

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

(SIXTH LOK SABHA)

FORTY-EIGHTH REPORT

DEFENCE SERVICES

(MINISTRY OF DEFENCE)

[Paragraphs 28 and 53 of the Report of the Comptroller & Auditor General of India for the year 1974-75, Union Government (Defence Services.)]



Presented in Lok Sabha on 23 DEC 1977
Laid in Rajya Sabha on 23 DEC 1977

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NEW DELHI

December, 1977/Agrahayana, 1899(S)

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PRESENTED TO LOK SABHA ON 23 DECEMBER, 1977

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PART II*

Minutes of the sittings of the Public Accounts Committee held on

28-7-1976

29-7-1976

8-12-1977

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

PUBLIC ACCOUNTS COMMITTEE
(1977-78)

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1. Shri B. K. Mukherjee—*Joint Secretary.*
2. Shri Bipin Behari—*Senior Financial Committee Officer.*

*Elected *w.e.f.* 23-11-1977 *vice* S/Shri Sheo Narain and Jagdambi Prasad Yadav ceased to be Members of the Committee on their appointment as Ministers of State.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-Eighth Report of the Public Accounts Committee (Sixth Lok Sabha) on paragraphs 28 and 53 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services).

2. The Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services) was laid on the Table of the House on 6 May, 1976. The Public Accounts Committee (1976-77) examined paragraphs 28 and 53 of the said Audit Report at their sittings held on 28 and 29 July, 1976 respectively but could not finalise the Report on account of dissolution of the Lok Sabha on 18 January, 1977. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 8 December, 1977, based on the evidence taken and the further written information furnished by the Ministry of Defence. The Minutes of these sittings form Part II* of the Report.

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

4. The Committee place on record their appreciation of the commendable work done by the Chairman and the Members of the Public Accounts Committee (1976-77) in taking evidence and obtaining information for this Report.

5. The Committee also place on record their appreciation of the assistance rendered to them in the examination of these paragraphs by the Comptroller & Auditor General of India.

6. The Committee would also like to express their thanks to the Ministry of Defence, Ministry of Agriculture and Irrigation, Department of Food (Army Purchase Organisation), Department of Rural Development (Directorate of Marketing and Inspection), Ministries of Railways (Railway Board), Law and Finance and the Indian Standards Institution for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
December 9, 1977
Agrahayana 18, 1899 (S).

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

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

I

HEAVY LOSS IN TRANSPORTATION OF REFINED GROUND-NUT OIL

Audit Paragraph

1.1. Due to shortage of hydrogenated oil Government sanctioned in May 1974 the procurement of 6,000 tonnes of refined ground-nut oil through the Chief Director of Purchase in the Ministry of Agriculture. In July 1974 the quantity was increased to 7,000 tonnes. During June-August 1974 contracts of the value of Rs. 8.26 crores were entered into by the Chief Director of Purchase for supply (f.o.r. station of despatch) of 7,600 tonnes of refined ground-nut oil. The supplies were to be packed according to Army Service Corps specification No. 139 (applicable to hydrogenated oil) in 18-litre square tins conforming to Indian Standard Specification 916-1966. Each tin was to contain 16.5 kg. net. The suppliers were to provide adequate dunnage (straw, hay, old gunny bags, etc.) for packing the tins to be loaded into railway wagons. The supplies were to be inspected at the suppliers' premises by the concerned Officer Commanding, Composite Food Laboratory.

1.2. In view of the relatively low viscosity of refined ground-nut oil, Army Headquarters issued detailed instructions to all Command Headquarters and all Officers Commanding Composite Food Laboratories in May 1974 regarding handling, transportation and despatch of ground-nut oil from the suppliers' factories to the depots with special emphasis on the soundness of containers, adequacy of dunnage and the avoidance of transshipment as far as possible.

1.3. The order catered for 38 depots. In the context of reports of losses in transit, Army Headquarters suggested (July 1974) to the Chief Director of Purchase the substitution of 18-litre tins by the trade pattern 4-kg. tins. The Chief Director of Purchase stated that no change was possible as practically all the quantity would have been tendered by then and that the chances of transit loss would be greater in 4-kg. tins. In August 1974, Army Headquarters reiterated to all Commands and the Composite Food Laboratories the need for strict compliance with the earlier instructions for handling the stores.

1.4. For supplies made during July 1974 to February 1975 heavy transit losses were noticed by various consignee depots. Courts of Enquiry/Boards of Officers convened at the depots attributed the losses primarily to the poor quality of containers, inadequate and improper dunnage, defective tying of tins and loose shunting *en route*.

1.5. Due to continuing scarcity of hydrogenated oil, Government approved the purchase of an additional quantity of 3,000 tonnes of ground-nut oil in September, 1974. This quantity was covered by contracts of the value of Rs. 3.15 crores during October, 1974. It was decided that this quantity be moved in 2x18—litre ISI marked tins packed in a crate or shook. This order catered for 19 depots. Heavy transit losses were noticed in those consignments as well. The Courts of Enquiry found that the crating was faulty, and the nails had protruded inside and punctured the tins during shunting, and further, neither sufficient packing material or dunnage had been provided nor were the tins properly lashed inside the wagons.

1.6. While the total loss incurred in transit and during storage has yet to be assessed, transit losses of about 267 tonnes of the value of Rs. 32.50 lakhs (at the free issue rate of Rs. 12,150 per tonne) have been reported so far (January 1976). In addition, one adept has reported a storage loss of 31 tonnes (July—September 1974) valued at Rs. 3.77 lakhs.

1.7. The Chief Director of Purchase stated (September, 1974) that no action could be taken against the suppliers* since supplies had been despatched after inspection by the Composite Food Laboratory and under the supervision of Army authorities. The Ministry of Defence stated (December, 1975) that the Defence authorities had handled ground-nut oil for the first time and every effort was made to eliminate losses by issuing detailed instructions for the handling of stores. Further, the sources of supplies were such that transshipment could not be avoided; while all consignments were despatched under the supervision of Boards of Officers, no control could be exercised at transshipment points where this was carried out under railway arrangements. The Ministry stated further that transit losses had come down after the provision of shooks. The Indian Standards Institution which was consulted about the extensive leakage of tins stated that there was no intrinsic defect in 18-litre square tins and the losses occurred mainly due to transit hazards. In respect of the storage loss (Rs. 3.77 lakhs), the Ministry stated that disciplinary action had been taken against the persons concerned.

[Paragraph 28 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services)]

1.8. The Army Purchase Organisation (APO), Ministry of Agriculture (Department of Food) is concerned with procurement of

*M/s. Bhavnagar Vegetable Products, Bhavnagar.

food items as indented by Army authorities in accordance with prescribed purchase procedure. The Chief Director of Purchase (CDP) has a Market Intelligence and Statistical Cell under him for maintenance of necessary information with regard to price trend of some of the important items required to be purchased for Defence Services. The position in regard to availability of hydrogenated oil and the market trends, etc. is judged from the response received to tender enquiries issued by him for supply of this commodity.

1.9. The Audit para points out that on account of reported shortage of hydrogenated oil (vanaspati) round about 1974, Government approved purchase of refined ground-nut oil in lieu thereof through the Chief Director of Purchase, Army Purchase Organisation. Explaining the basis for the Chief Director of Purchase arriving at a conclusion that there was, in fact, a real shortage of hydrogenated oil at the relevant time, the Ministry of Agriculture and Irrigation, Department of Food (APO) in a note have stated that during the period from October, 1973 to August, 1974, which includes the period subsequent to the taking of decision to go in for purchase of refined oil, out of 50 tender enquiries issued on the basis of indents received for purchase of hydrogenated oil there was no response in 46 cases and in 3 cases the quantity offered was less than the quantity required. This was further substantiated during the course of discussions held with the registered firms on 16th April, 1974 and also in a subsequent meeting held by the Ministry on 3rd May, 1974, attended by the concerned officers of the Department of Food and Army Headquarters.

1.10. The manufacturers of hydrogenated oil registered with the Army Purchase Organisation were invited to attend a meeting on 16th April, 1974. The meeting was called by the Chief Director of Purchase. Only 10 firms sent their representatives. The firms explained that on account of credit squeeze, tight money position, non-availability of tin-plate and imported oils, they were experiencing difficulty in undertaking manufacture of vanaspati. Four firms, however, agreed to supply a total quantity of 2,725 tonnes of hydro oil on the condition that the required quantity of imported oils would be made available to them. The question whether imported oils could be released as demanded by the aforesaid firms was taken up with the Directorate of Vanaspati but it was stated by the Controller of Vanaspati at a meeting called by the Ministry of Defence on 3rd May, 1974, that the stocks of imported oils had almost been exhausted. It was observed that even after the meeting with the registered suppliers on 14th May, 1974, there was no response to the tender enquiries issued upto August, 1974 for supply of Hydro oil.

1.11. Asked whether the Vanaspati Directorate was consulted on all the three occasions, viz., May 1974, July 1974 and September 1974, when it had been decided to purchase refined groundnut oil in lieu of hydrogenated oil, in regard to the availability of the latter, the Chief Director of Purchase, Army Purchase Organisation stated in evidence that whenever purchases of vanaspati were required to be made by the Chief Director of Purchase, the advice of the Vanaspati Directorate was invariably sought. A suggestion had been mooted at the above-mentioned meeting held on 3rd May, 1974 that since there was no vanaspati available, refined ground-nut oil should be purchased. The Joint Secretary (Sugar) who was incharge of the APO was also the Vanaspati Controller and he, therefore, had an overall view of the prevailing position of the Vanaspati Industry. He held the opinion that there was a steep decline in production of vanaspati and had brought this fact to the notice of the Cabinet Committee on Economic Policy and the then Minister for Agriculture.

1.12. It was also stated by the Ministry of Agriculture and Irrigation, Department (APO) in a note furnished to the Committee in this regard that the decision to purchase refined ground-nut oil was taken by the Government after considering all relevant aspects of the matter and that consultation with the medical authorities of the Army had also been done before taking this decision.

1.13. The decision to give effect to the suggestion that the Defence Services should be allowed to purchase some quantity of refined groundnut oil to cover their immediate and urgent requirements for two months was conveyed by the Ministry of Defence to the Chief Director of Purchase on 14th May, 1974. Accordingly, first indent was placed on the APO for the purchase of 6,000 tonnes of refined groundnut oil for urgent supply to Defence Services.

1.14. According to Audit para the total initial requirement of 6,000 tonnes of groundnut oil in May, 1974 had been revised to 7600 tonnes in July, 1974 and to 10,600 tonnes in September, 1974 which represented an increase of 77 per cent in a period of about 4 months. The Committee desired to know the reasons for this abnormal increase in the estimated requirements. In a note furnished to the Committee, the Ministry of Defence have stated:

“The total requirement of the army for oil hydrogenated for the year 1974 was 26,000 tonnes, and indent for which was placed on CDP in November 1973. By 30th April, 1974, there was an outstanding quantity of 14,476 tonnes due from the CDP. In the context of the overall shortage of

hydrogenated oil in the country during this year, the CDP expressed his inability to procure oil hydrogenated for the army.

Keeping in view the fact that the monthly requirement of the army for oil hydrogenated was in the region of 2,000 tonnes per month, the initial indent was placed on CDP for procurement of 6000 tonnes of groundnut oil as an alternative cooking medium for a period of three months. In July, 1974, the CDP indicated the availability of an offer of 1600 tonnes of refined groundnut oil while there was no possibility of procuring oil hydrogenated, in the near future. It was therefore decided to procure 1600 tonnes of refined groundnut oil through the CDP. By September, 1974, when the CDP indicated his inability to procure oil hydrogenated and when it was seen that a break-down in the supplies of cooking medium to the troops was imminent, it was decided to go in for the procurement of further quantity of 3,000 tonnes of refined groundnut oil."

1.15. The Committee desired to know the procedure followed in selecting the suppliers of groundnut oil. The Chief Director of Purchase has stated in evidence:

"The groundnut tender enquiries have been sent to only those of the contractors who are registered with us and who have been supplying vanaspati and those are the suppliers who also supplied us refined groundnut oil."

1.16. The Committee enquired about the steps taken by the Chief Director of Purchase to determine whether stocks of hydrogenated oil were not deliberately being hoarded by the suppliers with a view to creating artificial scarcity of this commodity so as to promote sale of refined groundnut oil. The Ministry have in a note stated:

"For procurement of processed food items (which would include oil-hydro, refined groundnut oil etc.) required by Defence authorities a certain procedure has been laid down in the Manual of Purchase Procedure according to which the tender enquiries would be issued only to approved contractors whose factories were duly inspected and found suitable and who had also furnished standing security. Issue of tender enquiries to firms other than those registered with the Army Purchase Organisation

would not have been consistent with the provisions of Manual of Purchase Procedure. It had, however, been ensured that firms registered for supply of Oil Hydro were also competent to manufacture refined groundnut oil.

The Chief Director of Purchase had no independent means of determining whether stocks of oil hydro were deliberately being hoarded with a view to creating conditions of scarcity and promoting sales of refined groundnut oil. Nor was this in fact part of his function. Since the Vanaspati Controller had observed that vanaspati was then in short supply and also as this view was confirmed by results of tender enquiries issued during the period from October, 1973 to August, 1974, there was in any case no further need for Chief Director of Purchase to make any independent attempt to go into that question."

1.17. The Audit para has stated that during June—August, 1974 contracts of the value of Rs. 8.26 crores were entered into by the Chief Director of Purchase for supply (f.o.r. Station of despatch) of 7,600 tonnes of refined ground-nut oil. The supplies were to be packed according to Army Service Corps Specification No. 139 (applicable to hydrogenated oil) in 18-litre square tins conforming to Indian Standard Specification 916—1966. Each tin was to contain 16.5 kg. net. The suppliers were to provide adequate dunnage (straw, hey, old gunny bags, etc.) for packing the tins to be loaded into railway wagons. The supplies were to be inspected at the suppliers' premises by the concerned Officer Commanding Composite Food Laboratory. The relevant extracts from ASC Specification No. 139 and ISI Specification No. 916—1966 furnished to the Committee by the Ministry of Defence are reproduced below:

"ASC Specification No. 139.

Packing:

7. (a) *Tins*.—The oil hydrogenated shall be packed in hermetically sealed 18-litre square tins conforming to Indian Standard Specification No. IS:916-1966 for 18-litre square tins and certified under the ISI Certification Marking Scheme with such additional stipulations as given in Appendix. The 18-litre sq. tin shall also conform to the hydraulic pressure test given in the IS Specification No. IS:916-1966. The net contents of such tin shall be 16.5 Kg.
- (b) *Cases*.—When cased supplies are ordered, the tins shall be packed in strong wooden cases conforming to specifica-

tion No. IND|GS|FD4(b), size 1. Each case shall contain two tins.

ISI Specification No. 916-1966.

D. FOREWORD

1.3 Eighteen litre tins are commonly used for packing various commodities, such as vegetable oils and vanaspati, insecticides and chemicals, cashewnuts, food products and kerosene oil.

3. REQUIREMENTS.

3.1. *Capacity.*—The nominal capacity of the tins shall be 18-litres. The gross capacity of the tins with closures fitted shall be not less than 18.9 litres.”

1.18. Clarifying the position regarding packing specification followed in this case, the Ministry of Defence had informed Audit in March, 1976 that as no ASC specification existed for refined groundnut oil, advantage was taken of ASC specification No. 139 for hydrogenated oil for supplying and packing a net quantity of 16.5 Kg. in 18 litre capacity square ISI marked tins. The Ministry have further stated that according to the Agricultural Marketing Adviser, a maximum of 17 Kg. net weight of vegetable oil could be allowed in such tins. The views expressed by the Agricultural Marketing Adviser in his letter dated 31st January, 1976 addressed to the Army Headquarters regarding filling of groundnut oil in ISI marked 18 litre tins is reproduced below:

“(i) As far as filling of Agmarked Vegetable Oils is concerned, presently 17 Kg. Max. as nett wt. is allowed in tins.

(ii) As per rules of weights and measures, nett weight should invariably be marked on each container. Hence it will be more appropriate in case it is confirmed from the same department regarding filling of groundnut oil which is permitted in ISI marked 18 litre square tin. Because our Directorate is not aware and concerned that how much quantity of groundnut oil is exactly permitted in 18-litre square tin of ISI.”

1.19. The Committee desired to know when the advice of the Agricultural Marketing Adviser was obtained and whether it was applicable to groundnut oil. The Ministry have stated that this clarification was sought from him only in January, 1976 as a query had been raised at that time as to whether or not the filling of 16.5

Kg. of refined groundnut oil in 18-litre ISI marked square tin had contributed, in any way, to the losses. The advice covered all vegetable oils.

1.20. Asked what was the trade practice for the bulk movement of groundnut oil and whether it was ascertained at any stage, particularly the practice adopted by the trading community of Gujarat from where bulk of the supplies appeared to have been procured, the Ministry have stated that informal enquiries made in Delhi reveal that the stocks of refined groundnut oil are transported in tins of different capacities both by rail and road from mills to depots.

1.21. In reply to another question whether any ASC Specification, specific to groundnut oil, had since been issued, the Ministry have, in a note, stated:

“No separate ASC Specification for refined groundnut oil has since been laid down because refined groundnut oil was procured only due to non-availability of oil hydro during 1974 to meet urgent Defence requirement and this item is not likely to be procured in future.”

1.22. The Committee find from the Audit Paragraph that in the context of reports of losses in transit in respect of the supplies made in July, 1974, the Army Headquarters had then suggested (July, 1974) to the Chief Director of Purchase the substitution of 18-litre tins by the trade pattern 4-Kg. tins. The latter, however, appears to have expressed the view that no change was possible as practically all the quantity would have been tendered by them and the chances of transit losses would be greater in 4-Kg. tins. In view of the fact that supplies of the oil apparently continued even after February, 1975, the Committee enquired whether this suggestion was given adequate consideration by the Chief Director of Purchase and whether the suppliers were approached with a view to make future supplies in 4-Kg. tins. The information furnished by the Ministry of Agriculture and Irrigation Department of Food (APO) in this regard is given below:

“The period of supply was not relevant. The suggestion that the substitution of 19-litre tins by the trade pattern 4-Kgs. might be considered was made by the Army Hqrs. on 29th July, 1974. Therefore, no change as suggested by the Army Hqs. could be legally made in the terms of contracts already concluded. It might have been possible to introduce a change in the specifications of containers in subsequent tender enquiries, which were issued on 30th Sep-

tember, 1974. It may, however, be stated that in a meeting held by the Army Hqs. on 7th September, 1974, where the suitability of different types of containers including 4-Kgs. tins was considered, the conclusion arrived at was that supplies in 2x18 litre ISI marked tins packed in a crate or shook would be more suitable.

This involved financial implications. After the contracts were placed, the terms of contract could not have been changed unilaterally. It will also be observed that a final view on the suitability of the different types of containers was not taken till 7th September, 1974 when, in a meeting held by Army Hqs., it was decided to continue to obtain supplies of refined groundnut oil in 2x18 litre tins."

1.23. In regard to the basis for the Chief Director of Purchase expressing the view that the use of 4-Kg. tins would result in higher transit losses, the Ministry of Agriculture and Irrigation, Department of Food (APO) have stated that this impression was gathered from the representatives of two mills which are large manufacturers of hydrogenated oil.

1.24. Orders for supply of groundnut oil were placed f.o.r. station of despatch. In view of the fact that there had been considerable transit losses, the Committee desired to know whether the possibility of the supplies being effected at the consignee's end by the suppliers themselves had been explored and whether the comparative economics of accepting supplies f.o.r. station of despatch *vis-a-vis* f.o.r. destination had been examined in detail. In a written note furnished in this regard, the Ministry of Agriculture and Irrigation Department of Food (APO) have stated:

"Purchases of refined groundnut oil were made on the usual terms and conditions. No deviation from the normal terms and conditions was suggested by the indentors and, therefore, the possibility of the supplies being effected at the consignee's end by the suppliers themselves was not examined. Also, no exercise was undertaken to work out the comparative economics of accepting supplies f.o.r. station of despatch *vis-a-vis* f.o.r. destination."

1.25. The Audit para states that in view of the relatively low viscosity of refined groundnut oil, Army Headquarters issued detailed instructions to all Command Headquarters and all Officers Commanding Composite Food Laboratories in May, 1974 regarding handling, transportation and despatch of groundnut oil from the supplier.

factories to the depots with special emphasis on the soundness of the containers, adequacy of dunnage and the avoidance of transshipment as far as possible. Since transit losses were noticed in the case of initial supplies made during July, 1974, the Army Headquarters reiterated to all Commands and the Composite Food Laboratories the need for strict compliance with the earlier instructions for handling the stores.

1.26. The first order for 7,600 tonnes of refined groundnut oil for which contracts of the value of Rs. 8.26 crores had been entered into in June—August, 1974, catered for 38 depots. The Audit have observed that for supplies made during July, 1974 to February, 1975 heavy transit losses were noticed by various consignee depots. Courts of Enquiry/Boards of Officers convened at the depots attributed the losses primarily to the poor quality of containers, inadequate and improper dunnage, defective tying of tins and loose shunting enroute.

1.27. After excessive leakage of refined groundnut oil in 18-litre ISI marked tins came to notice, Government approached ISI for checking the quality of tins. Thereupon ISI representative visited 4 supply depots and one oil mill and inspected the tins used for packing refined groundnut oil. The Director, ISI (Marks) himself visited one supply depot. ISI representatives were of the view that major losses of refined groundnut oil resulted from transit hazards and not due to any defect in the intrinsic quality of 18 litre square ISI marked tins. The opinion of the Director ISI (Marks) was received on 23rd September, 1974.

1.28. To a question whether desirability of seeking technical advice from the specialised agencies like Defence Institute of Stores Preservation and Packing, Chief Inspector of General Stores, IRL (Materials) in regard to the excessive leakage of oil in 18-litre ISI marked tins by sending a few tins for testing by them was sought for, the Ministry have replied that 'taking into consideration the national status of ISI, the question of referring the matter to Defence Food Research Laboratory (Material) was not considered necessary.

1.29. The Committee have learnt from Audit that the Ministry of Defence have offered the following remarks in December, 1975 in regard to the findings of Courts of Enquiry/Boards of Officers about the quality of containers:

"The findings that the containers were of poor quality has not been corroborated by the Indian Standards Institution.

That Institution was of the view that major losses resulted from transit hazards and not due to any defects in the intrinsic quality of tins."

1.30. Elaborating on this point, the Director General, Indian Standards Institution has stated in evidence:

"As far as I can see, containers that were inspected were in various godowns because they had already been transported. When we inspected the containers already transported, the leakages were there. So after the officers examined these tins they came to the conclusion that there was no defect as far as the container was concerned".

1.31. When the Committee referred to some specific findings of the Courts of Enquiry/Boards of Officers about the quality of tins *etc.*, lids of tins were not soldered properly with the result that the lids were blown open; poor soldering of the containers resulting in leakages through seams and joints due to excessive surging of the oil in transit, a number of tins being dented and broken, used tins being used by the consigner for the consignment of a number of tins in one despatch, the Defence Secretary has stated in evidence:

"It is the usual Army Procedure that when loss has occurred they have a Board of Enquiry and this Board is not by experts but by normal Army officers. These Army Officers examine certain consignments. If you read from one particular report, that will not necessarily be representative of the whole thing. For instance, this question of 'nail-driven tins' arose only in the case of large consignments and this Board of Inquiry was set up to inspect particular consignments only. In this case we either reinforced the lashes or asked for replacement and may be that the Audit took it and put it down as one of the reasons....

The other thing is that while the Board of Officers to the best of their judgement, their lay judgement, indicated that these were the defective tins—probably, the soldering was faulty--I have more than one letter from the ISI after due inspection of these tins to suggest that there was nothing wrong particularly with the tins."

1.32. On being pointed out why the word of the men on the spot, the Army officers who conducted these enquiries, should not be relied upon, the witness has deposed:

"Firstly, people on the spot are not experts either in the quality of tins or in their manufacture. Secondly, they made a

visual examination. A leaking container must be faulty; whether it started leaking from the initial stage or it started leaking on the way, that is not known. He assumes it was a faulty container. We have gone into this in depth with the expert agencies that the government have; they have given their opinion."

1.33. Asked whether ISI had checked all the tins in production which were used for Army supply, the representative of the Indian Standards Institution had the following to state:

"All of them were brought under ISI certification mark. In addition, at the specific request of the Defence we did also additional lot inspection of all the manufactured tins and special procedure was evolved. When those were ready, inspection was done according to particular procedure and then only they were supplied to the military authorities."

1.34. As has been brought out earlier, the Army Headquarters while issuing detailed instructions to the Command Headquarters and Officers Commanding regarding handling, transportation etc. of groundnut oil from suppliers' factories to depots, special emphasis was laid on the soundness of containers. The Committee, therefore, desired to know whether the inspecting officers had questioned the soundness or fitness of the containers before accepting the lot and ensured themselves of this primary requirement. The Defence Secretary has stated:

"It is our information that wherever defective containers were offered, they were rejected and they were replaced by sound containers. Leaking and dented tins were rejected off-hand. Wherever anything is brought to our notice that there was dereliction of duty, on the part of any service officer, automatically an enquiry is held into that matter. As I have already indicated enquiries have been made in some cases and punishments have also been awarded."

The witness has added:

"It was the opinion of the officers that the containers were not sound. Against that we have the certification by the ISI that the containers were all right. It is for you to accept one or the other. I personally would accept the ISI findings that the containers were all right but it is the transportation hazards which saw through the containers."

1.35. The Committee desired to know whether Government was thinking of introducing any alternative for the containers for trans-

portation of groundnut oil. The Defence Secretary has stated in evidence:

"We hope this question will not arise because we are not going in for groundnut oil again. We have gone into this with the Food Technological Laboratory and they have given us a very foolproof kind of tin-galvanised iron tin—to contain 20 litres but it will cost Rs. 38 per tin. Thus, we will be spending on the containers. One can have one's choice."

1.36. In this connection, the Ministry of Defence have, in a note, subsequently furnished to the Committee, stated:

"We have no experience of 20 litre galvanised drums as containers for refined groundnut oil.... (these are round in shape and made out of thicker iron sheet.... The cost of galvanised drums is said to be three times more than that of current 18 litre square ISI mark tins. Therefore, it can be economical only if it is used more than two times for which it is well suited.... (this) was being tested in the laboratory by DFRL.... the container was still in the development stage. The need for such drums is unlikely to arise in future as procurement of refined groundnut oil in future is not envisaged."

1.37. The Ministry in a note furnished to the Committee in advance of evidence have stated that the ISI had expressed no opinion with regard to the abnormality or otherwise of transit losses. They had, however, attributed losses to transit hazards and not to any defects in the intrinsic quality of tins. Asked to indicate the basis for the ISI's conclusion that losses occurred due to improper and inadequate packing i.e., by not following the procedure prescribed for the purpose mentioned earlier in this report, the Director General, ISI has replied:

"The actual position is that we do not have a standard for packing of tins for transportation. It appears that a remark like this was made by one of our officers who was deputed to inspect one of the godowns, but we take it that it was purely the opinion of an individual officer and not of the ISI as a whole because there is no standard for this."

1.38. The suppliers were to provide adequate dunnage (straw, hay, old gunny bags etc.) for packing the tins to be loaded into Railway wagons. Detailed instructions had also been issued by the

Army Headquarters to all concerned officers and agencies regarding despatch, handling and transportation of groundnut oil from suppliers' factories to depots with special emphasis *inter-alia* on adequacy of dunnage. In spite of all these precautions reports of losses in transit were received from most of the depots. The Committee have been informed by Audit that one of the reasons for the abnormal loss pointed out by the Indian Standards Institution was the use of groundnut husk as dunnage in lieu of rice stalk which is normally used for cushioning purposes. The substitute used for dunnage proved inadequate since during movement of wagons the husk moved down on the floor leaving the tins unprotected against possibility of damage through transport hazards. The number of tins stacked one above the other in the railway wagon was more than normally done in the case of hydrogenated oil.

1.39. The Chief Director of Purchase had intimated in September 1974 that no action could be taken against the suppliers* since supplies had been despatched after inspection by the Composite Food Laboratory and under the supervision of Army Authorities. The Ministry of Defence stated (December, 1975) that the Defence Authorities had handled groundnut oil for the first time and every effort was made to eliminate losses by issuing detailed instructions for the handling of stores. Further, the sources of supplies were such that transshipment could not be avoided. The Committee have further learnt from Audit that the Ministry had offered the following remarks in December 1975 in regard to the findings of Courts of Enquiry/Boards of Officers on the inadequacy of dunnage and improper lashing of tins. "All despatches were carried out under the supervision of Boards of Officers and steps were taken to provide adequate dunnage and proper lashing of tins at the loading station but no control could be exercised at transshipment points where the unloading and re-loading was carried out under railway arrangements."

1.40. The Committee had the feeling that the persons who were in charge of inspection were junior officers and inexperienced in the handling of such consignments and as such the suppliers had their way both in respect of quality of tins supplied and the packing system. The Committee, therefore, desired to know whether these officers had taken due care in handling the stock and had strictly followed the prescribed inspection and packing procedure laid down for the purpose. The Defence Secretary has stated in evidence:

"The officers, according to the Committee, may be juniors, but we consider a Major a very responsible officer in the Army,

*M/s. Bhavnagar Vegetable Products, Bhavnagar.

and this is something which they have to do in their normal life. The ISI has not found any basic defect in the quality of the tins. They have held that leakage is due to hazards of the transshipment. So far as initial packing and so on is concerned, there again our conclusions are that even though supplies were accepted, the instructions were issued and the packing was made. But where these tins had to travel over a long distance, all this packing etc. got dislocated and was not of much avail. Also in the case of those supplies which had to be transhipped, the hazards were much greater because people were not there to supervise them. The railways did the supervision. Their regulations are such that only in the case of military special, they will allow inspection by military staff at transshipment point. As far as the question of taking care is concerned, my submission would be that they have not taken care."

1.41. The supplies were to be inspected at the suppliers' premises by the concerned officers Commanding, Composite Food Laboratory. In this context the Ministry of Defence had informed Audit in March 1976 that sample tins containing refined groundnut oil from the bulk stocks tendered were drawn by the bulk Inspector and sent to Composite Food Laboratory concerned for detailed laboratory analysis of the contents only. Technical examination of containers themselves is stated to be not within the purview of the Food Inspection Organisation of Supplies and Transport Directorate. Audit was further informed that visual examination of the container is carried out by the Bulk Inspection Officer to check obvious leakage and presence of ISI markings, as the responsibility of ensuring that the containers are upto their specification is with the Indian Standards Institution. Asked to indicate the reasons for not providing in the inspection procedure, for control samples/testing of containers, the Ministry of Defence have, in a note, stated:

"Technical examination of the containers themselves is not within the purview of the Food Inspection Organisation of Supplies and Transport Directorate. Consignments are procured in ISI certified and marked tins. As in the case of all commodities packed in tins bearing ISI certification mark, it is the responsibility of the ISI to ensure that the tins are up to their specification. Visual examination of the container is, however, carried out by the Bulk Inspection Officer to check obvious leakage and presence of ISI markings."

1.42. During evidence, the representative of the Indian Standards Institution described the procedure regarding certification of quality and inspection at site of production as follows:

"The manufacturer who wants to have the ISI mark for his product has to make an application. Our officers go for inspection and see the capability of the manufacturer, whether he has got proper equipment, personnel, testing facilities etc. At the same time, they draw samples from there and these are tested in independent laboratories and in our own laboratories or elsewhere. Once we are sure that the manufacturer has the capability to manufacture according to the standards and the test results also bear out this fact, then we design a quality control system for him to follow on his production line right from the stage of raw material to the stage of finished product. We prescribe a proforma according to which he maintains the test results, how the samples have to be drawn and tested. In addition, he has to calibrate all his measuring equipment. We have a system by which our inspectors pay surprise visits. There is no limit to the number of visits. It depends on the creditability that the manufacturer has been able to create, but our inspectors must visit at least four times a year. They inspect all the past records to make sure that everything goes well. They draw samples from the finished products. These are tested independently by our laboratories. In addition, our people go and draw samples from the market, to make another check. Thus, our scheme is very comprehensive and well-drawn. Several national bodies have also certification marking schemes, but ours is a very comprehensive scheme. This is borne out by the fact that we have been operating for a number of years and the number of complaints that we have had is very few. In addition, there is an agreement with the manufacturer that if at any time a product bearing an ISI mark does not conform to the standards, if we receive a complaint, the first thing that the manufacturer has to do is to see that the consumer gets a free replacement. We investigate and if there is need to change the quality control system, we do that. We have also got powers under the Act.... to levy penalty if the manufacturer has misused the ISI mark."

1.43 The Committee understand that in reply to a query raised in Audit as to why, as observed by the Indian Standards Institution,

no packing had been kept in between tins and tins were also not lashed properly, the Ministry of Defence had intimated Audit in March 1976 that the loading was done with due care under the supervision of Board of Officers and that the consignments received at Rail Head Supply Depot, had in some instances undergone transshipment and it would, therefore, be for the Railway Authorities to take due care in unloading and reloading at the transshipment point as under Railway Tariff Rules No. 112. Railways do not allow supervision of transshipment by Military authorities unless the train is a military special.

1.44. Asked whether any consultations were held with the Railway authorities to ensure adequate safeguards at the transshipment point and to explore the possibility of transportation under Defence supervision the Additional Member Traffic (Railway Board) has stated in evidence:

"There is no condition laid down anywhere that the Military authorities would not supervise the transportation at transshipment points. The only condition laid down is that in the case of goods moved under the provisions of the 'Red Tariff' i.e., dangerous goods, it is absolutely incumbent on them to supervise the transshipment. In all other cases, if they want to supervise, we give them permission on a reference being made to us. No such request was received from the Defence Ministry."

1.45. In this connection, the Defence Secretary while explaining the implication of Rule 112 relating to handling of Military traffic [which says that military authorities are responsible for and will perform all handling of stores and packages (a) if by military special trains, including transshipment at junctions and ferries (this refers to military special trains only, and the oil was not moved by military special trains) and (b) if by ordinary trains, excluding transshipment at junction points and ferries] deposed that according to Railway regulations, the Military Officers were not allowed to do this. He further stated that at a particular station of despatch, the inspecting officers approached the local Railway authorities for permission and even a junior commissioned officer was deputed to go with the consignment to supervise the transshipment but he was not allowed to go and he returned. The witness has added:

"I am told that the railways did not advise us nor did perhaps our organisation go to them for any special precaution which they might take, except as I said, for the transshipment an effort was made to send some supervisory people."

1.46. Clarifying his position, the representative of the Railway Board has stated:

"I have listened to the remarks of the Defence Secretary and I have got the book here. It is true that it is our responsibility to supervise the transshipment of goods except in the case of dangerous goods like ammunition etc. I accept that position. But what I had said was that if the Military authorities had thought that this consignment needed special supervision and if they had approached us for permission, such permission would have been given—as it was done in the case of the FCI. In that case also, it was not binding on them to supervise the transshipment, but when they made a special request, we accepted because they said that they did not want their grains to be lost; we allowed their representative to supervise the transshipment. So, I was suggesting that had such a request been made by the Defence Ministry, permission would have been given."

1.47. Asked whether he meant that the Railways were not responsible for the loss, the witness has deposed:

"I have accepted the responsibility. I have never disputed that fact... when goods move long distances some damages or shortages take place due to various causes."

1.48. The Audit para states that due to continuing scarcity of hydrogenated oil, Government approved the purchase of an additional quantity of 3,000 tonnes of groundnut oil in September 1974. This quantity was covered by contracts of the value of Rs. 3.15 crores during October 1974. It was decided that this quantity be moved in 2x18 litre ISI marked tins packed in a crate or shook. This order catered for 19 depots. Heavy transit losses were noticed in these consignments as well. The Courts of Enquiry found that the crating was faulty and the nails had protruded inside and punctured the tins during shunting, and further, neither sufficient packing material or dunnage had been provided nor were the tins properly lashed inside the wagons. The Ministry had also stated that transit losses had come down after the provision of shooks.

1.49. The Committee pointed out that in the ASC specification laid down for hydrogenated oil there existed a provision that the indentors could ask the suppliers to make supplies in strong wooden cased packing with two tins and desired to know the reasons for the Ministry of Defence not insisting on that recourse from the initial

stage itself so that the loss could have been avoided. The Defence Secretary has stated in evidence:

"I am informed that we did have this provision until some years ago and we used to enforce it, but the enforcement was at a considerable cost. It was given up then. It was meant originally for the hydrogenated oil. When this particular emergency came, the groundnut oil was to be indented for a short time, they continued with the practice which was obtaining without reintroducing the use of wooden cover, shooks etc. for two tins. After observing the losses, however, they laid it down again as a mandatory thing for those consignments where the transshipment was involved. The losses in the transshipment categories came down later on."

1.50. Since losses had been invariably attributed to hazards of rail movement, transshipment *en route*, inadequacy of dunnage, etc., the Committee desired to know whether any investigation had been made regarding inadequacy of supervision at the points of despatch. The Ministry in a note have stated that as despatches were carried out under the supervision of Station Boards of Officers and not by one single officer, no further investigation was carried out regarding adequacy of supervision at the points of despatch.

1.51. The Audit have observed that while the total loss incurred in transit and during storage was yet to be assessed, transit losses of about 267 tonnes of the value of Rs. 32.50 lakhs (at the free issue rate Rs. 12.150 per tonne) have been reported upto January 1976. In addition, one depot has reported a storage loss of 31 tonnes (July—September 1974) valued at Rs. 3.77 lakhs.

1.52. Asked to indicate the procedure prescribed/followed by the depots for assessing losses of goods in transit with particular reference to vegetable oils, the Ministry of Defence have stated that all consignments are despatched and received under supervision of Station Boards of Officers *vide* AO. 115'66. These Boards are responsible for checking the seals of wagons when received, opening the wagons and checking the consignment for correctness of quantity and assessing losses. The Boards proceedings which *inter alia* reflect losses, if any, in respect of each consignment, are prepared by the Boards of Officers and endorsed with the opinion of the Station Commanders. On the basis of these proceedings, loss statements are prepared by the Depot concerned and progressed. This procedure is followed for all items, including vegetable oils.

1.53. The Committee desire to know the details of the total quantity of refined groundnut oil ordered, quantity received by various depots, losses/shortages in transit and inter-depot transfers and storage and the value thereof in each case. The relevant data furnished by the Ministry of Defence in July, 1976 are reproduced below:

	Quantity in tonnes	Value in lakhs of Rupees
1. Despatches and Receipts		
(i) Quantity ordered	10,600	11.21
ii Quantity consigned to Depots	10,559	11.17
iii Quantity actually received by various Depots	10,292 (at the average purchase rate of Rs. 10,764.10 per tonne).	11.01
	267	.19
Short supply (By subtracting (iii) from (i) above)		
Losses/shortages:		
(a) In transit:		
(i) subject to transhipment	101	1.08
ii where no transhipment involved	166	1.78
Total (i) and (ii)	267	2.86
		(at free issue rate of Rs. 12.150 per tonne)
(b) Inter-depot transfers	308	3.31
		(at the average purchase rate of Rs. 10,764.10 per tonne)
(c) Storage	111	1.19
		(at the average purchase rate of Rs. 10,764.10 per tonne)
Grand total of losses/shortages and value thereof [i.e. total of (a), (b) and (c) above]	686	7.36
Average Loss : 5.86% of the quantity consigned to Depots.		

1.54. Subsequently, the Ministry of Defence have furnished to the Committee, on 24 January 1977, revised figures of loss and the value thereof as under:

Total loss and value thereof		
	Quantity (tonnes)	Value (Rupees in lakhs)
1. In Transit	267	32.50
2. Inter-depot Transfers	317	38.56
3. In storage	43	5.25
Grand Total	*627	76.31

* Or 5.94 per cent of the quantity Confined to Depots.

1.55. The Defence Secretary has stated during evidence that "the overall loss including transshipment is of the order of 2.32 per cent. It is not as if something very extraordinary happened in the case of Army groundnut oil alone. It seems to be the experience of the trade generally also." An extract from the Delhi State Oil Millers Association letter dated 6 May 1976, who were contacted by the Ministry of Defence to ascertain the general pattern of transit losses experienced by the trade is appended below:

"Re: Estimated Percentage of Leakage

We have to inform you that generally in Railway Box Wagons when Groundnut Oil is loaded in tins with care and packing material like wood, dust and bamboos are properly used, the percentage of leakage had been upto $\frac{1}{2}$ per cent.

But in cases where the wagons are not loaded under the personal supervision of the Management or are subjected to loose shunting and transshipment in between the leakage percentage ranged from 2 to 5 per cent. It will decidedly be less if the transshipment is done by the consignor himself and not by the Railway employees themselves."

1.56. The Committee desired to know the nature of causes/factors, pointed out by the courts of enquiry, contributing to losses in storage and during inter-depot transfers. Government have stated that store losses have been attributed to (i) leakage of tins and (ii) neglect. As regards inter-depot transfers, the main reasons for losses as per findings of Boards of Officers Courts of Enquiry applicable in general to all such inter-depot transfers are summarised below:

(i) Jolting and loose shunting of wagons during transit

- (ii) Poor quality of tins resulting in their bursting or getting punctured during transit.
- (iii) Leakage through seams and joints of tins due to poor soldering.
- (iv) Use of inadequate dunnage and improper lashing.

1.57. The Ministry of Defence were asked to indicate the nature of punishments awarded to the officials found responsible for storage losses. From the details furnished by them it is noted that punishments such as severe reprimand, forfeiture of two years service for the purpose of promotion, reduction in rank, rigorous imprisonment, penal deductions, etc. were meted out to these officials.

1.58. The Committee desired to know the action taken in each case, in pursuance of findings of the Courts of Enquiries, Boards of Officers convened at various depots to enquire into heavy transit losses. The Ministry of Defence have stated that action against defaulting individuals 'has already been taken/will be taken.'

1.59. Enumerating the remedial measures taken to prevent recurrence of, and to minimise, losses during inter-depot transfers and in storage, the Ministry of Defence have, in another note, stated:

"Refined groundnut oil is not a normal item of supply to the troops and it is unlikely that this item will be purchased for issue to troops in lieu of oil hydrogenated in future. Should, however, the necessity to procure refined groundnut oil arise in future, a suitable container as approved by ISI/DFRL will be used as the present 18-litre square tin conforming to ISI specification No. IS. 916—1966 has not been found suitable for this purpose."

1.60. The Committee desired to know whether, in view of the magnitude of the losses incurred in the procurement and transportation of refined groundnut oil, Army Headquarters/Ministry of Defence would consider the desirability of convening a single high level court of enquiry/board of officers to probe into this matter rather than depending on the reports of enquiries conducted at the depot level. The Defence Secretary has stated in evidence:

"We will have to go on the same material which is before us. It is a matter of judgement. This august body is considering all this. This is an enquiry at a very high level. I do not think we will be able to do anything more. It is for the Committee to make recommendation and we will consider that."

1.61. In a note furnished in this regard subsequently, the Ministry of Defence have stated that since losses are investigated and regularised by competent financial authorities at various levels, a single high powered Court of Enquiry was not held'.

1.62. To a question whether losses have since been regularised, the Ministry of Defence have, in a note furnished to the Committee in advance of the evidence, stated that as per Financial Regulations, powers to regularise losses have been vested in various authorities. Accordingly, loss statements would have been regularised or are in the process of being regularised by these various authorities.

1.63. Loss statements in respect of each loss of refined groundnut oil have been prepared. Where the competent financial authorities felt that there was a requirement for Courts of Inquiries for investigation of the losses, these were convened. The present position with regard to these loss statements is not available with Army Headquarters, as these are finalised by the competent financial authorities at various levels in consultation with their Financial Advisers.

1.64. In a note furnished to the Committee subsequently on 27 January 1977, the Ministry have stated that "regularisation of losses not so far regularised is being pursued by various authorities. We have asked the Commands to intimate the present position with regard to each of the loss statement. This information will be submitted immediately on receipt."

1.65. The position with regard to quantity and value of claims made on the Railways furnished to the Committee by the Ministry of Defence is as follows:

	Quantity (tonnes)	Value (Rs)
(i) Quantity and value for which claim preferred with the Railways for despatches ex-central sources	20,0465	27,57,572.89
(ii) Quantity and value of claim accepted by railways against claim vide (i) above	20,843	2,52,639.15
(iii) Present position: Claims with Railways are being pursued.		

1.66. Asked to indicate the basis on which claims have been preferred on the Railways, the Ministry have stated that claims were preferred on the basis of shortage certificates issued by the Railways and where the Boards of Officers opined that the loss was due to the neglect on the part of the Railways. The latest

position of the total claims preferred on the Railways and those accepted by them as furnished by the Ministry of Defence in January 1977 is as under:

- (i) Value of claims preferred—Rs. 35,20,222.17 on the Railways.
- (ii) Value of claims accepted—Rs. 2,74,261.92 by the Railways.

1.67. This relates to a case where out of a total quantity of 10,559 tonnes of groundnut oil costing Rs. 11.37 crores actually purchased by the Army, 627 tonnes (or 5.94 per cent) valued at Rs. 76.31 lakhs were lost. Of this, 317 tonnes (or nearly 50 per cent) valued at Rs. 38.56 lakhs were lost during inter-depot transfers and 43 tonnes (or 7 per cent) valued at Rs. 5.25 lakhs were lost in storage. 267 tonnes (or 43 per cent) valued at Rs. 32.50 lakhs were lost during transit by rail between the points of loading and destination.

1.68. From the facts placed before the Committee in writing as well as during evidence, the following shortcomings and lacunae have been observed:

- (i) No ASC specification existed for refined groundnut oil inasmuch as this was not an item of regular purchase. Therefore, the ASC specification for the supply of hydrogenated oil in 18 litre capacity square ISI marked tins was adopted for the supply of refined groundnut oil. No effort seems to have been made to lay down a proper specification for the supply of groundnut oil in tins.
- (ii) In the absence of a suitable specification for the supply of groundnut oil, the quantity packed in 18-litre tins was the same as in the case of hydrogenated oil, i.e., 16.5 kg. It is yet to be verified whether the packing of 16.5 kg of groundnut oil, which has relatively low viscosity, in 18-litre capacity tins was desirable.
- (iii) Instructions were issued in May 1974 (reiterated in August 1974) to all Command Headquarters and all Officers Commanding Composite Food Laboratories regarding handling, transportation and despatch of groundnut oil from the suppliers' factories to the depots with special emphasis on the soundness of containers, adequacy of dunnage and avoidance of transshipment as far as possible. Despite these instructions heavy losses occurred not only during transit by rail between the points

of loading and destination but also during inter-depot transfers. This shows that the instructions were not strictly followed by those responsible for the handling of groundnut oil.

- (iv) It is held that the Boards of Officers at the destination stations were not expected to inspect the quality of tins in which the oil was packed. The observations of the Courts of Enquiries/Boards of Officers that 'lids of tins were not soldered properly with the result that the lids were blown open, poor soldering of the containers resulting in leakage through seams and joints, a number of tins were dented and broken, used tins were again used', are clear indications of the fact that all was not well with the tin containers. The findings of the Courts of Enquiries/Boards of Officers have, however, been brushed aside on the ground that the officers constituting these boards were not experts and competent enough to assess the quality of tins.
- (v) The suggestion of the Army Headquarters for substituting 18-litre tins by the trade pattern 4-kg. tins was not given adequate consideration. The other suggestion of supplies being affected at the consignee's and by the suppliers themselves, i.e., F.O.R. destination also did not receive the attention that it deserved.
- (vi) The suppliers were to provide adequate dunnage (straw, hay, old gunny bags etc.) for packing the tins to be loaded in railway wagons. The supplies were to be packed according to ASC specification No. 139 which provides the use of rice stalk which is normally used for cushioning purposes. However, instead of rice stalk, groundnut husk was used. The substitute use of dunnage proved inadequate as during movement of wagons the husk moved down on the floor leaving the tins unprotected against the possibility of damage through transport hazards such as shaking and jolting.
- (vii) ASC specification No. 139 also provided for cased supplies in which case the tins were to be packed in strong wooden cases conforming to standard specifications. The supplies ordered for in May-July 1974 were, however, not required to be in cases. Only after huge losses came to be noticed that further supplies ordered for in September 1974 were required to be in a case packing (shooks with two tins). In cased supplies transit losses were sub-

stantially less. Why were the supplies not required to be made in cases in the very first instance is a question that needs to be enquired into.

- (viii) The supervision of the Army authorities over the consignment came to an end when the oil tins were loaded in wagons. It was stated during evidence that care during transit was the responsibility of the Railways and that "according to Railway regulations the Military Officers were not allowed to do this." The representative of the Railways, however, maintained that "if the Military authorities had thought that this consignment needed special supervision and if they had approached us (Railways) for permission, such permission would have been given." Such permission was not asked for and, therefore, during rail transit the oil remained in the care of Railways. The responsibility for loss during rail transit is sought to be pinned on the Ministry of Railways. Why Military supervision was not insisted upon and provided with the permission of Railways when losses were noticed for the first time requires to be enquired into.
- (ix) Upto January 1977, the Ministry of Defence have preferred upon the Railways claims of the value of Rs. 35.20 lakhs on this account, out of which Railways have accepted claims of the value of Rs. 2.74 lakhs only.
- (x) Defence Secretary had stated during evidence that the overall loss including transshipment is the order of 2s32 per cent. It is not as if something very extra-ordinary happened in the case of Army groundnut oil alone. It seems to be the experience of the trade generally also." However, the Committee observe that according to the data furnished by the Ministry of Defence, the general pattern of trade losses experienced by the Delhi State Oil Millers Association is 1/2 per cent (on account of leakage) when groundnut oil is loaded in tin with care and proper packing is done with material like wood and bamboos etc. In cases where wagons are not loaded under the personal supervision of management and are subjected to loose shunting and transshipment in between the leakage percentage ranges between 2 to 5. The losses in the current transaction were, however, much excessive, being of the order of 5.94 per cent.
- (xi) Although the transaction relates to the period of September 1974, the losses have not so far been fully regularised.

1.69. The Committee are informed that in pursuance of the findings of the Courts of Enquiries/Boards of Officers convened at various depots to enquire into these losses, "action against the defaulting individuals has already been taken or will be taken." As regards the remedial measures taken to prevent the recurrence of losses during inter-depot transfers and in storage, it has been stated that "refined groundnut oil is not a normal item of supply to the troops" and that "should, however, the necessity to procure refined groundnut arise in future, a suitable container as approved by SI/DFRL will be used....."

1.70. The Committee are not satisfied with the investigations made into the circumstances leading to heavy transit and storage losses of refined groundnut oil. They would like Government to set up a high-level body including inter alia the representatives of the Railways and ISI to enquire into the reasons for not taking adequate precautions against possible losses during transit and storage of this commodity ab initio and for not taking adequate remedial measures as soon as the losses under existing arrangements came to light for the first time and fix responsibility therefor. The Body should also be directed to make suggestions for the handling of this type of commodity for future guidance.

1.71. The Committee learn that as against the claim of Rs. 35.20 lakhs preferred on the Railways by the Army Authorities, the Railways had, according to the information furnished to the Committee in January 1977, accepted claims of the value of Rs. 2.74 lakhs only. The Committee would like to know the latest position in regard to the acceptance of claims by the Ministry of Railways.

II

CANTEEN STORES DEPARTMENT (INDIA)

Audit Paragraph

A. General

2.1. The Canteen Stores Department (India) which was set up in January, 1948 is being run as a Government commercial undertaking. It trades in food-stuff, liquor, household requisites etc. for sale to entitled customers through unit canteens run with regimental funds.

2.2. The Canteen Stores Department is exempt from income-tax and allowed exemptions/concessions in respect of purchase/sales in certain States. It is also allowed the use of Military credit notes for conveyance of goods and the use (under certain conditions) of Government motor transport in field stations.

2.3. Although the trading results of the Canteen Stores Department together with a financial review thereon are published in the Commercial Appendix to the Appropriation Accounts of the Defence Services every year, the receipts and expenditure of the Department continue to be kept outside the Consolidated Fund of India in contravention of Article 266 of the Constitution of India. This matter has been the subject of comment in the Audit Reports and recommendations made by the Public Accounts Committee on a number of occasions.

2.4. A reference is invited in this connection to para 10 of the Audit Report on the Commercial Appendix to the Appropriation Accounts Defence Services (1951-52), para 17 of the Audit Report (Civil) 1962 and para 8 (iii) of the Audit Report, Defence Services, 1963.

2.5. The following are some extracts from the recommendations made by the Public Accounts Committee from time to time:

- ‘The Committee are informed that the whole matter regarding the future set up of this organisation is under consideration of Government. They should like to know in due course the decision arrived at in the matter’. (14th Report, 1st Lok Sabha, 1954-55, para 40).
- ‘The Committee recommend that the question of placing the organisation on a statutory basis as a corporate body under an Act of Parliament should be further considered’. (6th Report, 2nd Lok Sabha, 1957-58, para 74).
- ‘The Committee trust that Government would expedite a decision on the future set up of the Canteen Stores Department which had been pending their consideration for the last four years’. (17th Report, 2nd Lok Sabha, 1958-58, para 83).

—'All that they are anxious to ensure is that the constitutional irregularity in keeping the financial transactions of the Canteen Stores Department outside the Consolidated Fund of India should be rectified'.

(40th Report, 3rd Lok Sabha, 1964-65, para 10).

—'The Sub-Committee desire that this matter should be finalised early, as the constitutional irregularity in keeping the financial transactions of Canteen Stores Department outside the Consolidated Fund have been continued for several years... The Sub-Committee desire that a healthy convention should be developed where by if there is any difficulty in implementing a recommendation reiterated by the Committee, the matter should be submitted to the Cabinet and its decisions communicated to the Committee'.

(52nd Report, 3rd Lok Sabha, 1965-66, paras 2.51 and 2.52).

26. In response to the recommendations of the Public Accounts Committee (52nd Report—1965-66), Government stated in July 1970 that it had been decided that the accounts of the Canteen Stores Department (India) would be brought into the Consolidated Fund of India and that further details for the implementation of the decision were being worked out. However, the decision still remains to be implemented and in February 1976 the Ministry of Defence stated that the matter was still under consideration.

2:7. The following are the figures of turnover and profits earned by the Canteen Stores Department in the last five years:

Year	Turnover Rs. in crores	Net Profit	Percentage / of Net Profit Turnover
1970-71	30.20	1.28	4.23
1971-72	32.97	1.41	4.27
1972-73	38.94	1.97	5.05
1973-74	42.71	2.82	6.60
1974-75	53.63	4.02	7.49

B. Purchase of rum.

2.8. Procurement of rum for free issue to troops in forward areas is the responsibility of the Chief Director of Purchase (Ministry of Agriculture) whereas bottled rum for sale to entitled defence personnel is procured by the Canteen Stores Department (India).

2.9. In accordance with the direction of the Board of Control, Canteen Services (March, 1970) the Canteen Stores Department was advised by the Army Headquarters in November, 1973 of 30 preferred

brands of rum to conform as far as possible to the pattern of demand by the troops'. At about the same time, the Defence Secretary advised that the brands procured by the Chief Director of Purchase should also be considered by the Canteen Stores Department accordingly. A list of 14 brands (including 7 covered in the earlier list) was conveyed to the Canteen stores Department in December, 1973.

2.10. Tenders were issued in December, 1973 by the Canteen Stores Department to 19 firms (17 firms selected from the list forwarded by the Army Headquarters and 2 other firms).

2.11. The tenders covered supplies for two years (April 1974-March 1976) and provided option for an additional quantity of 25 per cent at the contracted rates, and for purchases being effected at the supplier's risk and cost in case of default. The tender also include an arbitration clause.

2.12. A review of the case revealed the following:

- After receipt of 19 tenders for an offered quantity of 64.63 lakh dozen bottles with rates varying from Rs. 23.22 to Rs. 49.49 per dozen bottles, negotiations were conducted (January 1974) with 16 firms which responded (including firm 'A' which had a backlog of 1.4 lakh dozen bottles against an earlier contract for 1972-74). The quoted rates were as a result reduced by Re. 0.50 to Rs. 6 per dozen bottles (1.7-18.7 per cent) resulting in an overall reduction of Rs. 47.37 lakhs (5.62 per cent) on the stipulated quantity of 24.73 lakh dozen bottles including a margin of 25 per cent. Contracts were concluded with 13 out of 16 firms (during March-April, 1974).
- Before commencement of supplies most firms sought an increase in price (ranging from 5.50 to Rs. 9.50 per dozen bottles) on grounds of "abnormal escalation in the cost of empty bottles, pilfer proof caps, packing cases, labels, etc."
- The Canteen Stores Department decided to renegotiate the Contract rates instead of invoking the risk purchase clause. As a result the coverage of supplies was reduced (June 1974) from 24.37 to 11.06 lakh dozen bottles (to correspond to one year's requirements i.e. upto June 1975), 10 per cent of the supplies being effected at the original contract rates and the balance 90 per cent at rates increased by 17-26.6 per cent. This included firm 'B' which was allowed an increase of 19 per cent (Rs. 24.44 lakhs) on the reduced quantity of 3.38 lakh dozen bottles.

*M/s Udaipur Distillery Ltd Udaipur.

†M/s Khoday Industries Ltd Bangalore.

- The new rates resulted in an additional cost (on reduced supplies) of Rs. 59.73 lakhs (17 per cent) as compared with the original contract rates
- An increase of 6.10 per dozen bottles (24.6 per cent) was also allowed (without an obligation of 10 per cent supplies at the original rates) to firm* 'C' that had not executed any contract after the original negotiations in January, 1974. This involved an additional payment of Rs. 4.01 lakhs on the supplies effected upto March 1975
- Rates were not negotiated with firm** 'A' (which in March 1974 had contracted for 1.50 lakh dozen bottles) on the ground that it had a backlog of supplies against an earlier contract for the period 1972—74. In another case (firm† 'D'), an increase of Rs. 5.50 per dozen bottles (22 per cent) was allowed although its samples had not been tested/approved (August 1974).
- In order to make up for a shortfall in supplies attributed to firms** 'A' and †'D' and firm‡ 'B' (which did not effect any supplies until November 1974 due to non-release of spirit by the State Government) 2.17 lakh dozen bottles of 'ad hoc' brands of rum (outside the recommended lists) were procured during October 1974—March 1975 at a cost of Rs. 77.02 lakhs at rates (according to the Canteen Stores Department) admittedly 'higher than the normal prices'. This procurement included Rs. 45.73 lakhs worth of supplies (1.30 lakh dozen bottles) from 3 firms who were holding contracts for 1.59 lakh dozen bottles at the renegotiated rates.
- In the meanwhile, firm‡ 'B' (which had a sizeable order) made up the short supplies and 2.64 lakh dozen bottles were, as a result, held in stock at the end of March 1975.
- To meet the requirements for the period July 1975—March 1976 rates were negotiated again with 13 firms; one firm was left out as its performance had not been satisfactory. While 10 firms agreed not to increase the rates, further increases of 1.9 per cent, 13.8 per cent and 18.4 per cent were recommended by the Canteen Stores Department

**M|s Central Distillery and Chemical works, Meerut.

**M|s Udaipur Distillery Ltd, Udaipur.

†M|s Nandi Breweries and Distillery (P) Ltd., Bangalore.

‡M|s Khoday Industries Ltd., Bangalore.

in 3 cases which were, however, not approved by the Board of Control.

- The quantities ordered on these 13 firms for requirements upto March 1976 resulted in an additional cost of Rs. 64.18 lakhs (20 per cent) as compared to the original contract rates.
- The *3 firms whom 'ad hoc' brands of rum (referred to above) had been procured agreed to maintain the existing rates only on condition of sizeable additional orders being placed on them for the 'ad hoc' brands. As a result, 1.55 lakh dozen bottles of 'ad hoc' brands were ordered on these firms at a cost of Rs. 54.25 lakhs.
- Taken as a whole, the cost of procurement of 21.04 lakh dozen bottles of rum to cover the requirements of the period April 1974—March 1976 amounted to Rs. 8.25 crores as against Rs. 6.98 crores that would have been paid in terms of rates settled/contracts executed in March-April 1974, not including the expenditure of Rs. 1.72 crores on account of 4.87 lakhs dozen bottles of 'ad hoc' brands of rum.

2.13. The Ministry of Defence stated (January 1976) that the rum purchased by the Canteen Stores Department was not for free issue to the troops at Government cost but for sale to the troops and that the Canteen Stores Department had made a profit on the sales. The Ministry added that the Canteen Stores Department being a semi-commercial organisation had to ensure that what is purchased will cater to the tastes and preferences of its clientele and will bring in profits consistent with its obligation to provide the troops with their requirement at a reasonable price. The Ministry stated further that in view of an abnormal rise in costs it was not considered advisable to invoke the risk purchase clause and that resort to the risk purchase clause would have forced the firms to invoke the arbitration clause causing delays and stoppage of supplies.

[Paragraph 53 of the Report of the Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services)]

A. General

2.14. The Committee desired to know the objectives of the Canteen Stores Department (India) and enquired whether those had

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- *1. M/s Sinbhaoli Industries (P) Ltd., Sinbhadi;
 2. M/s Central Distillery and Chemical Works, Meerut; and
 3. M/s Delhi Cloth Mills Delhi.

been specifically laid down. The Ministry of Defence in a written note stated:

"The objectives of the Canteen Stores Department (India) although not specifically laid down, had always been to provide consumer goods to the troops at a price cheaper than the prevailing market price in and near their lines."

2.15. The Ministry have further stated that recently, on the recommendations of the Institute of Defence Management, the following objectives, as accepted by the Board of Control, have been laid down:

- (a) Provide consumer goods to the troops wherever they are, at a price cheaper than the prevailing market rates, as far as possible.
- (b) Ensure that the level of consumer demand satisfaction is maintained at the maximum.
- (c) Generate reasonable profitability to sustain the organisation, permit growth and provide additional facilities for the troops and their families.
- (d) Formulate and execute development programmes to improve and maintain organisational effectiveness.

2.16. Pointing out that these objectives had been spelt out only recently, the Committee asked as to how, in the absence of any well-defined objective, performance of the Department was evaluated in the past. The Ministry of Defence have, in a note, stated:

"The Canteen Manual (War) India 1938 had laid down that the primary objective of the Canteen Organisation for war is the provision and supply to troops, both British and Indian, and to messes of Canteen and mess stores of the best quality at the cheapest rate."

2.17. Elaborating that point further, Additional Secretary, Ministry of Defence during evidence has stated:

"The very purpose of this Department is to cater to the necessities of the troops in far-flung places, including places like Leh, and at a uniform price throughout India. That price is kept purposely slightly below the market price. And as you know in many States we get concessions in respect of both excise duty on liquor as well as exemption from sales tax on certain commodities. This is all

part of troops' welfare which is contributed to both by the Centre as well as the States.'

2.18. Asked if the objectives of the Canteen Stores Department (I) have been incorporated in a formal communication, the Ministry of Defence have in a note dated 28 Feb. 1977 stated:

"A formal communication incorporating the objectives is under issue."

2.19. The Committee desired to know the nature of concessions received by the Canteen Stores Department from the Central and State Governments or other Government agencies during the last five years. The Ministry of Defence have *indicated that the following concessions have been granted by the Central/State Governments:

- (i) As the surpluses are distributed for welfare purposes under Government orders and the department is a Government department, the organisation is not liable to pay any income-tax.
- (ii) The movement of stores is allowed at military tariff rates by use of Military Credit Notes (Approximately Rs. 90 lakhs per annum).
- (iii) Canteen Stores Department (India) is provided rent free accommodation for their installations and personnel in the field areas. There are only 3 out of the 26 depots which are covered under these concessions. Although Canteen Stores Department (India) is a department of the Ministry of Defence, the accommodation for the remaining depots in peace areas is provided at assessed rent and not at normal rent. (Rent paid per annum is approximately Rs. 4.5 lakhs).
- (iv) In Jammu and Kashmir free transport is provided for carrying of stores ex-Rail Head
- (v) No concessions have been allowed by any of the State Governments to the Canteen Stores Department (India) as such. They have however, allowed concessions on excise duty and sales tax to the troops. The concessions allowed on these two accounts vary from State to State. These concessions are reflected in the price paid by the troops located in each State."

2.20. Asked to quantify the value of these concessions in monetary terms, the Additional Secretary in the Ministry of Defence during evidence has stated that "it is difficult to calculate the financial effect

*Not vetted in Audit.

of these concessions because 22 States are involved. These differ from State to State."

2.21. The Ministry of Defence have subsequently furnished *statements showing the estimated savings in freight charges and savings on account of tax exemption during the period of 5 years from 1971-72 to 1975-76. These statements indicate the following position:

Year	Saving in freight charges by using Military Tariff Notes	Savings on account of tax exemption	Total
(In lakhs of rupees)			
1971-72	46.56	64.77	111.38
1972-73	58.28	65.94	124.22
1973-74	48.77	92.06	140.83
1974-75	56.27	132.87	189.14
1975-76	42.84	169.83	212.67

The Ministry have also indicated that the cost of transport provided in J & K for moving the stores of the Canteen Stores Department has been Rs. 10.63 lakhs. In another statement furnished to the Committee, the Ministry have indicated the monthly assessed rents being paid for accommodation occupied by 19 depots of the Canteen Stores Department. The assessed monthly rent totals Rs. 39,966 per month. It is stated that market rent of the accommodations is not known.

2.22. According to Audit Paragraph the turnover and the profits earned by the Canteen Stores Department in the last five years are as follows:

Year	Turnover	Net Profit	Percentage of Net Profit/ Turnover
[Rs. in crores]			
1970-71	30.20	1.28	4.23
1971-72	32.97	1.41	4.27
1972-73	38.91	1.97	5.06
1973-74	42.71	2.82	6.60
1974-75	53.63	4.02	7.49

*Not vetted in Audit.

2.23. When asked about the turnover and net profits for 1975-76, the Ministry of Defence have stated that "according to compiled accounts which have not yet been audited, the figures are as follows:

(a) Turnover	Rs. 54.30 crores
(b) Allotable surplus	Rs. 2.50 crores.

In addition to the allotable surplus, Rs. 1.03 crores are to be allotted to the units as quantitative discount at 2 per cent of their annual purchases from Canteen Stores Department (India)."

2.24. The Committee desired to know the source from which the fund requirements (Working Capital and other requirements) of the Canteen Stores Department are met. In reply, the Ministry of Defence have stated:

"Out of the assets of the Canteen Stores Department which went into liquidation as a result of the partition, a sum of Rs. 48 lakhs as working capital was given to Canteen Stores Department (India) which came into existence on 1st January, 1948. Thereafter, Rs. 52 lakhs were given to the Department by the Government as loan interest in 1950. This loan amount has been fully paid back along with the interest in the year 1953-54. No financial assistance has since been provided by the Government to the Department. The funds and reserves now held by the Department have been generated by department's profitable working and they belong entirely to the Canteen Stores Department (India)."

2.25. The Reserves of the Canteen Stores Department during 1965-66 and 1974-75 are indicated as follows:

	1965-66	1974-75
	Rs.	Rs.
(a) General Reserves	2,84,08,648	21,46,891
(b) Reserves for Working Capital	9,07,42,580
(c) Contingent Reserves	10,00,000	10,00,000
(d) Insurance Funds	5,00,000	5,00,000
Total	2,99,08,548	10,03,89,411

Thus, during the past 10 years, reserves have been built upto the extent of Rs. 7,04,80, 763/-.

*Not vetted in Audit.

2.26. When asked if any criteria has been prescribed and followed for the distribution of 'surplus' funds the Ministry have stated that the Board of Control Canteen Services recommends to the Government the allotment of the distributable surplus to the various beneficiaries. The main beneficiaries from these funds are the three Services. There are, however, certain other beneficiaries connected with the Defence Services to whom the allotments are recommended by the Board of Control. The portion of profits distributed among the three Services is in accordance with the recommendations of the Chiefs of Staff Committee from time to time.

2.27. Asked about the scrutiny of the actual utilisation of the funds of the Canteen Stores Department (India) the Ministry of Defence have *stated that the funds allotted to the three services are utilised under control of the respective Chiefs of Staff. These funds are audited by the Board of Offices as provided in the Defence Services Regulations and also by the chartered Accountants. For the other beneficiaries except Canteen Stores Department (India) whose accounts are audited by the chartered Accountants as well as the Director of Audit audited annual statements of accounts were called for and scrutinised before fresh allotments are made in subsequent years.

2.28. The Committee enquired whether there was any pricing policy or guidelines for the Department in regard to pricing of various goods handled by the Department. The Ministry of Defence have stated that the following pricing policy as approved by the Executive Committee of the Board of Control in June 1974 was followed by the Department:

- (a) *General Stores*.—The basis for working out the whole sale price is by adding 5 per cent gross profit "into warehouse cost" which includes the inward freight, transportation charges, insurance and other incidentals.
- (b) The retail price is worked out by adding 5 per cent to the wholesale price.
- (c) The retail prices are kept lower than the retail price in the civil market in Bombay. The average difference of price of general stores as far as possible is maintained at a minimum of 5 per cent. The principle that the profit margin for items which are of daily use by the troops, is to be kept low as compared to other items like electrical gadgets, pressure cookers and such other items where a margin of profit may be enhanced, is followed.

*Not vetted in Audit.

(d) *Liquor*—Pricing Policy on liquor is as follows:

- (i) Wholesale price is worked out by adding 9 percent to 11 percent into warehouse cost.
- (ii) Retail price—wholesale price plus 9 percent to 12 percent, depending on product.

2.29. The Audit paragraph points out that although the trading results of the Canteen Stores Department together with a financial review thereon are published in the Commercial Appendix to the Appropriation Accounts of the Defence Services every year, the receipts and expenditure of the Department continue to be kept outside the Consolidated Fund of India in contravention of Article 266 of the Constitution of India. This matter has been the subject of comment in the Audit Reports and recommendations have been made by the Public Accounts Committee on a number of occasions [cf. 14th Report (1LS), Para 40; 6th Report (2LS), Para 74; 17th Report (2LS), Para 83; 40th Report (3LS), Para 10 and 52nd Report (3LS), Paras 2.51 and 2.52].

2.30. In response to the recommendations of the Public Account Committee (52nd Report—1965-66), Ministry of Defence had intimated in July 1970, that it had been decided that the accounts of the Canteen Stores Department (I) would be merged into the Consolidated Fund of India and that the details for the implementation of the decision were being worked out. However, the decision still remained to be implemented and in February 1976 the Ministry of Defence informed Audit that the matter was "still under consideration."

2.31. The Committee desired to know the insuperable difficulties in the way of implementation of this decision. The Defence Secretary during evidence has stated:

"I have got before me a chronological summary which indicates that the matter was constantly being given thought to. But I do concede that there has been a long time in working out these details. There were consultations among Canteen Stores Department (India), the Services, the Finance Ministry and all others concerned including the C&AG Office. They were all involved these six years and only recently they have, more or less, agreed on paper which can go upto the Cabinet to give effect to the decision which was communicated to the Public Accounts Committee."

2.32. In a subsequent note the Ministry of Defence stated that the delay was due to the following reasons:

- (a) Apprehension was expressed by Canteen Stores Department (I) as regards the feasibility of projecting its commercial character within the Government system of accounting on merger of accounts into the Consolidated Fund of India.
- (b) Time taken in assessing the relative advantages and disadvantages of the accounts of CSD (1) being borne on Civil Estimates or Defence Services Estimates.
- (c) Doubts as regards the feasibility of providing for the utilisation of trading surpluses of CSD (1) for troops welfare, within the Government budgetary system in the event of merger in the Consolidated Fund.
- (d) The practicability of the retention the present features that ensure considerable flexibility in the existing administrative set up of CSD (1).

The note further states:

"The above factors which had occasioned delay in implementing the decision communicated to the Public Accounts Committee in 1970" could be somewhat satisfactorily tackled only in September 1975. The Budget Division of the Ministry of Finance gave us in outline a scheme of merger of the CSD (I) accounts into the Consolidated Fund which provided for, among other things, its present administrative set up an easier operation of bank account on the pattern existing in regard to Military Farms, compilation of proforma commercial account on the pattern of Military Farms, etc. etc. This note of the Finance Ministry was further considered at a special meeting of Executive Committee of the Board of Control held on 31-5-1976 at which a decision was taken that a Paper should be submitted to the Cabinet seeking its approval of the merger of the CSD (I) accounts into the Consolidated Fund of India. Accordingly, a Paper to the Cabinet

*In response to the recommendation made by the Public Accounts Committee in their Action Taken Report (52nd-third Lok Lok Sabha) on their 40th Report (Third Lok Sabha), Government had communicated to the Committee this decision of the Government on 22-7-1970.

was submitted on 26-8-1976 and the Cabinet gave their decision on 7-9-1976. All consequential action to merge the accounts of the CSD (I) into the Consolidated Fund of India with effect from 1-4-1977 is in hand and the merger will be effected on 1-4-1977."

B. Purchase of rum

2.33. According to Audit Paragraph procurement of rum for free sale to troops in the forward areas is the responsibility of the Chief Director of Purchase (Ministry of Agriculture) whereas bottled rum for sale to entitled defence personnel is procured by the Canteen Stores Department (I).

2.34. The Committee asked as to why rum was not procured through a single agency. In reply, the Additional Secretary in the Ministry of Defence stated during evidence:

"The Chief Director of Purchase is purchasing on behalf of government things to be issued to the troops free of cost in certain areas, while the Canteen Stores Department (I) is purely a Commercial Organisation which purchases not only rum but also tinned milk, condensed milk, tinned fish etc. for sale to the troops according to the popularity of the brand with the troops."

2.35. When the Committee pointed out that a single agency would be better for the purpose of procuring goods, the Defence Secretary, during evidence, has stated:

"The point which you have made also had suggested itself to us. We are considering it. While the CDP and the Ministry of Food may know more about atta, daal etc., they do not specialise in rums, which only we purchase for troops. But there is some merit in your point; it is under consideration."

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

"The matter is still under consideration. This requires change in Rules of Business approved by the Cabinet. However, CSD (I) have been asked to procure milk powder and milk tinned as well as rum of ASC specifications on experimental basis for the Armed Forces for free issue for one year."

2.37. Asked if there were any other major items which were procured both by the Chief Director of Purchase and the Canteen

Stores Department for supply to Defence personnel, the Ministry have stated:

"There are no other major items which are procured by the Chief Director of Purchase as well as Canteen Stores Department (India). However, there are some items like Fruit Tinned, Cheese, Tinned Milk, Milk Powder, Fish Tinned, Tea, Cigarettes and Oil Hydrogenated which are procured by both the agencies."

2.38. The Committee asked whether the Ministry has ever made any review of the rates of various items procured by the two agencies from time to time. In reply the Ministry of Defence have stated:

"Common items that are procured by the CDP as well as CSD(I) are few. The CDP procures such items irrespective of the brands and also according to definite specifications laid down. CSD(I) due to the brand consciousness of the clientele have to procure branded goods that are fit for consumption and popular in the market and with the troops. Therefore, due to variation in specifications any comparison of prices will not be correct."

2.39. The Committee desired to know the procedure followed by the Canteen Stores Department (India) for the bulk procurement of supplies. The procurement procedure, as described by the Ministry of Defence, is as follows:

1. **General.**—Canteen Stores Department (India) generally procures only such items which are popular with the troops and have proven popularity in the civil market. Most of the items procured by Canteen Stores Department (India) are proprietary brands for example Colgate Tooth Paste, Kissan Food Products, Hercules Rum and so on. Other less popular brands are also procured in lesser quantities.
2. **Assessment of the requirements.**—The units place indents on the Canteen Stores Department (India) Depots on which they are dependent. The Depots consolidate the indents from various units and forward their demand to the Head Office where the demands for particular items from all the Depots are consolidated and the total requirements for a particular period ordered on the suppliers.

3. *Determination of sources of supplies and enlistment of suppliers.*—Most of the items handled by Canteen Stores Department (India) are proprietary items with only one source of supply, viz., the manufacturers. Generally the demands go by brand only.
4. *Verification of capacity and resources for performance.*—Most of the goods procured are branded goods popular in the civil market. Therefore, the manufacturers in such cases are generally firms of repute. Wherever needed, their capacity and resources are also verified.
5. *Vender rating on the basis of past performance.*—A record of performance of every supplier who has dealt with the Canteen Stores Department (India) is maintained.
6. *Provision of earnest money|security deposit at the time of tender|compact.*—Contracts are entered into only for rum. No earnest money is asked for when the tender enquiries are made. But at the time of signing the contract the security is deposited by the suppliers with the Department.
7. *Modus-operandi for tender acceptance or negotiations of contracts.*—Quotations received against tender enquiries are first examined by the Board of Administration, **Canteen Stores Department** (India). Thereafter, authorised representatives of the suppliers are invited for negotiations with the Board of Administration. The recommendations of the Board of Administration along with the quotations are then forwarded to the Executive Committee of the Board of Control who finally approve the rates and quantities. Thereafter the contracts are signed.
8. *Risk purchase in the event of default and recovery of extra cost.*

There is a risk purchase clause in the contract for rum.

2.40. The Audit paragraph points out that in accordance with the direction of the Board of Control, Canteen Services (March, 1970) the Canteen Stores Department was advised by Army Headquarters in November, 1973 of 30 preferred brands of rum "to conform as far as possible to the pattern of demand by the troops". At about the same time, the Defence Secretary advised that the brands procured by the Chief Director of Purchase should also be considered by the Canteen Stores Department and accordingly a list of 14 brands (including 7 covered in the earlier list) was con-

veyed to the Canteen Stores Department. Tenders were issued in December, 1973 by the Canteen Stores Department to 19 firms (17 firms selected from the list forwarded by the Army Headquarters and 2 other firms).

2.41. The Committee desired to know the basis on which the Canteen Stores Department (I) selected only 17 out of 30 brands recommended by Army Headquarters and 7 by the Chief Director of Purchase. The Ministry of Defence, in a written* note, stated:

“Selection of distilleries for issue of enquiries is done by the Board of Administration keeping in view the following factors:

- (a) Preference in the popularity poll.
- (b) Capacity to meet commitments.
- (c) Past performance.
- (d) Complaints about the quality of the rum procured in previous years.
- (e) Location of the distillery.”

The note further added:—

“Army Headquarters had not made any recommendations in regard to the number of brands to be purchased but only forwarded a list of 30 brands in the order of preference as ascertain in the popularity poll. A separate list showing the percentage of preferences of the various brands had also been forwarded. In addition, the list of brands purchased by Chief Director of Purchase was also forwarded to Canteen Stores Department (India) which contained 7 new brands. It will be of interest to note that the preference rating of the first 7 brands as per popularity poll varied between 54.78 per cent to 1.30 per cent. These 7 brands accounted for 88.86 per cent of the demand. The popularity of the remaining 23 brands varied between .08 per cent to 1.15 per cent representing a total of 11.14 per cent of the entire demand. It will, therefore, be seen that after providing for the more popular brands, it was not of much consequence as to which other brands are selected. Dealing with a large number of distilleries would have also increased overheads and administrative work without much improvement in service. In selecting the distilleries, the Board

*Not vetted in Audit.

of Administration always take into consideration the fact that no particular distillery had a monopolistic control in the supply of rum. Consideration is also given to enlist new entrants in the field more in a trial basis, particularly if the location suited the area where the troops are located. Out of 19 distilleries to whom enquiries were issued, only 16 came for negotiations."

2.42. Clarifying the position further, the Secretary, Ministry of Defence during evidence has stated:

"When they make trade enquiries, the people not only offer the quantities which they are capable of supplying but also the prices. Then those prices are negotiated by the Canteen Stores Department (I) to see that the prices are reasonable. Of course, the Canteen Stores Department (I) has to take various factors into account while taking a final decision. There may be a limit upto which you could knock down the price but you have also to keep an eye on the fact that a certain popular brand is in demand."

2.43. The Committee desired to know the total estimated requirements of various brands of rum and enquired whether these were indicated in the tender issued in December 1973 to 19 firms. The Ministry of Defence in a written note have stated that "for the two years i.e. 1974-76, the estimated requirement was 24.37 lakh dozen bottles including 25 per cent for which there was a provision in the contract, enabling the Department to procure over and above the quantity contracted for. The estimated requirements were indicated to the 19 distilleries who were asked to state how much quantity they could supply and at what rates. The deliveries were to be effected on 'as-required' basis."

2.44. When asked whether the requirements had been specifically mentioned in the tender enquiry the Ministry have clarified:

"The estimated requirements had been specifically mentioned in the tender enquiry."

2.45. According to Audit Paragraph, after receipt of 19 tenders for an offered quantity of 64.63 lakh dozen bottles with rates varying from Rs. 23.22 to Rs. 49/- per dozen bottles, negotiations were conducted in January 1974 with 16 firms which had responded. The quoted rates were as a result reduced by Rs. 0.50 to Rs 6/- per dozen bottles (1.7—18.7 per cent) resulting in an overall reduction of Rs. 47.37 lakh (5.62 per cent) on the stipulated quantity of 24.37 lakh

dozen bottles including a margin of 25 per cent. Contracts were concluded with 13 out of 16 firms during March-April, 1974. The deliveries were, according to the Ministry, due to commence after 1 April 1974 immediately on receipt of excise permits from the depots.

2.46. Asked as to how contracts were entered into with 13 out of 16 firms and whether any action was taken against the remaining 3 firms who did not sign the contract, the Ministry of Defence have in a note stated:

“Although contracts were signed and forwarded to 16 distilleries for their signature, thirteen distilleries only returned the contract duly signed. No action was taken against the 3 firms as they had not signed the contracts as negotiated.”

2.47. In reply to another question the Ministry have*intimated that the quantity covered by the three distilleries was 100,000 dozen bottles which remained unsupplied.

2.48. During evidence the Committee enquired as to why these firms did not sign the contract. The General Manager, Canteen Stores Department (I) has stated that “all these firms had asked for increase in prices.”

2.49. Audit paragraph states that before the commencement of supplies most of the firms sought an increase in prices ranging from Rs. 5.50 to Rs. 9.50 per dozen bottles on various grounds. In this context, the Committee desired to know the basis for price reduction agreed to in each case and asked whether negotiations were completed within the validity period of the existing contracts in each case. The Ministry of Defence have in a written note intimated that the basis for price reduction was to obtain the most advantageous prices and the negotiations were completed within the validity period.

The Ministry have further stated that it was decided to re-negotiate the prices with the firms for the following reasons:

- (a) There was general increase in prices of all commodities including the materials at that particular period and
- (b) As none of the firms supplied any rum there was a general shortage of rum in all Unit-Canteens and this led to acute discontent among the troops who were clamouring for supply of rum of brands which they liked.

*Not vetted in Audit.

2.50. When asked as to why the risk-purchase clause of the contract concluded with the firms was not invoked, the Ministry of Defence have, in a written note, stated:

"The possibility of invoking the 'risk purchase' clause in the case of these Distilleries who had signed the contracts was examined. It was considered that since there had been an abnormal rise in price of all the articles it was not advisable to invoke this clause, otherwise it would involve the Department into legal proceedings with all the suppliers. This would also have meant penalisation of only those suppliers who, in order to maintain good relations with the Department, had signed the contracts though at the same time had asked for rise in price as opposed to those who had refused to sign the contracts at the rates as agreed to earlier. Such action would not only have meant denial of rum to the troops but also loss of business to Canteen Stores Department (India). All the popular suppliers of rum were involved. Only unpopular brands could have been procured which the troops may not have liked and the Department would have found difficult to sell later on. This would have also caused dissatisfaction amongst the troops.

The Canteen Stores Department (India) has to sell the items required by the troops. They have, therefore, to keep in view the preference of troops. It is not possible to force the troops to pay for the items they do not like. Being a Department of commercial nature, it has to react to the market trends. When there was a general upsurge of prices in the country, this Department also had either to accept this fact and procure the items preferred by the troops at increased prices or to get into legal complications with the suppliers and thus deny the items to the troops as well as adversely affect its own business. The dealings of the Department, therefore, are not comparable in any way to the normal contracts entered into by the Government.

In this regard it is worthwhile noting that substantial quantity of rum produced in the country is purchased by the Canteen Stores Department and its procurement under the risk purchase clause would have presented the following difficulties:

- (a) Procurement of any brand of rum by CSD (I) is subject to satisfactory analytical test carried out in the Army

Food Laboratories according to ISI Standards as well as the hygienic inspection of the distilleries having been carried out by the Army Medical authorities. Any purchase of rum from outside would not have ensured fulfilment of these essential conditions in time and thus would have posed a health hazard to the troops.

- (b) Denial of rum to the troops would have forced the troops to buy either the same brands at a higher price from the market or buy country liquor which would **have been a health hazard** and would have created problems of discipline and morale. This is particularly so as the festival season was approaching followed by the cold weather."

2.51. During evidence the Committee asked the representative of the Ministry as to what was the use of incorporating the risk purchase clause in the contract, if its enforcement was not desired. In reply the witness has stated:

"It would have been different if one of the suppliers or two had failed, but here was a situation when 13 and later on all the 16 parties failed. You could not go into legal wrangle with the whole lot of these people simultaneously. The net result still would have been that at least for 6-8 months the troops would have gone without rum."

2.52. When asked if any legal advice was obtained, the Ministry of Defence, in a written note, have stated:

"Legal advice would have been necessary in case one or two suppliers had failed. When all the suppliers had asked for increase in price and it was a well known fact that there was general escalation in prices, it would not have been practical for a commercial organisation to get into legal proceedings with all the suppliers and thus not only deny the goods to the clientele who would have bought these from the market at higher prices but also loss of business. If legal proceedings were taken against all the suppliers, there would have been an inordinate delay in the supply of rum to the troops who were already discontented as mentioned above. Therefore, a practical view was taken and re-negotiations allowed"

2.53. During evidence, the representative of the Ministry of Law was asked to offer his opinion regarding the enforceability of the risk purchase clause. He has replied:

“It all depends on the stores to be purchased. If such stores are not available in the market, there is not much in the risk purchase clause. If the stores are available in the market from other persons, then the risk purchase clause is enforceable.... The whole difficulty is that there are certain commodities which are, more or less, in the nature of monopolies. Whatever clause we may write in the contract, that cannot be effectively enforced.....the Ministry of Defence have given a cogent reason, why the risk purchase clause could not be enforced, and that is why they had to take the decision they took. Of course, the contract provides for risk purchase clause, but unless this course was available, it could not be resorted to or enforced.”

2.54. Asked if the price increase was considered justified, the witness has replied:

“I think it was reasonably genuine, because there was increase in price in some of their basic commodities like furnace oil which made the price of bottle more expensive, P.P. caps, packing material etc.”

The witness, however, agreed that the price demanded was in violation of the contract.

2.55. The Committee enquired whether any steps were taken to verify the extent of escalation between the dates of contracts (March-April, 1974) and the requests for increase in prices. The Ministry have replied:

“Yes. The escalation in the price was agreed to after the supplier produced authentic proof of rise in costs such as documents certified by their Chartered Accountants or original bills to the satisfaction of the Board of Administration.”

2.56. The Committee drew the attention of the Ministry to the observations made in the Audit paragraph that 16 firms with whom negotiations were conducted included firm ‘A’ (M/s. Udaipur Distillery Ltd., Udaipur) which had a backlog of 1.4 lakh dozen bottles against an earlier contract for 1972—74. In this context, the Committee desired to know as to why this firm ‘A’ was not ex-

cluded from negotiated contract initially in March, 1974. The Ministry of Defence clarified the position as follows.

“The rum purchased from firm ‘A’ (M/s. Udaipur Distillery) was second in popularity poll. The distillery is the oldest supplier to the Department. The Managing Director had assured the Board of Administration that he hopes to clear the backlog.”

2.57. In a subsequent communication to the Committee, the Ministry of Defence have further clarified the position as follows:

“...originally the contracts for the supply of rum to Canteen Stores Department were concluded with the various distilleries (including Udaipur Distillery) in March, 1974. But none of the distilleries supplied rum to the CSD under the aforesaid contracts. Before commencing any supply of rum, the distilleries sought increase in the rates already contracted for in March, 1974 as the price of raw material had increased. Consequently re-negotiations were held by the Board of Administration in June, 1974 with the distilleries concerned. The previous contracts had thus automatically become ineffective.”

M/s. Udaipur Distillery had also asked for increase in the rates for the supply of rum. By then, the Board of Administration, having assessed the difficulty of this particular distillery for the procurement of raw material (Mollasses etc.) and thus their inability to produce rum, did not consider the request of the said distillery. No contract was, therefore, finalised with the distillery.”

2.58. The coverage of supplies was reduced in June 1974 from 24.37 to 11.06 lakh dozen bottles (to correspond to one year's requirements i.e. upto June 1975), 10 per cent of the suppliers being effected at the original contract rates and the balance of 90 per cent at rates increased by 17-26.6 per cent. The Committee enquired about the considerations on which coverage (quantity) was reduced. The Ministry of Defence, in a written *note, have stated:

“Originally the coverage of supplies was worked out for two years i.e. from April 1974 to March 1976. When the rates were re-negotiated in June 1974, 10 per cent of the supplies were effected at the original contracted rate and the balance quantity i.e. 11.06 lakh dozen bottles worked out as anticipated requirement for one year i.e. upto June 1975. As there was rising trend in prices, an undertaking was taken from the suppliers at the time of

*Not vetted in Audit.

negotiations in June 1974 that they would not ask for rise in prices for one year i.e. till June 1975. It is for this reason that original requirement for two years i.e. till March 1976 was split upto June 1975 (11.06 lakh dozen bottles)."

2.59. The new rates resulted in an additional cost (on reduced supplies) of Rs. 59.73 lakhs (17 per cent) as compared with original contract.

The Audit paragraph points out that an increase of Rs. 6.10 per dozen bottles (24.6 per cent) was allowed (without an obligation of ten per cent supplies at the original rates) to firm 'C' (M/s. Central Distillery and Chemical Works Meerut that had not executed any contract after the original negotiations in January 1974. The Committee enquired as to why this firm was dealt with differently particularly in the light of the fact that it had not even executed a contract originally. The Additional Secretary in the Ministry of Defence during evidence has stated:

"It is one of the biggest distilleries with a large capacity and the rum which they supplied is one of the cheapest brand which we could not disregard."

2.60. The Ministry of Defence in a subsequent *note have stated:

"In view of the fact that the distillery had not originally signed the contract and thereby not committed a breach of faith, unlike other distilleries which had signed the contract, the Board of Administration decided not to insist on the supply of 10 per cent supplies at the original rates."

2.61. Audit has cited another case (firm 'D' M/s Nandi Breweries and Distilleries (P) Ltd. Bangalore) where an increase of Rs. 5.50 per dozen bottles (22 per cent) was allowed although its samples had not been tested approved (August 74). In regard to this case, a representative of the Ministry of Defence during evidence has stated that no orders were placed with this firm. According to him "no contract was signed (as) the samples did not pass the test".

2.62. According to Audit paragraph, 2.17 lakh dozen bottles of 'ad hoc' brands of rum (outside the recommended lists) were procured during October 1974—March 1975 at cost of Rs. 77.02 lakhs

*Not vetted in Audit.

at rates (according to the Canteen Stores Department) admittedly 'higher than the normal prices' due to shortfall in supplies attributed to firms A & D (M/s. Udaipur Distillery Ltd., Udaipur and M/s. Nandi Breweries and Distilleries (P) Ltd., Bangalore). The Committee desired to know the justification for purchasing *ad hoc* brand at a total cost of Rs. 77.02 lakhs. A representative of the Ministry of Defence during evidence has stated as follows:

"These words 'higher than the normal prices' were really taken from some minutes of the meeting recorded when we were negotiating with one of the suppliers. We had used those words in the Minutes recorded merely to force the supplier to reduce his rates. These words appearing in a particular sentence of those Minutes have been quoted out of context in this particular Audit paragraph. In fact, the cost of *ad hoc* purchases were much cheaper than the cost of the brand which would have been supplied in the normal course. We would have had to pay more because the distillery which defaulted was a supplier of the higher priced rum."

2.63. While on the one hand orders for 2.17 lakh dozen bottles of 'ad hoc' brand of rum had been placed, it was found that in the meantime, firm 'B' M/s Kodhay Ind. Ltd., Bangalore) (which had a sizeable order) made up the short supplies and 2.64 lakh dozen bottles were, as a result held in stock at the end of March 1975.

2.64. The Committee learnt that in accordance with the decision of the Executive Committee of the Board of Control, Canteen Services, the Canteen Stores Department (India) was allowed to hold the inventory upto 90 days sufficiency i.e. considering off-take, the stocks held should have been over 3 lakh dozen bottles. Asked as to why purchase of *ad hoc* brands was not stopped in November/December 1974 when supplies from firm 'B' (M/s Kodhay Ind. Ltd., Bangalore) had picked up and that a quantity of 2.64 lakh dozen bottles was stated to be held in stock by the Canteen Stores Department (I) on 31 March 1975, the Ministry of Defence, in a note, stated that the quantity contracted for the period July 1974 to end June 1975 was 9.75 lakh dozen bottles. This quantity plus the optional quantity of 25 per cent as per the contract gave a maximum availability of 12.19 lakhs dozens bottles only. However, out of this, the quantity allotted to 'A' Distillery (M/s. Udaipur Distillery Ltd., Udaipur) and 'D' Distillery (M/s. Nandi Breweries and Distilleries (P) Ltd., Bangalore) (112 lakh dozens) was not forthcoming, thereby reducing the net availability to 11.07 lakh dozen bottles. Against this the actual

sales effected during the period July 1974 to end June 1975 were 13,16,084 dozen bottles.

2.65. The Ministry have further stated that it normally takes 30—45 days for supplies to commence after a new contract becomes effective. There was, therefore, need to cover the requirements of this intervening period also. The stock of 2.64 lakh dozens as on 31 March, 1975 plus balance stocks due against current contract gave an availability of 4.80 lakh dozens only, whereas the total requirement before supplies commenced arriving against next contract worked out to 5.60 lakh dozens. The Ministry adder:

“It was, therefore, obvious that procurement against *ad hoc* brands had also to necessarily continue to maintain supplies.”

2.66. To meet the requirements for the period July 1975—March 1976 rates were negotiated again with 13 firms; *one firm* was left out as its performance had not been satisfactory. The Committee desired to know the considerations on which it was decided not to invite fresh tenders for the requirements of July 1975—March, 1976. In reply the Ministry of Defence stated: “Since the Board of Administration had originally negotiated contracts for a two year period (1974—76) and since after negotiations, only half the quantity of the original figure was contracted for the Board of Administration felt that it would be advisable to persuade the distilleries to continue supplies at the existing rates till they complete the full contracted quantity for the period ending March 1976 and also additional requirements if any”.

2.67. Asked as to what was the basis for recommending further increase in rates in respect of three firms (for the requirements of July 1975-March 1976) by the Canteen Stores Department, the Ministry have in a note stated that the basis for recommending further increase in rates was that the Board of Administration felt that the existing rates were low.

2.68. The Committee posed the question that taken as a whole the cost of procurement of 21.04 lakh dozen bottles of rum to cover the requirements of the period April 1974—March 1976 amounted to Rs. 8.25 crores as against Rs. 6.98 crores that would have been paid in terms of rates settled/contracts executed in March-April, 1974 the representative stated that this was based on theoretical consideration of the rates being as they were originally quoted.

2.69. The Committee desired to know the measures taken or proposed to be taken by Government to ensure that liquor meant for Defence Personnel is not sold by the entitled persons either in the

market or to non-entitled persons and that the privileges allowed to Defence Personnel in this regard are not abused. In reply, the Ministry of Defence have in a written note stated:

“It is the duty of the Unit Commanders to ensure that the rum procured by the troops from their canteens is not sold to unauthorised persons. In fact, the practice followed in the units is that rum issue days are fixed by the unit Commander which are normally twice a week. The troops are not sold rum in bottles. The Unit Commander lays down the quantity of rum to be sold to each individual on these days. The duty JCO is detailed to supervise the sale. Normally the rum sold is two large pegs only. However, when the troops proceed on leave, one or two bottles as permitted by the State Excise Laws is allowed to be purchased by the troops. Only the officers and JCOs are allowed to buy rum in bottles. Disciplinary action is taken against any defaulter.”

2.70. The Committee note that Government have finally decided to merge the accounts of the Canteen Stores Department (1) with the Consolidated Fund of India w.e.f. 1 April, 1977. They would, however, like to place on record their displeasure at the long time, well-nigh seven years, taken in setting the modalities of merger.

2.71. The Committee find that at present two agencies of the Government are procuring stores for the troops—the Chief Director of Purchase in the Ministry of Agriculture as also the Canteen Stores Department of the Ministry of Defence. They feel that it would be economically advantageous to entrust procurement of stores for the troops to a single agency. They understand that the question of purchase of stores for the troops on a centralised basis by a single agency is under the consideration of Government. They would like that decision in the matter should be taken without avoidable delay.

2.72. The Committee find it strange that although contracts for the supply of rum at prices negotiated previously were concluded with 13 firms during March-April 1974 for supplies to commence almost immediately, all the 13 firms sought increase in prices ranging from Rs. 5.50 to Rs. 9.50 per dozen bottles on grounds of escalation of cost of production. This was done even before the commencement of supplies. Stranger still is the fact that so soon after concluding the contracts on the basis of negotiated prices. Government found the demand for price rise “reasonably genuine”. It is hard to believe that the rise in prices of fuel, packing material etc.

was so sudden that it could not be visualised during negotiations preceding the conclusion of the contracts. The Committee are unable to appreciate the plea advanced by Government for not invoking the Risk Purchase Clause in the contracts with the firms on the ground that the default was not isolated and all the 13 firms were involved and that litigation would have resulted in supplies being delayed resulting in loss of business. The lack of ordinary prudence on the part of the Department is indicated by the fact that at the time of renegotiating the prices in June 1974, the requirement was cut down from 2 years supplies to 1 year's supply on the ground that 'there was rising trend in prices.' Instead of calling for fresh tenders for supplies during 1975-76 the prices were renegotiated again in 1975 resulting in their further escalation. The Committee have a feeling that the firms having monopoly position in respect of their own brands of rum had deliberately created such a situation where Department found it difficult to extricate themselves from the deal. Department, being the largest single buyer of rum, should have been able to influence the price rather than be guided by prices preferred by the firms themselves. The Committee would like Government to have a fresh look into the circumstances leading to the refusal of the firms to supply rum at the contracted prices, non-invocation of the Risk Purchase Clause in the contracts against the firms and subsequent negotiations as a result of which higher prices were allowed to these firms. This is evident from the fact that as against the purchase price of Rs. 6.98, crores contracted for for the procurement of 21.04 lakh dozen bottles of rum a sum of Rs. 8.25 crores had to be paid.

2.73. The Committee would also like Government to examine whether it is feasible to purchase rum of a few different standards, specifications and qualities in bulk and to have them bottled with an exclusive name for sale to troops through the Canteen Stores Department.

2.74. The Committee find that one of the 16 firms with which the Department entered into negotiations in March 1974 for supplies during 1974-75, was a firm (M/s. Udaipur Distillery Ltd., Udaipur) which had a backlog of 1.4 lakh dozen of bottles against an earlier contract. The Committee are unable to appreciate the plea advanced by the Ministry that the brand of rum supplied by this firm was "second in popularity poll", that it was the "oldest supplier to the Department" and that the Managing Director had assured the Board of Administration that "he hopes to clear the backlog." The Committee feel that the non-fulfilment of the existing contracted supplies by this firm was quite sizeable and before the firm was given any fresh orders for supplies, the Department should have

waited for the supplies under the existing contract to be fully effected by this firm.

2.75. The Committee also note that preferential treatment was accorded to a firm 'C' (M/s. Central Distillery and Chemical Works, Meerut) which had not executed any contract after the original negotiation in January 1974, by entrusting fresh supplies, to it at an increased price of Rs. 6.10 per dozen bottles (which works out to 24.6 per cent over the price previously contracted for) without an obligation of 10 per cent of the supplies being at the original rates as was done in the case of other firms. The Committee are not convinced of the reasons advanced during evidence for this preferential treatment to the firm that it was "one of the biggest distilleries with a large capacity" and the rum which they supplied was "one of the cheapest brand which we could not disregard" nor do they appreciate the reason subsequently advanced in writing that the preferential treatment was on account of the firm being a shade better in its business conduct inasmuch as having not signed the contract it had not Committed a breach of faith, whereas other firms had signed the contract and subsequently resiled from it. The Committee would like Government to emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicions of favouritism and abuse of authority which the instances referred to above tend to reflect.

NEW DELHI;
December 9, 1977
Agrahayna 18, 1899 (Saka)

C. M. STEPHEN,
Chairman,
Public Account Committee.

APPENDIX

APPENDIX

Statement of conclusions/Recommendations

Sl. No	ParaNo. of the Report	Ministry/Department Concerned	Conclusion/Recommendation
1	2	3	4
	1.67	Ministry of Defence	<p>This relates to a case where out of a total quantity of 10,559 tonnes of groundnut oil costing Rs. 11.37 crores actually purchased by the Army, 627 tonnes (or 5.94 per cent) valued at Rs. 76.31 lakhs were lost. Of this, 317 tonnes (or nearly 50 per cent) valued at Rs. 38.56 lakhs were lost during inter-depot transfers and 43 tonnes (or 7 per cent) valued at Rs. 5.25 lakhs were lost in storage. 267 tonnes (or 43 per cent) valued at Rs. 32.50 lakhs were lost during transit by rail between the points of loading and destination.</p>
2	8	Do.	<p>From the facts placed before the Committee in writing as well as during evidence, the following shortcomings and lacunae have been observed:</p> <p>(i) No ASC specification existed for refined groundnut oil inasmuch as this was not an item of regular purchase.</p>

Therefore, the ASC specification for the supply of hydrogenated oil in 18 litre capacity square ISI marked tins was adopted for the supply of refined groundnut oil. No effort seems to have been made to lay down a proper specification for the supply of groundnut oil in tins.

- (ii) In the absence of a suitable specification for the supply of groundnut oil, the quantity packed in 18-litre tins was the same as in the case of hydrogenated oil, i.e., 16.5 kg. It is yet to be verified whether the packing of 16.5 kg. of groundnut oil, which has relatively low viscosity, in 18-litre capacity tins was desirable.
- (iii) Instructions were issued in May 1974 (reiterated in August 1974) to all Command Headquarters and all Officers Commanding Composite Food Laboratories regarding handling, transportation and despatch of groundnut oil from the suppliers' factories to the depots with special emphasis on the soundness of containers, adequacy of dunnage and avoidance of transshipment as far as possible. Despite these instructions heavy losses occurred not only during transit by rail between the points of loading and destination but also during inter-depot transfers. This shows that the instructions were not strictly followed by those responsible for the handling of groundnut oil.

(iv) It is held that the Boards of Officers at the destination stations were not expected to inspect the quality of tins in which the oil was packed. The observations of the Courts of Enquiries|Boards of Officers that 'lids of tins were not soldered properly with the result that the lids were blown open, poor soldering of the containers resulting in leakage through seams and joints, a number of tins were dented and broken, used tins were again used', are clear indications of the fact that all was not well with the tin containers. The findings of the Courts of Enquiries|Boards of Officers have, however, been brushed aside on the ground that the officers constituting these boards were not experts and competent enough to assess the quality of tins.

(v) The suggestion of the Army Headquarters for substituting 18-litre tins by the trade pattern 4-kg. tins was not given adequate consideration. The other suggestion of supplies being affected at the consignee's end by the suppliers themselves, i.e., F.O.R. destination also did not receive the attention that it deserved.

(vi) The suppliers were to provide adequate dunnage (straw, hay, old gunny bags etc.) for packing the tins to be loaded in railway wagons. The supplies were to be packed according to ASC specification No. 139 which provides

the use of rice stalk which normally used for cushioning purposes. However, instead of rice stalk, groundnut husk was used. The substitute use of dunnage proved inadequate as during movement of wagons the husk moved down on the floor leaving the tins unprotected against the possibility of damage through transport hazards such as shaking and jolting.

(vii) ASC specification No. 139 also provided for cased supplies in which case the tins were to be packed in strong wooden cases conforming to standard specifications. The supplies ordered for in May—July, 1974 were, however, not required to be in cases. Only after huge losses came to be noticed that further supplies ordered for in September 1974 were required to be in a case packing (shooks with two tins). In cased supplies transit losses were substantially less. Why were the supplies not required to be made in cases in the very first instance is a question that needs to be enquired into.

(viii) The supervision of the Army Authorities over the consignment came to an end when the oil tins were loaded in wagons. It was stated during evidence that care during transit was the responsibility of the Railways and that "according to Railway regulations the Military Officers

were not allowed to do this." The representative of the Railways, however, maintained that "if the Military authorities had thought that this consignment needed special supervision and if they had approached us (Railways) for permission, such permission would have been given." Such permission was not asked for and, therefore, during rail transit the oil remained in the care of Railways. The responsibility for loss during rail transit is sought to be pinned on the Ministry of Railways. Why Military supervision was not insisted upon and provided with the permission of Railways when losses were noticed for the first time requires to be enquired into.

- (ix) Upto January 1977, the Ministry of Defence have preferred upon the Railways claims of the value of Rs. 35.20 lakhs on this account, out of which Railways have accepted claims of the value of Rs. 2.74 lakhs only.
- (x) Defence Secretary had stated during evidence that "the overall loss including transshipment is of the order of 2.32 per cent. It is not as if something very extra-ordinary happened in the case of Army groundnut oil alone. It seems to be the experience of the trade generally also." However, the Committee observe that according to the data furnished by the Ministry of Defence, the general pattern of trade losses experienced by the Delhi State oil Millers Association is $\frac{1}{2}$ per cent (on account of leakage) when

groundnut oil is loaded in tins with care and proper packing is done with material like wood and bamboos etc. In cases where wagons are not loaded under the personal supervision of management and are subjected to loose shunting and transshipment in between the leakage percentage ranges between 2 to 5. The losses in the current transaction were, however, much excessive, being of the order of 5.94 per cent.

(xi) Although the transaction relates to the period of September 1974, the losses have not so far been fully regularised.

3

1.69

Ministry of Defence

The Committee are informed that in pursuance of the findings of the Courts of Enquiries/Boards of Officers convened at various depots to enquire into these losses, "action against the defaulting individuals has already been taken or will be taken." As regards the remedial measures taken to prevent the recurrence of losses during inter-depot transfers and in storage, it has been stated that "refined groundnut oil is not a normal item of supply to the troops" and that "should, however, the necessity to procure refined groundnut arise in future, a suitable container as approved by SI/DFRL will be used....".

4

1.70

Do. The Committee are not satisfied with the investigations made into the circumstances leading to heavy transit and storage losses of re-

fined groundnut oil. They would like Government to set up a high-level body including *inter alia* the representatives of the Railways and ISI to enquire into the reasons for not taking adequate precautions against possible losses during transit and storage of this commodity *ab initio* and for not taking adequate remedial measures as soon as the losses under existing arrangements came to light for the first time and fix responsibility therefor. The Body should also be directed to make suggestions for the handling of this type of commodity for future guidance.

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|---|------|-----|---|
| 5 | 1.71 | Do. | The Committee learn that as against the claim of Rs. 35.20 lakhs preferred on the Railways by the Army Authorities, the Railways had, according to the information furnished to the Committee in January 1977, accepted claims of the value of Rs. 2.74 lakhs only. The Committee would like to know the latest position in regard to the acceptance of claims by the Ministry of Railways. |
| 6 | 2.70 | Do. | The Committee note that Government have finally decided to merge the accounts of the Canteen Stores Department (I) with the Consolidated Fund of India w.e.f. 1st April, 1977. They would, however, like to place on record their displeasure at the long time, well-nigh seven years, taken in settling the modalities of merger. |
| 7 | 2.10 | Do. | The Committee find that at present two agencies of the Government are procuring stores for the troops—the Chief Director of Purchase in the Ministry of Agriculture as also the Canteen Stores |
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Department of the Ministry of Defence. They feel that it would be economically advantageous to entrust procurement of stores for the troops to a single agency. They understand that the question of purchase of stores for the troops on a centralised basis by a single agency is under the consideration of Government. They would like that decision in the matter should be taken without avoidable delay.

The Committee find it strange that although contracts for the supply of rum at prices negotiated previously were concluded with 13 firms during March-April, 1974 for supplies to commence almost immediately, all the 13 firms sought increases in prices ranging from Rs. 5.50 to Rs. 9.50 per dozen bottles on grounds of escalation of cost of production. This was done even before the commencement of supplies. Stranger still is the fact that so soon after concluding the contracts on the basis of negotiated prices, Government found the demand for price rise "reasonably genuine". It is hard to believe that the rise in prices of fuel, packing material etc. was so sudden that it could not be visualised during negotiations preceding the conclusion of the contracts. The Committee are unable to appreciate the plea advanced by Government for not invoking the Risk Purchase Clause in the contracts with the firms on the ground that the default was not isolated and all the 13 firms were involved and that litigation would have resulted in supplies being

delayed resulting in loss of business. The lack of ordinary prudence on the part of the Department is indicated by the fact that at the time of renegotiating the prices in June 1974, the requirement was cut down from 2 years' supplies to 1 year's supply on the ground that 'there was rising trend in prices'. Instead of calling for fresh tenders for supplies during 1975-76 the prices were renegotiated again in 1975 resulting in their further escalation. The Committee have a feeling that the firms having monopoly position in respect of their own brands of rum had deliberately created such a situation where Department found it difficult to extricate themselves from the deal. Department, being the largest single buyer of rum, should have been able to influence the price rather than be guided by the prices preferred by the firms themselves. The Committee would like Government to have a fresh look into the circumstances leading to the refusal of the firms to supply rum at the contracted prices, non-invocation of the Risk Purchase Clause in the contracts against the firms and subsequent negotiations as a result of which higher prices were allowed to these firms. This is evident from the fact that as against the purchase price of Rs. 6.98 crores contracted for the procurement of 21.04 lakh dozen bottles of rum a sum of Rs. 8.25 crores had to be paid.

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2.75

Do.

The Committee would also like Government to examine whether it is feasible to purchase rum of a few different standards, specifications and qualities in bulk and to have them bottled with an exclusive name for sale to troops through the Canteen Stores Department.

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10	2.74	Ministry of Defence	<p>The Committee find that one of the 16 firms with which the Department entered into negotiations in March, 1974 for supplies during 1974-75, was a firm (M/s. Udaipur Distillery Ltd., Udaipur) which had a backlog of 1.4 lakh dozen of bottles against an earlier contract. The Committee are unable to appreciate the plea advanced by the Ministry that the brand of rum supplied by this firm was "second in popularity poll", that it was the "oldest supplier to the Department" and that the Managing Director had assured the Board of Administration that "he hopes to clear the backlog". The Committee feel that non-fulfilment of the existing contracted supplies by this firm was quite sizeable and before the firm was given any fresh orders for supplies, the Department should have waited for the supplies under the existing contract to be fully effected by this firm.</p>
11	2.75	Do.	<p>The Committee also note that preferential treatment was accorded to a firm 'C' (M/s. Central Distillery and Chemical Works, Meerut) which had not executed any contract after the original negotiation in January 1974, by entrusting fresh supplies to it at an increased price of Rs. 6.10 per dozen bottles (which works out to 24.6 per cent over the price previously contracted for) without an obligation of 10 per cent of the supplies being at the original rates as was done in the case of other firms. The Committee are not</p>

convinced of the reasons advanced during evidence for this preferential treatment to the firm that it was "one of the biggest distilleries with a large capacity" and the rum which they supplied was "one of the cheapest brand which we could not disregard" nor do they appreciate the reason subsequently advanced in writing that the preferential treatment was on account of the firm being a shade better in its business conduct inasmuch as having not signed the contract it had not committed a breach of faith, whereas other firms had signed the contract and subsequently resiled from it. The Committee would like Government to emphasise upon the authorities responsible for contracting supplies that they should, as far as possible, not lend themselves to suspicions of favouritism and abuse of authority which the instances referred to above tend to reflect.

