The High Commissioner for India in the U. K. was requested to examine the question of fixing administrative responsibility. Her report has been received but information on certain points has been called to enable Government to take decision".

37 47 (XIV) Defence

The action to be taken against the officials responsible for the irregular disposal of Engineering Stores, as commented upon in para 53 of the Ninth Report of the Public Accounts Committee, has not been stated by the Ministry of Defence. The Committee would like the case to be re-examined and a report submitted to them.

The Ministry of Defence has stated as below:— See paras 107-108 of the Report.

"The matter is being dealt with by the Ministry of Works, Housing and Supply who have undertaken to furnish the necessary reply."

The Ministry of W.H. & S. have submitted a Memorandum. (See Appendix XXI).

38 48 (XIV) Defence

The Committee reiterate the views already expressed by them in para 54 of the Ninth Report that the Army Act should be amended to remove the time-limit of 3 years laid down for departmental action.

A note has been submitted (Ministry of Defence Memo. No. 1832-D (AG) dt. 5-3-56) (See Appendix (XXII)).

See para 109 of the Report.

39 49 (XIV) Defence

The Committee are unable to understand the implications of the Ministry's remarks "The matter is under consideration" with respect to the suggestion made by them in para 68 of the Ninth Report that contracts should be placed after tenders have been openly invited.

Except in very special cases, the 'open tender' system i.e. invitation to tender by public advertisement is used in all cases in which the estimated value of the tender is Rs.5,000 or above. The Financial Regulations contain detailed instructions on the tender procedure to be followed, for the guidance of officers who are required to make purchases of stores.

No comments.

	3	4	5	6
40 50(XIV) Defence	The Committee may be informed of the result of the reference made to the West Bengal Government as suggested by them in para 70 of their Ninth Report.	Objections in respect of an amount of Rs. 1,83,660/3/3 have since been removed by the Accountant General, West Bengal thus reducing the amount still under audit objection to about Rs. 1 lakh only. As regards this amount, the Government of West Bengal and the Lands, Hirings & Disposals Service who are concerned, are taking all possible steps to furnish the requisite documents and information to the Accountant General, West Bengal to enable the latter to remove the objections.	The Committee should be apprised of the progress made in effecting recovery from the West Bengal Government when they would take up consideration of the next year's Accounts.	
41 52(XIV) Defence	The Committee should be furnished with a statement showing the important recommendations for improving the system of cost accounting and of estimates made by the Ordnance Factories Reorganisation Committee and the action taken thereon by Government.	The Ordnance Factories Reorganisation Committee have observed that cost accounting in industrial undertakings should help in serving the following objectives :— (a) To control costs; (b) To relate actual costs to standard costs; (c) To furnish basis for quotations and estimates; (d) To provide clues to the technical know-how regarding variations in specifications and processes; and (e) To furnish a basis for shaping policies.	No comments.	
		After examining the existing system of cost accounting in the Ordnance Factories, the		

Committee have in general terms characterized it as not satisfactory, especially in that it did not give timely information to the management to enable them to exercise an effective control on expenditure and have stressed the necessity to improve it and introduce a more scientific and informative system which might cope with the present day needs of these Factories and take into account the strides made by modern commercial accounting which carries with it costing, budgetary control and financial planning. Apart from these general observations the Committee did not make any detailed suggestions regarding the directions and the manner in which improvements in cost accounting should be carried out. It recommended that the services of a competent firm of chartered accountants might be availed of to facilitate and expedite change over into a modern system of cost accounting.

2. The Committee also recommended that the Accounts Department, which functioned both for financial accounting and cost accounting, should be associated with the management only in an advisory capacity and should not have power of vote over the management.
3. It further recommended that steps should be taken to ensure that recruitment to the chief executive posts in the Accounts Department should be from those well versed in financial accounting, cost accounting and allied subjects and who have certain minimum accountancy qualifications. In the case of those already employed, the Committee recommended a departmental examination to test efficiency in the aforesaid subjects.

4. The above recommendations of the Committee were carefully examined. On the question of examination of the system by a firm of Chartered Accountants, it was decided that, since the financial accounts, with which the cost accounts must be linked, would have to be maintained in accordance with Government's general policy, as a first and immediate step, a detailed examination of the existing cost accountings system could more appropriately and usefully be carried out departmentally with the help of those fully familiar with cost accounting. A team of three Accounts Department personnel headed by an official with considerable experience of cost accounting in Ordnance Factories and in H.A.L. was accordingly directed to study the question in detail and make recommendations with a view to improve the standard of cost accounting and keeping in view the observations made by the Ordnance Factories Reorganisation Committee. The recommendations submitted by the team have been examined by the Ministry of Finance and Ministry of Defence and a reference to the Comptroller and Auditor General will be made in respect of some of the more important of the suggested changes in respect of which his advice and approval are necessary. It is the intention to give a fair trial to these changes and modifications over a period to assess in particular to what extent the objectives indicated by the O.F.R.C. have been achieved and thereafter the position would be further reviewed.

5. The Committee's recommendation regarding the relationship of the Accounts Department with the management was carefully examined and it was felt that this question was linked with the general question of having a system of internal financial advice for the Defence Ministry, which was already separately under consideration. In the meantime, Government had decided upon certain delegations of power to the administrative authorities in the Ordnance Factories in financial matters *vide* Ministry of Defence No. 1/4/3/55/D (Prod), dated 28-1-56 (Appendix XXIII). It was therefore decided to try out the working of the higher delegated powers in practice for some period before again taking up the question of fuller financial delegation. It was also considered advisable to await a decision on the larger general issue referred to above.

6. As regards the recommendations of the Committee about accounting qualifications expected of staff for Factory Accounts, it may be pointed out that under the existing arrangements, Accounts personnel are promoted as Accountants only after they have passed the Departmental S.A.S. examination in which besides the Accounting subjects, for personnel on the Ordnance Factory side special questions are set on Cost Accounting and Store Accounting peculiar to Factories. This examination therefore ensures that all staff before promotion as Accountants do possess a good knowledge of Factory accounts. Besides the general Accounting qualifications which all Accountants possess, about as many as 100 Accountants and 25 Assistant Accountants have special knowledge of Cost Accounting in general having passed the final

examination of the Institute of Cost and Works Accounts, India/London.

7. With a view to improving the standard of Cost Accounting and advice given to the management on costing matters, steps have been taken by the C.G.D.A. to strengthen the Accounts organisation, both at the officers' level as well as in the grade of Accountants. Arrangements have been made to post to the Factory Accounts Organisation as far as possible, Accountants with specialised cost accountancy qualifications, or previous experience in Factory Accounts.
8. As regards the chief executive posts in the Accounts Department, under the present procedure which has been found to be satisfactory, selection of officers to the posts in question are made from among those duly adjudged as suitable by a D.P.C. which includes a representative of the U.P.S.C. Officers for particular posts are selected with due regard to their competency, previous experience and knowledge.

APPENDIX II

Summary of the main Conclusions/Recommendations of the Nineteenth Report of the Public Accounts Committee on the Appropriation Accounts (Defence Services) 1953-54.

Sl. No.	Para No. of the Report	Ministry or Department concerned	Conclusions/Recommendations
1	2	3	4
1	4	Defence	<p>(i) Savings ranging from 8-10 per cent in the sanctioned Grants have become the regular feature of the Defence Grants during the last five years from 1949-50.</p> <p>(ii) The Committee regret to observe that the lapses of appropriations which are indicative of defective preparation of Defence Estimates continued in the Accounts for the year 1953-54.</p>
	9	Finance (Defence)	
2	10	do.	<p>The Committee would like to re-affirm and repeat the observations made by them last year that the lapses of funds immobilise large sums of money which could have been utilized for more beneficial purposes by Government in other Departments or spheres of activities. The tendency on the part of spending Ministries and Departments to over-estimate and pad their needs for securing a safe margin, shows not only a lack of planning on the part of the Ministries but would also be detrimental to the effective implementation of the development plan which.</p>

1	2	3	4
			the country has set for itself. It is, therefore, imperative that effective action should be taken by the Ministry of Defence in consultation with the Ministry of Finance (Defence) to evolve a better mechanism for budgetary control.
3	12	Defence	During the year under report <i>viz.</i> , 1953-54, there had been undue rush of expenditure during the last month of the year, the expenditure in the last month being nearly three times the monthly averages of the <i>first</i> eleven months of the year. Payments should be spread out evenly throughout the year by meeting the liabilities as and when arise, as payments made in haste at the end of the year might well lead to over-payments, errors and relaxation of prescribed checks.
4	17	do.	The issue of technical sanctions after the commencement of the work does not rectify the original irregularity. The Committee view ^{ed} with strong disfavour such deviations from the prescribed procedure.
5	20	do.	In the case referred to in para 18 of the Audit Report, 1955, the Committee view with concern the irregularity of debiting the estimate of sanctioned works with the cost of stores procured in advance in respect of unsanctioned works inasmuch as it involves fictitious adjustment of the cost of these stores. Such expedients which lead to fictitious adjustments in the Accounts of works should be dealt with severely, as they, if allowed to go unnoticed, would throw out of gear the mechanism of control over works expenditure.
6	22	do.	The Committee note with regret that Government found it difficult at this distant date to hold any individual officer responsible for the irregularity resulting in a loss of Rs. 44,967 as a result of over provisioning of stores for a works project

(referred to in para 9 of the Audit Report, 1955) and that, therefore, no disciplinary action was now possible. The Committee find it difficult to accept the explanation and regret that no action was taken in time.

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|---|----|-----|---|
| 7 | 24 | do. | The change over to costlier flooring in the building construction work in a factory (referred to in para 10 of the Audit Report, 1955) was apparently at user's instance and not due to 'engineer reasons' the administrative buildings of the Factory were reported to have flooring only according to the original specification. The extra expenditure of Rs. 2.7 lakhs incurred as a result of this costlier specification, therefore, lacked justification. |
| 8 | 28 | do. | The Committee are surprised why even after a period of seven years since the cessation of hostilities in 1945 the welded type of tanks already in possession of the Army authorities could not be salvaged and kept in readiness for use in an emergency. The Committee regret the lack of diligence in this matter. |
| 9 | 32 | do. | (i) The Committee agree with Audit that the orders for stores (referred to in para 12 of Audit Report, 1955) placed in September, 1948 and 1950 on the Director General Ordnance Factories which were still outstanding should have been cancelled immediately after the provision review conducted in April, 1952. The Committee can see no reason why effective action was not taken till March, 1954 when at last production was suspended, although the matter was under correspondence between Army Headquarters and the Director-General, Ordnance Factories from June, 1953. In any case, there was no justification for retaining the bulk order in tact when even after 4-5 years (the first bulk order was placed on the Director-General, Ordnance Factories in 1948), the D.G.O.F. could not establish manufacture. |
| | 33 | do. | (ii) The Committee were surprised at the remark of Defence Secretary that the Director General's present request for order for the manufacture of 50,000 numbers of the store in question was in the nature of an 'educational order' |

as it was rather too late at this stage to place an 'educational order' when two bulk orders had been placed years back and material worth several lakhs had already been assembled. This kind of an explanation only raises grave doubts in the mind of the Committee about the way in which defence factories are allowed to work.

34

Defence

(iii) While the Committee appreciate that occasional failures are inevitable in technical progress in the matter of indigenous production of warlike stores by the Ordnance Factories, the Departments should, nevertheless, constantly bear in mind the important financial as well as technical considerations involved in their decisions on such points. Further, the technical officers incharge should see that designs or processes involved have sufficiently passed the experimental stage to justify expenditure on a considerable scale upon them. The Committee, therefore, suggest that normally the process should begin first with an experimental or educational order with a view to establish the technique of production. Secondly there should be a trial order for manufacture to determine the economic cost of production and finally orders on large scale can follow.

In the matter of placing orders on the Director-General, Ordnance Factories by the Defence Services, the Committee would observe that while urgency of requirement may be an important consideration, delays in cancelling orders placed on the D. G. O. F. when there are surpluses and the stores are not needed immediately may be attended by financial as well as operational disadvantages. For instance such delays might involve continued expenditure on obsolescent types and that, in times of rapid technical advance, the operational life of new types might uneconomically be shortened by their belated arrival into service

In the interests of operational efficiency, all pending orders with the Ordnance Factories should be revised periodically with a view to re-assess the needs in the light of the latest trends both in technique and demand.

10 36

-do-

The Committee consider the entire sum of Rs. 25.53 lakhs as a dead loss to Government as the stores in question were more than 10 years old when they were supplied and should, therefore, have lost most of their operational efficiency. They deplore the heavy financial loss to Government which was due to a serious lapse on the part of the Military Adviser to the High Commissioner in London. Apart from the financial loss, another aspect which increases the magnitude of the lapse and to which the Committee would draw attention is that the supply of obsolescent stores instead of stores of recent manufacture urgently needed by the Defence Services, might seriously have undermined the defence of the country. The Defence Secretary informed the Committee that the matter was under investigation and a further report would be submitted to the Committee. That Report is awaited.

11 40

-do-

(i) The Committee regret to observe that no convincing reply could be furnished to them for large deficiency in 4×4 vehicles in 1951-52 in particular, the year in which the bulk of the orders for these vehicles was placed with two firms as referred to in para 13 of the Audit Report.

12 42

-do-

(ii) While the Committee appreciate the necessity to equip the Defence Services with an adequate number of new vehicles, they have got the impression that in case the needs of the Army were not uppermost in the minds of the authorities when the orders for 4 × 2 vehicles were placed with a firm to make up the deficiency in 4×4 vehicles as they were given to understand that 4×2 vehicles were of the civilian type meant for roads, while 4×4 type vehicles were of the Military type and meant for cross-country purposes.

43

-do-

(iii) While in technical matters such as categorisation, discards and condemnation of vehicles, the Committee would prefer to leave the decision to be taken by the

Defence Ministry in consultation with their technical experts, all that the Committee desire is the adequate safeguards be provided against hasty discards. The Committee should like to be informed of the latest position regarding the disposal surplus vehicles at the time they take up consideration of the next year's Accounts.

44 Defence

(iv) The Committee appreciate the need for equipping progressively the Defence Services with better, more reliable and later type vehicles; but they would like to emphasise that all vehicles rendered surplus in this process should be declared as surplus without any loss of time and disposed of before they lose their re-sale value.

12

46

-do-

A note stating the present position of overhaul of the remaining 31,000 vehicles (referred to in para 14 of Audit Report, 1955) and also whether the existing workshop capacity was being fully utilized should be furnished to the Committee.

118

13

49

-do-

(i) The Committee are not convinced of the reason that the "emergency conditions" prevailing in the country in 1951 and thereafter was responsible for the non-cancellation of the demand for supply of stores (6,85,000 numbers) placed on the U. K. in the case referred to in para 15 of the Audit Report, 1955.

50

(ii) The reasons furnished for not cancelling and reducing the order on the Director-General of Ordnance Factories as a result of the review in 1951 are also not acceptable to the Committee. The Committee are amazed that the D. G. O. F. should have been allowed to continue production at full speed when there was a surplus of these stores with the Defence Services.

(iii) The Committee are not aware whether any formal orders were placed by the foreign Government on the D. G. O. F. for this store, and if so, when.

Considering the financial implications involved (50,000 numbers of the store cost about Rs. 15 lakhs approximately) the Government should have, in accordance with ordinary business principle, asked for a firm order from the foreign Government. If such a firm demand has been received, it should not have been allowed to be withdrawn without financial repercussions.

The Committee regret to observe that this is one of the instances which indicate unsatisfactory state of working of the Ordnance Factories.

53 Defence

(iv) While the Committee appreciate the need to maintain the Services in good trim, they would reiterate their remarks in para 34 above [cf. Item 9 (iii) *ibid*]. In the Committee's opinion, the existing system of provision reviews call for a thorough and detailed investigation of the bases on which the provision reviews were made and the estimate of the requirements were acted upon.

14 55 —do—

The Committee were informed that delay in cancelling the indent for the stores placed on U.K. in the case referred to in para 16 of the Audit Report, 1955 was not due to any defect in the existing procedure but due to non-compliance with the procedure. In the Committee's view this case called for disciplinary action. The Committee understand that this matter was being looked into by the Ministry of Defence and should like to know in due course the action taken against the persons responsible.

119

15 59 —do—

(i) Heavy accumulation of stock will inevitably be accompanied by heavy discards and to avoid such a contingency and consequential financial losses, periodical provision reviews have been devised to set right the position. If the result of these provision reviews do not disclose the position in its true perspective, as it is alleged, the Committee would urge that steps should be taken to remedy that defect.

60 —do—

(ii) While the Committee appreciate the policy of non-cancellation of orders on Ordnance Factories with a view to develop the technique of manufacture and produce stock, they do not understand why such large orders should have been placed if the purpose was only 'educational.'

1	2	3	4
16	62	Defence	(i) The Committee are of the view that the Hindustan Aircraft Ltd. were negligent in not addressing the suppliers simultaneously about the defective supply of aero-engine bearings (valued at Rs. 50,618) instead of waiting for the views of the aero-engine manufacturers for nearly 15 months. In the Committee's opinion had the representatives of the suppliers in India been apprised of the supply of undersized bearings in time, the possibility of the suppliers denying responsibility for the supplies could have been avoided.
	64	-do-	(ii) The Committee would like to be apprised of the final outcome of the negotiations with the firm persuading them to take the defective bearings back.
	65	-do-	(iii) It is needless to emphasise the importance of inspection of stores especially intended for manufacturing of aero-engines and the like where a degree of precision is essential. The Committee had occasion to comment in the past on such lapses in proper inspection and consequential loss to Government. The Committee trust that there are competent staff in the inspection wing of the India Store Department, London and India Supply Mission, Washington for this purpose.
17	67	o-	(i) The Committee are of the opinion that the procedure referred to in para 20 (iv) of the Audit Report is the usual one followed by any production undertaking and as such should have been followed by the Defence Factories from the very beginning.
	68	-do-	(ii) The number of outstanding extracts on 31st March, 1956 valued over Rs. 10,000, each is reported to be 39 for 1947-48; 408 for 1948-49 and 515 for 1949-50. These large outstandings indicate that neither the indent or nor the Ordnance Factories were functioning in the past in a business like manner.

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| 69 | -do- | (iii) The Committee should also be apprised of the recommendations made by the Liaison Officer in the matter of eliminating delays in the execution of orders in the Ordnance Factories and the action taken thereon by Government. |
| 18 | 71 | <p>(i) The Committee are perturbed to note that there were no hard and fast rules laying down the limit on the financial powers of the Director-General of Ordnance Factories in incurring expenditure on the manufacture of components for stock. The D. G. O. F. has to make "Intelligent anticipation" of the extent to which stocks of components etc. have to be built against anticipated requirements by the Defence Services. In the Committee's opinion, such demands were subject to violent fluctuations and unless carefully processed would either result in heavy surplus entailing heavy condemnations for reasons of operational inefficiency, because of long storage, or would hamper the efficiency of Defence Services, if in short supply. The Committee, therefore, doubt the wisdom of depending on the "intelligent anticipation" of the D.G.O.F. in this matter.</p> <p>(ii) The Committee would like a thorough survey of the existing stores in stock with a view to seeing what proportion of them could be declared to be operationally efficient and what would be the magnitude of obsolescent Stock. Stock limits should also be fixed by Government.</p> |
| 19 | 73 | -do-
In the opinion of the Committee the procedure followed in the execution of the orders for the manufacture of Ingot Moulds in the case referred to in para 22 of Audit Report 1955, is clearly a case where a trial order should have preceded with a view to establish production before manufacture in bulk was undertaken. Had this procedure been followed in this case, the infructuous expenditure to the extent of Rs. 1.27 lakhs would have been considerably reduced, if not wholly avoided. |
| 20 | 74 | -do-
(i) With the setting up of the Defence Production Board, the Committee trust that increasing attention will be given to question of efficiency and to the close collaboration between technical and production branches and that things would improve in so far as production of stores for the Defence Services is concerned. |

- (ii) It might be necessary for preserving war potential and in the context of the wider policy of Government of maintaining full employment and of using productive capacity to the maximum extent possible, that Ordnance Factories should seek commercial orders.
- 75 Defence (iii) Where open competition becomes effective, it is essential to adopt the most efficient and economic methods of production in the Ordnance Factories. For this purpose, increasing use of technical efficiency returns (*viz.* returns of man-hours, percentage of waste etc.) and periodical investigation of comparative costs of production is suggested. To stimulate manufacturing efficiency, the Committee would recommend for the consideration of the Defence Ministry the grant of incentives.
- 76 Do. (iv) The Committee should be furnished with a statement showing the recommendations of the Ordnance Factories Reorganisation Committee (Baldev Singh Committee) and the action taken by Government to implement them.
- 21 79 Do. (i) The Committee would like to watch the progress made by the special team deputed to the Indian High Commission in London for the purpose of linking the outstanding invoices with packing accounts of stores ordered from the U.K.
- 80 Do. (ii) Delay in the linking of invoices with packing accounts might entail losses due to shortage, pilferage or misappropriation and prevent fixation of responsibility in such cases of losses.
- (iii) The Committee emphasise the importance of the timely linking of the invoices with the packing accounts and trust that linking of invoices relating to 1952-53 and onwards would be completed soon.

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| 22 | 83 | Do. | <p>(i) The Committee regret to observe that so long after the end of the War, Store Accounts should still be inadequate. Unless the quantity and location of stores are known with reasonable accuracy, full operational efficiency of the Services cannot be reached. Likewise, physical check of stock is important from the point of view of administrative control and provisioning. Unless stocktakings are undertaken regularly, losses, if any, cannot be detected.</p> <p>(ii) The Committee trust that all possible steps would be taken to ensure that store-keeping and store-accounting are brought to a satisfactory level without further delay so that the current accounts accurately record the quantities in stock.</p> |
| 23 | 85 | Do. | <p>(i) In the case referred to in para 27 of the Audit Report, it was very unwise to have declared the new blankets (4157 numbers) as surplus to Director-General, Supplies and Disposals for disposal when in accordance with the policy for the retention of surplus stores, requirements upto an additional period of 5 years could well be retained out of the surplus. The Officer who declared the new blankets for disposal clearly failed in his duty.</p> <p>(ii) The Committee note that disciplinary action against the Officers concerned had been initiated and that instructions have been issued to avoid cases of hasty discards and trust that such cases would not recur.</p> |
| 24 | 88 | Do. | <p>(i) The Committee would like to be informed, in due course, of the result of the disciplinary action instituted against the Naval Stores Officer who was primarily responsible for not communicating the revised payment rate of cloth issued to the Naval ratings to all concerned in the case referred to in para 28 of the Audit Report, 1955.</p> <p>(ii) Although stores in this case were received from May, 1953, even under the then existing procedure, the revised rate of issue could have been published at the earliest, only to take effect from 1st January, 1954 i.e. after 8 months. For stores issued during this period, recovery would have been made only at the old issue rate. Thus some loss would have been inevitable even if the apparatus worked to schedule.</p> |
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(iii) The Committee, however, note that the procedure in this regard has since been revised and that payment issue rates will have effect from the 1st of the month in which the stores are received.

25 92 W.H.& S.

(i) The Government Solicitor's opinion of the 20th June, 1949 against the payment to the firm in reimbursement of sales-tax was clear and unambiguous.

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(ii) Instead of communicating the decision to the firm, the Committee observe that the question of reimbursement to the firm on grounds of equity was taken up by the office of the Director-General, Supplies and Disposals *suo moto* on 16-7-1949. According to the note from the Ministry, this action was taken on verbal representations made by the firm's representative which were followed up by the firm in its communications dated the 29th and 30th July, 1949. It has, however, been pointed out by Audit that although these letters referred to sales-tax they did not make any mention of any verbal representations made earlier on this question. In their opinion, the facts placed before them neither lend to nor warrant the conclusion that the firm should have made verbal representation and that therefore the office of the D.G.S. & D. did not act *suo moto* in reopening the case.

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97 Do.

(iii) Even in regard to the question of payment on grounds of equity, the Committee feel that equity consideration could only arise if the firm had established to the satisfaction of Govt. that it had incurred a loss in this deal. From the facts placed before them, the Committee could hardly find any such indication.

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(iv) Judging from the facts of the case and the evidence tendered and materials placed before them, the Committee are led to the irresistible conclusion that the circumstances leading to this *ex-gratia* payment of about Rs. 10 lakhs reflect seriously on the procedure adopted and on the *bona fides* of the officials concerned. The Committee, therefore, feel that the matter requires a thorough investigation. (See also footnote to para).

98/99 W.H. & S.

Law

All other Ministries

(v) The Committee learnt with some surprise during the course of their examination, that as late as the 14th April, 1956 nearly six years after the payment had been made and just a few days before the date fixed for the sitting of the Committee, the D.G.S. & D. referred the case again to the Law Ministry and obtained an opinion on the 16th April upholding the right of the firm to this payment. The Committee can see no good reason for such a belated reference to the Law Ministry after a lapse of nearly six years when the payment in 1950 was reported to have been made after discussion with the Special Solicitor. Obviously the Ministry wanted to fortify themselves with a second legal opinion before they appeared before the Committee to give evidence on this case.

The Committee highly deprecate the method of getting second opinion to fortify Government's action which is in question. When there are two conflicting legal opinions given in a particular case by Law Officers of Government, the case should be referred to the highest legal authority before a final decision is taken.

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| 26 | 101 | Defence | The Committee recommend that the action to dispose of their outstanding recommendations should be expedited. |
| 27 | 103 | Finance (Defence) | Local Audit Officers should continue to exercise effectively the powers to check cash balances already vested in them. |
| 28 | 104 | Defence | Due priority should be given in the Second Five Year Plan to provide accommodation for stores which are already lying in the open for many years. |

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29	105	Defence Commerce & Industry	The Committee defer consideration of the matters relating to the Machine Tool Prototype Factory till the report of the Expert Committee appointed by the Ministry of Commerce & Industry to study the problems effecting the machine tool industry in the country and the Government's decisions thereon are made available to them.
30	106	Defence/All other Ministries	The representatives of the Ministries concerned should see that they are properly briefed and are in possession of all the factual and relevant information when they appeared before the Committee.
31	108	W.H. & S.	The Committee are unable to appreciate the reasons that led the Ministry of W.H. & S. to seek an <i>ex-post-facto</i> legal opinion six years after the decision of Government to settle the deal by negotiation in the case referred to in para 53 of their 9th Report. Nor was the legal opinion quite decisive. Indeed the Government's right to claim back the machinery had been admitted therein. The Committee are not convinced of the reasons advanced in the Ministry's note (Appendix XXI) that led them to settle the issue by compromise. In their opinion, Government should have claimed back the machinery in case the purchaser failed to abide by the commitment made by him to pay the cost price of the plant plus 10%.
32	109	Defence	The fact that the existing provisions in the Army Act were quite adequate for dealing with the cases involving financial irregularities etc. should have been brought to the notice of the Committee at the time they raised this issue. Instead they were informed that disciplinary action could not be taken in such cases because the time limit of three years had elapsed. Any how, as requested by the Ministry of Defence, the Committee agree not to press the matter further.