

PUBLIC ACCOUNTS COMMITTEE

1954-55

FOURTEENTH REPORT

[Appropriation Accounts (Defence Services) 1951-52 and 1952-53]

VOL. I—REPORT



LOK SABHA SECRETARIAT
NEW DELHI
June, 1955

CORRIGENDA

Fourteenth Report of the Public Accounts Committee on the Appropriation Accounts (Defence Services), 1951-52 and 1952-53— Vol. I—Report.

- Contents page, against 'Appendix II' for 'conclusions recommendations' read 'conclusions/recommendations'; and for '99—106' read '99—110'.
- Page 1, para 7, statement: against 'Total Expenditure met from Revenue (Voted)', in the last column, for '1,97,033' read '1,97,03'.
- Page 2, para 9, sub-heading 'Non-Surrender of Savings' line 3: for '20: 83' read '20-83' and for '25: 51' read '25-51'.
last sub-para, line 1: for 'lacūñā' read 'lacunae'.
para 10, line 14: for 'supplimentaries' read 'supplementaries'
line 18: for 'In the opinion of the Committee "safe" Supplemen-' read 'In the opinion of the Committee, "safe" supplemen-'.
- Page 7, para 17, Insert *against the words '(Appendix I)' and '(Appendix II)' appearing in this Para and insert the following consequential foot-note on this page.
**Refer to Vol. II— Appendices— which is being printed separately".
- Page 9, para 22, Heading, line 2: for 'banufactured' read 'manufactured'.
- Page 10, para 25, last line: for 'Messrs. Crane & Anderson Co.' read 'Crane Anderson & Co.'
- Page 11, para 28, line 3: for 'Director-General, I.S.D.' read 'Directorate-General, I.S.D.'.
- Page 15, para 34, line 6: for 'call-' read 'calli-'
line 18: for 'services machinery' read 'services, machinery'
line 19: for 'celling' read 'celling'.
- Page 16, line 16: for 'conditibns by supply' read 'conditions of supply'.
- Page 17, para 35, line 20: for 'incured' read 'incurred'.
- Page 19, para 37, second sub-para, line 17: for 'the canons of financial propriety' read 'canons of financial propriety'
- Page 22, para 44, Heading, line 2: for 'Repot' read 'Depot'.
line 5: for 'Ministry of Defence' read 'the Ministry of Defence'.
- Page 23, para 47, line 11: for 'reserved' read 'reversed'
line 12: for 'eaginst' read 'against'.

- Page 24, para 52, Heading, line 1: for 'Nith' read 'Ninth'.
- Page 29, para 59, lines 14-15: for 'another' read 'another'.
- Page 33, first line: for 'Secretary of Works, Housing and Supply' read 'Secretary, Ministry of Works, Housing and Supply'.
- Page 36, para 80, second sub-para, line 8: for 'saked' read 'asked'.
- Page 43, foot note, before 'See Appendix VI' insert '†'.
- Page 55, in the list of Members present, S. No. 3: for 'Shri Shree Narayan' read 'Shri Shriman Narayan'.
- Page 65, para 164, last sub-para, line 3: for 'refirms' read 'firms'.
- Page 67, para 172, line 5: for 'in the 1954' read 'in 1954'.
- Page 73, para 188, line 3: for '(upto Para 4†' read '(upto Para 4*'
- Page 83, item 8, col. 5, lines 1 and 2: for 't e mittee' read 'the Committee'.
- Page 86, item 15: col. 1: for '1' read '15'.
- Page 93, item 31, col. 3: for '(Defence)' read 'Finance (Defence)'
- Page 97, item 36, col. 6: for 'No. Comments' read 'No comments'.
- Page 99, Appendix II, item 1, col. 4, second sub-para, line 3: for 'implementaed' read 'implemented'.
- Page 100, item 3, col. 4, sub-para 3, line 2: for 'procurement.' read 'procurement,'
- Page 101, item 5, col. 4, para (i), last line: for 'abu-ses' read 'abuses'
para (ii), last line: for 'abroad which placed are no longer required' read 'placed abroad which are no longer required'.
- Page 102, item 7, col. 4, line 4: for 'general overall picture' read 'a general overall picture'
line 5: for 'woud' read 'would'.
- Page 103, item 8, col. 4, sub-para (iii), line 3: for 'beofre' read 'before'
line 6: for 'contract' read 'contracts'
- item 9, col. 4, line 2: for 'Para II' read 'Para 11'.
- Page 105, item 17, col. 4, sub-para (i) of Para 1, line 1: for 'figures' read 'figure'
line 3: for 'expenditur' read 'expenditure'.
- Page 107, item 18, lines 3-4: for 'weighed' read 'weighted'.

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Composition of the Public Accounts Committee, 1954-55

Shri B. Das—Chairman.

Members

2. Shri Tribhuan Narayan Singh.
3. Shri Ramananda Das.
4. Shri Shriman Narayan.
5. Shri Shree Narayan Das.
6. Shri Balwant Sinha Mehta.
7. Shrimati Ammu Swaminadhan.
8. Shri R. Venkataraman.
9. Shri Amarnath Vidyalkar.
10. Shri S. V. Ramaswamy.
11. Shri Uma Charan Patnaik.
12. Shri Choithram Partabrai Gidwani.
13. Shri V. P. Nayar.
14. Dr. Indubhai B. Amin.
15. Shri U. M. Trivedi.
16. Shrimati Violet Alva.
17. Diwan Chaman Lall.
18. Shri K. S. Hegde.
19. Shri P. S. Rajagopal Naidu.
20. Shri Ram Prasad Tamta.
21. Shri Mohamed Valiulla.
22. Shri J. V. K. Vallabharao.

SECRETARIAT

Shri M. N. Kaul—Secretary.

Shri S. L. Shakhder—Joint Secretary.

Shri M. Sundar Raj—Deputy Secretary.

Shri V. Subramanian—Deputy Secretary.

I

INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee to submit the Report on their behalf, present this Fourteenth Report on the Appropriation Accounts (Defence Services), 1951-52 and 1952-53 and Audit Reports thereon.

2. The Appropriation Accounts (Defence Services), 1951-52 and 1952-53 and Audit Reports thereon were laid on the Table of the House on the 15th March, and 14th December, 1954, respectively.

3. A brief record of the proceedings of each sitting of the Committee has been maintained and forms Part II of this Report.

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

5. The Committee place on record their appreciation of the great assistance rendered to them in their examination of the Accounts by the Comptroller and Auditor-General of India and his Officers.

II

FINANCIAL WORKING OF THE GRANTS RELATING TO THE DEFENCE SERVICES

6. *Important change in the form and classification of Accounts.*— During the year 1952-53 there was one important change, in common with the Civil Estimates, in the Demands for Grants presented to Parliament. The amount voted by Parliament in previous years represented the net expenditure, i.e., the gross expenditure with recoveries shown as deductions therefrom. The vote obtained for the year under review was for the gross expenditure, excluding the recoveries, which in a sense represents the real outgoings from the Consolidated Fund for which the authority of Parliament is required.

7. The following table compares the original and final grants and appropriations with the actual expenditure of the years 1951-52 and 1952-53 :—

(In lakh of rupees.)

	Original Grant or Appropriation		Final Grant or Appropriation		Actual Expenditure	
	1951-52	1952-53	1951-52	1952-53	1951-52	1952-53
	<hr/>					
Total expenditure met from Revenue—						
(Voted)	1,90,28	2,16,66	2,01,13	2,16,66	1,86,28	1,97,03
(Charged)	.07	.07	.07	.07	.05	.05
Total expenditure met from Capital—						
(Voted)	12.97	17.00	16.15	17.00	10.17	11.12
(Charged)	—	—	—	—	—	—
<hr/>						
Grand Total :						
(Voted)	2,03,25	2,33,66	2,17,28	2,33,66	1,96,45	2,08,15
(Charged)	.07	.07	.07	.07	.05	.05

There was thus a saving of Rs. 20,83 lakhs and 25,51 lakhs or 9.6 and 10.9 per cent. over the final grant during 1951-52 and 1952-53 respectively against a saving of Rs. 17,08 lakhs or 8.4 per cent. during the year 1950-51.

8. *Savings on voted grants.*—Savings occurred under all the voted grants during both the years under report and were the highest under "Capital", namely, 37.0 and 34.6 per cent. respectively.

9. *Control over expenditure.*—A few important cases of defective control noticed during the two years under report are mentioned below:

Unnecessary or excessive supplementary grants.—The two supplementary grants obtained during the year 1951-52 proved unnecessary or excessive as shown below:—

(In lakhs of rupees)

Number and Name of Grant	Supplementary Grant	Final savings
10-Army	10.85	3.32
96-Defence Capital Outlay	3.18	5.98

Non-surrender of savings.—During the years 1951-52 and 1952-53, the total savings in the Revenue and Capital grants work out to Rs. 20:83 crores and Rs. 25:51 crores respectively. Out of these, savings amounting to Rs. 4 and 7 crores remained unsurrendered and thus lapsed. These lapses of appropriations show a laxity in the preparation of estimates, without a proper assessment of the spending capacity and without appropriate adjustments to take account of the known factors such as the supply situation etc.

This also clearly indicates that there are serious lacunae in both planning and execution of the capital Projects. The Committee would observe that lapse of funds on such a large scale not only indicates that the plans for which provision has been made in the Budget by the Ministry of Defence are not being implemented as contemplated, but also immobilises large sums of money which might have been diverted for more beneficial purposes by the Government in other Departments or spheres of activities.

10. *General conclusions.*—The Committee note that the savings were mainly caused by the procurement of stores not materialising to the extent anticipated, delays in execution of certain works and non-receipt of certain claims and debits etc. While they appreciate that some allowance has to be made for practical difficulties which may arise in such cases in estimating precisely during the closing months of the year, they would nevertheless think it possible that a higher standard of estimating could be achieved by imposing a lumpsum cut in respect of overseas procurements and closer liaison between the indenting and supplying Departments. These savings have been a feature in the Defence Appropriation Accounts for the last four years (i.e. from 1949-50 onwards) and the Committee note that the bulk of the savings arose either because of unnecessary or unnecessarily large supplementaries or what in the event proved to have been excessive provision in the original Estimates themselves. In the opinion of the Committee "safe" Supplementaries and/or estimates "erring on the safe side" are features which are no less serious than excesses over estimates. The Committee desire this should be impressed upon all the estimating authorities so that deviations on either side are narrowed down considerably. Closer estimating, the Committee would add, is very essential in the interest of the defence programme as a whole in view of the limits necessarily imposed on sums that could be spent on Defence, so as to ensure that the greatest possible value is obtained for the money available.

III STORES ACCOUNTS

11. *Para. 10 of the Appropriation Accounts, Defence Services, 1951-52, Para 12 (sub-para 4) of Appropriation Accounts, 1952-53 and Para. 16 of Audit Report, 1953—Stores accounting in the Defence Services (Master General of Ordnance Branch).—*The Committee note from the Financial Adviser's Review of the Accounts for 1951-52 that the general standard of store-keeping and accounting showed further improvement, but it could not be said that the position was entirely satisfactory as in some units and formations the stores accounts were not properly maintained and the stock-verification was either incomplete or was not carried out at all. The position of stock verification in Army Ordnance depots is still not satisfactory, as in some depots it was not carried out in respect of a number of items and considerable differences continued to exist between the ledger and ground balances in respect of the items actually verified.

The Committee should once again like to draw attention to the observance of the cardinal principle of store-accounting that the reconciliation of ledgers should be made at regular intervals for all the items in the depots after conducting a physical verification of the ground balances of the various categories of stores and immediate action taken to reconcile the discrepancies thus noticed.

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

The Committee were informed by the Comptroller and Auditor-General that stores were indented for even when large surpluses existed in some depots or others. They, therefore, think that a periodical review of stocks is necessary to avoid large resources being immobilised, and recommend that the Ministry of Defence should review the whole position regarding the procurement, stocking and accounting of stores and set it on a more rational and scientific footing. They should like to know, in due course, the action taken in the matter.

12. *Para. 10(e), (f) and (g) of Audit Report, 1954—Over-indenting of stores.*—These paras afford striking instances of overprovisioning and overindenting of stores, both indigenous and foreign, which resulted not only in unnecessary and appreciable dissipation of the country's resources but also indicated lack of planning and co-ordination between the different branches of the Defence Services. The Committee think it more important that action to indent stores

should be initiated only after firm and final decisions have been reached on the type and quality of equipment and stores required.

The Committee heard the Master General of Ordnance regarding the method followed by his organisation in the matter of provisioning of stores and its periodical review. In the course of his evidence, he stated that he was not quite satisfied with the existing position. He further informed the Committee that the possibility of centralising provisioning as it used to be before the War was under examination, although the question of manpower and economy stood in the way. The Committee stress the need for overhauling the system of provisioning for stores so that surpluses do not occur.

13. Para. 17 of Audit Report, 1953—*Unsatisfactory state of store accounts in an Engineer Stores Depot.*—(a) In his preliminary observations on the state of store-accounting and stock-verification in the M.E.S. formations under his control, the Engineer-in-Chief stated that a great handicap stood in their way viz., a hundred per cent. stock verification of all the stores which it was very difficult to carry out efficiently. He, therefore, suggested that it would be better if cent per cent. check was confined to major items only and a percentage or test check prescribed for the rest. The Committee would like the Ministry of Defence in consultation with the Ministry of Finance (Defence) and the Comptroller and Auditor-General to examine the feasibility of the suggestion, taking care to see at the same time that the relaxation of the quantum of checks does not expose the system of stores control to undue risks or abuses.

(b) Now that the stock-verification in the M.E.S. is stated to have been completed, the Committee suggest that the Defence authorities should conduct a review of all the outstanding indents for the purchase of stores and take necessary steps to cancel the orders for stores placed abroad which are no longer required. The Committee should be apprised, in due course, of the action taken in the matter.

(c) *Provision of covered accommodation.*—The Committee noted from the Audit Para referred to above that in an Engineer Stores Depot where the tonnage of stores held was about 1.6 lakhs worth Rs. 20 crores approximately, there was covered accommodation for 0.3 lakh tons only, the rest of the stores being stacked in the open exposed to sun and rain.

When asked whether he could assure the Committee that all the stores which were liable to deterioration as a result of exposure had been placed under covered storage, the Engineer-in-Chief stated that this had been done by and large but he preferred to check it up by a personal visit to the Depot concerned. The Committee have not so far been apprised of the visual impressions of the Engineer-in-Chief as gathered as a result of his visit to this Depot.

The question regarding the provision of adequate covered accommodation for the proper storage of bulk of the Defence stores, at present lying in the open exposed to the inclemencies of weather, had engaged the attention of successive Committees of Public Accounts. The Committee note that want of adequate finances was an

important factor which stood in the way of increasing covered accommodation but in the ultimate analysis the financial effect of the deterioration due to exposure might well be greater than the expenditure in constructing covered storage.

14. Para. 17 of the Audit Report, 1954—*Arrears in the linking of invoices with packing accounts in respect of stores purchased in the U.K. for Defence Services.*—The Committee were informed by the Director of Audit, Defence Services that, upto the 30th November, 1954, out of 5,197 invoices amounting to £39,29,248, invoices worth £32,65,501 had been adjusted, leaving a balance of about 1,007 invoices valuing about £7,36,730 on the 1st December, 1954. The Committee suggest that with a view to avoid such a state of affairs, the Ministry of Defence should evolve a suitable procedure in consultation with the High Commissioner for India in the U.K. whereby it would be possible to ensure that in respect of all purchases for which payments are made abroad, the stores have actually been received in India and have been taken on charge by the receiving depots. The Committee trust that every effort will be made to tighten up the procedure for control by the Services Headquarters over the receipt and accountal of such stores.

IV

WORKS EXPENDITURE—M.E.S.

15. *Para. 8 of Audit Report, 1954—Commencement of Works without technical sanction.*—This para discloses that in contravention of the prescribed procedure for the execution of the Defence Works, tenders were called for in the case of 93 contracts costing about Rs. 46.4 lakhs before technical sanction had been accorded. In respect of one work contract costing Rs. 10.65 lakhs, the sanction came in at a very late stage when a major portion of the work amounting to Rs. 10.56 lakhs had already been completed. In extenuation, it was explained that a number of works were executed in one of the Commands in great hurry at the instance of the Executive Officers who were not aware of the importance of obtaining prior technical sanction. The Committee note with some satisfaction that the authorities have now agreed that the works will be administratively approved at least 6 months before funds are allotted and actual construction work is taken in hand. During this period of 6 months, the Engineers would have an opportunity to prepare the designs in detail and to get the contract documents, drawings etc., ready. The Committee would like to be furnished with a copy of the instructions issued in this behalf and they hope that the effect of the instructions would be reflected in the next year's Audit Report.

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

V

PURCHASE OF STORES IN FOREIGN COUNTRIES

Note re: the contracts for the purchase of Jeeps in the U.K. and two contracts for the purchase of ammunition in a European Country and the Statement made on the floor of the House by Shri C. D. Deshmukh, Finance Minister on the 21st December, 1954

16. In Chapter V of their Ninth Report on the Defence Accounts, 1949-50 and 1950-51 and Audit Reports thereon, the Public Accounts Committee had come to the conclusion that elementary and commonsense precautions in the matter of a series of important contracts involving large sums of money as well as well known business and financial procedure and established practices were ignored in the purchase of Defence stores in foreign countries. The Committee could not also overlook the fact that intermediaries were interposed without justification in most of the cases to the detriment of the financial interest of Government. The Committee recommended, accordingly, that the extent of individual responsibility in all these transactions should be assessed by a high-level Committee, consisting of one or two High Court Judges.

17. Having considered the recommendations of the Committee, Government have submitted a note (Appendix II) dated 18th December, 1954 for their review. The Committee are glad to note that the correct Parliamentary practice has been adopted in submitting a note to the Committee and requesting them to reconsider their earlier recommendations. The Committee are anxious that the correct convention should also be established in the subsequent treatment of such representations. They consider it inappropriate for the Government to have placed a copy of the note on the Table and made a statement (Appendix III) on the floor of the House on this subject on the 21st December, 1954. *inter alia*, requesting the House to treat the matter as closed without affording reasonable time to the Committee for considering the note. In accordance with well-established parliamentary practice elsewhere, the consideration stage by the House should arise only when the Committee have made their final recommendation after reconsideration, as urged by Government.

18. In the note, Government have explained the circumstances in which deviations from normal contracting arrangements became, in their view, necessary and the use of intermediaries inescapable for the procurement of Defence stores urgently required for reasons of internal security and defence strategy. They concede that "it is possible to point out technical and procedural irregularities and that in the light of results and losses incurred, judgement may be regarded as having been sometimes in error". In extenuation, however, it has been explained that these stores could not be obtained from the traditional sources of supply and that repeated approaches to obtain these stores from recognized foreign sources had proved abortive. In these circumstances, it became, in the view of Government, inescapable to adopt the expedient of employing middlemen.

19. The Committee consider that in respect of the first Jeep contract and the first contract for the purchase of Defence Stores, the demands were urgent and it was, perhaps, not possible to adhere to normal contracting arrangements or to obtain supplies without the intervention of intermediaries. However, in so far as the selection of the particular intermediaries is concerned, the Committee reaffirm their earlier conclusion. Further, on available evidence, they remain convinced that there was no necessity or justification for the use of intermediaries for the two second contracts for the purchase of Defence Stores. Presumably these were the cases which, in Government's view, involved errors of judgement.

20. In the concluding paragraph of the note, Government have stated that definite information had since become available which indicated that the firm had been appointed as agents as early as the 4th September, 1950 before any information on the requirements of Government was communicated to them. This statement has been made in rebuttal of the Committee's suggestion for an independent enquiry into the circumstances under which some information regarding the exact requirements of Government leaked out to a foreign firm. A letter dated 4th September, 1950, from the foreign manufacturers addressed to our Mission in London purporting to appoint the intermediaries as their Agents was referred to in support of the statement, although, on an earlier occasion, in reply to a specific question about the date of appointment of the intermediaries as Agents of the foreign manufacturers, Government could produce only a letter dated 30th December, 1950 from the foreign manufacturers in this regard. The Committee have examined the letter of the 4th September. This letter, by itself, and in the circumstances it came to be written and the terms in which it is couched, does not, in the Committee's view, dispel the impression that the firm had previous knowledge of Government's intention to enter the market for these Defence Stores. In view of the admission by the official witnesses that this firm was taken into their confidence from the very beginning, no case now exists for investigation into the matter of the leakage of information to the intermediaries.

21. Another new factor which has been brought to the notice of the Committee now is that a sub-Committee of Ministers had considered these cases carefully in 1952 and had come to the conclusion that though there were procedural and technical irregularities, the *bona fides* of the officers concerned could not be questioned. It is not clear why this information was not made available to the Committee earlier when they were examining in 1953 the Defence Accounts concerned. In the absence of any record of the proceedings of the sub-Committee of Ministers or of its conclusions, this Committee are not in a position to assess whether the material and the evidence placed before the sub-Committee were the same which influenced this Committee in making the suggestion for a judicial enquiry. They would like further to draw attention to a disturbing feature, namely, employment of the same intermediaries for the execution of some other contracts which have come before the Committee involving Government in financial loss. However, on the facts of the various cases, the Committee had made their views known, from which they see no reasons to deviate; but obviously what further action is to be taken is essentially a matter for Executive determination.

22. *Para. 11 of Audit Report, 1953—Purchase of Ordnance stores manufactured in a foreign country.*—This Para. reports another case in which an important order for the purchase of defence stores was placed with an agency firm instead of direct with the manufacturers, the previous cases having been commented upon in paras 22 to 31 of the Ninth Report of the Committee. The firm involved in this case is the same with whom the second Jeeps contract was entered into.

23. The facts of this case are that an official of the Ministry of Defence who happened to be in the Continent in May, 1951 attended a demonstration of certain weapons as a result of which he orally asked a firm, not on the approved list of contractors of the India Stores Department, to forward to India for trial purposes a sample of each of two different weapons and necessary ammunition. The firm thereupon placed a trial order with the manufacturers informing the High Commissioner for India in the U.K. on the 25th June, 1951 that they had done so and the stores were shipped in August, 1951. To regularise the position the D.G., I.S.D., London placed a formal order with the firm in August, 1951 after the stores had been delivered, which he did on the authority of a telegram from the Government of India. The Committee regret to point out that this is another instance where the recognised procuring agency was by-passed without any justification and they are not convinced about the urgency for the purchase of the stores in question which in the opinion of the Ministry necessitated a deviation from the established procedure and placing the order with an unapproved firm. It was also urged by the Ministry that at that time they were not so much concerned about the intermediary as about the stores in question which were found to be good. If so, it is surprising why when further orders for extended trials and bulk purchases were contemplated direct from the manufacturers, no further orders were placed. The Committee would observe that even in cases where trial orders involved possible expenditure on further bulk supplies, they should be processed through the normal channels and deviations therefrom should be scrutinised closely and suitably dealt with.

24. *Para. 9 of Audit Report, 1953—Purchase of tinned milk and milk products.*—This case relates to the procurement of large quantities of tinned milk and skimmed milk powder by the High Commissioner for India in the U.K. for the Defence Services. The value of the purchases made during 1951-52 amounts to about £3,00,000 and to about £5,00,000 during the preceding year. In this case, the strict tender procedure was not followed, competition was unnecessarily restricted and adequate action was not taken to locate fresh sources of supply or to invite quotations from firms which had offered to supply or had previously fulfilled contracts satisfactorily.

It was admitted by the representative of the Ministry of Defence that the strict tender procedure was not followed in this case but he had no explanation to offer as to why the High Commissioner did not do so. It was added that the matter was looked into by the High Commissioner subsequently and the latter was satisfied that there were no *mala fides* in this transaction. The Committee are

distressed to note that the purchase of goods valued at such a large amount should have been left to be arranged by a comparatively junior officer with very little experience, and trust that suitable action will be taken by Government to see that powers vested in the Officers are commensurate with their status, experience etc.

25. *Para. 10 of Audit Report, 1953—Contracts for purchase of asbestos cement sheets.*—In this case, supply from indigenous sources of asbestos cement sheets being inadequate, two indents for 5,54,600 sheets and 1,10,000 numbers of ridges (asbestos cement sheets of various kinds and sizes) were cross-mandated to the D.G., I.S.D., London on the 31st March, 1949 and the 2nd June, 1949. In spite of wide publicity, only two offers from two British firms named Messrs. Witting Bros. Ltd., and Messrs. Kenbank Enterprises, Ltd., were received, the latter being for stores of Italian manufacture. These offers were accepted and before the actual contracts were concluded, Messrs. Kenbanks proposed that the contract arising from their offer be placed with Messrs. Crane Anderson & Co. (It will not perhaps be out of place to mention here that Messrs. Kenbanks are the same concern who were also involved in the Fertilisers Deal, a reference to which has already been made in Para 8 of the Twelfth Report of the Committee.) As stated therein, this firm had only an authorised capital of £1,000. They went into liquidation on 27th November, 1950, i.e., a year after the date on which the contract in this case was entered into with their nominees Messrs. Crane Anderson & Co. The Secretary, Ministry of Works, Housing and Supply informed the Committee that it was the suggestion of Messrs. Kenbanks themselves that they should be relieved of the responsibility of fulfilling this contract, and that instead it might be placed with a new firm Messrs. Crane Anderson and Co. The contract, the Committee further learnt, was placed with this firm as a result of negotiations instead of calling for a formal offer from them. This was an unusual procedure to follow. The rules enjoin that in such situations fresh tenders should be invited. The contract also provided for the opening of an irrevocable, divisible and transferrable letter of credit covering stores of Italian manufacture to the extent of £1,82,401-15-11 in the name of Messrs. Sale & Co., stated to be the bankers of Messrs. Crane & Anderson Co.

26. On arrival of the first consignment on the 8th December, 1949 in India of the asbestos cement sheets of Italian manufacture, abnormal breakages were noticed. The D.G., I.S.D., to whom the matter was referred, is reported to have stated that the consignment had been inspected by his Department and was found to be in accordance with the specification of the suppliers and acceptable. Despite instructions to pack the sheets carefully before despatch, heavy breakages continued to occur. Before, however, the D.G., I.S.D., could suspend further despatch of asbestos cement sheets as asked by the Ministry of Defence on the 13th June, 1951 almost all the contracted quantities except 8,000 ridges of British manufacture had been received in India and heavy breakages were reported.

The initial loss due to breakage in transit of sheets of both U.K. and Italian manufacture upto the first receiving depot in India was over Rs. 8,32,490. The results of the tests conducted by the

Government Test Houses in India revealed that the sheets of U.K. manufacture were thinner by 1/64" than the standard specification and those of Italian manufacture—in almost all cases—exhibited variations in all the dimensions and the sheets failed below the stipulated breaking load.

27. On the evidence taken by them, the Committee observe that the Director-General, India Stores Department, London, followed an unorthodox and unconventional procedure in this case as none of these firms were borne on the approved list of contractors. Further, he also failed to inform the indenter about the sizes and the changed specifications according to which the contract was placed. The Committee view with much disfavour such a patent lapse on the part of the D.G., I.S.D., which is contrary to the accepted principles of normal commercial dealings.

28. Another disconcerting feature of this transaction was that the inspection of sheets of both the U.K. and Italian manufacture by the Inspecting staff of the Director-General, I.S.D., was not satisfactory as tests carried out here showed that the sheets were below specification. The Committee cannot help commenting adversely on the repeated failure of the Inspecting Staff in the I.S.D., London to carry out proper inspection of goods purchased from abroad before their shipment to India. The Committee feel that such a reckless disregard of their primary duties merits much stronger punitive action than what the Government have, because of the retirement of the Inspector concerned, been disposed to take against him.

The Committee asked for being furnished further information on the following points which arose from the discussions which they had in this case with the representatives of both the Ministries of Defence and Works, Housing and Supply:

- (a) Were Messrs. Sale & Co., the bankers of Messrs. Crane Anderson & Co.?
- (b) Were this firm professional bankers? If so, what was their financial standing?
- (c) A copy of the letter-head used by this firm.
- (d) Did the D.G., I.S.D., London examine the credentials of the above firm and also other three firms referred to in the Audit Para or did he merely act on the suggestion of Messrs. Kenbanks and transferred the contract to Messrs. Crane Anderson & Co., without any further inquiry into their credentials? Were these genuine transactions or only *benami* transfer?
- (e) Are there any directors common to all these four firms? If so, what are their names?
- (f) Was any of the above firms in the approved list of Suppliers to H.M.G.?
- (g) What were the F.O.B. and C.I.F.—Italian and U.K.—prices of cement asbestos sheets referred to in this para? What would have been the comparative C.I.F. price in India of the cement asbestos sheets imported from both the countries.

- (h) The time-lag between the date of placing of the indent and actual receipt of asbestos sheets in India.
- (i) Any other information which the Ministry might like to place before the Committee in regard to this transaction.

This information has not so far been made available to the Committee. They desire that it should be made available to them forthwith so as to enable them to examine this case in further detail. They wish to express their displeasure at the delay in the submission of this information.

29. *Para. 9 of Audit Report, 1954—Purchase of an Italian tanker.*—This affords yet another instance of by-passing the specially appointed agency viz., the India Stores Department, London, for the purpose of procurement of stores from the U.K. and other continental countries. In this case, an order for the supply of a tanker was placed with a firm in Rome at a price of \$1,025,000 by the Indian Mission in Rome whereas a firm offer for 1 million dollars for the same tanker had been received by the London Mission from a firm of brokers of very high repute. This resulted in an extra price of \$25,000 being paid for the same tanker by the Rome Mission.

The Committee endorse the observations made by the Auditor-General that if the negotiations in this case had been conducted with the manufacturers direct by the Director-General, I.S.D., London who had the necessary technical staff and whose jurisdiction extended to purchase on the Continent also, more particularly in this case when he was fortified with an offer from a very well-known firm in respect of the same tanker, it might have resulted in securing an advantageous price. It is somewhat surprising that the Mission staff in Rome who were non-technical persons and had no experience in this line of business should have been entrusted with the settlement of the deal. The Committee feel that Government should have waited till the other offers were also looked into and then proceeded to negotiate the deal directly with the manufacturers through the D.G., I.S.D., London and not through the Rome Mission. The Committee note, however, that Government agree with their conclusions and that Government propose hereafter to utilise the Organisation of the D.G., I.S.D., London for such procurement action.

VI.

DEFENCE INSTALLATIONS AND FACTORIES

30. *Cost of production by the Ordnance Factories.*—During the course of the evidence given by the Engineer-in-Chief in connection with the utilization of the equipment and articles manufactured by the Ordnance Factories, it was brought to the notice of the Committee that the cost of supplies obtained from these Factories was considerably higher than the cost at which similar supplies could be procured from other sources. The Committee were concerned to note this. They feel that as these Factories are also under the control of the Ministry of Defence and they have to be maintained not only as a war potential, but also on a care—and—maintenance basis, some formulae should be evolved by that Ministry in consultation with the Financial Adviser, Defence Services under which these Factories made supplies not only to the M.E.S. but to other Defence and Civil Organisations at competitive rates treating the difference in the cost as a standing charge of the Factory concerned.

COMMERCIAL APPENDIX TO THE APPROPRIATION ACCOUNTS (DEFENCE SERVICES), 1951-52 AND AUDIT REPORT THEREON.

31. *Para 2(a)—Suspension of production of a cartridge case.*—The Committee emphasise that there should be a closer co-ordination between the Master General of Ordnance Branch and the Director-General, Ordnance Factories in the matter of production as the demands do not remain static. Steps should therefore be taken to safeguard against the recurrence of cases similar to that reported in this para.

32. *Para 8—Overhead expenses.*—This para points out that the idle capacity in the factories had resulted in increasing the overhead charges. The Committee were informed that right from the beginning, there existed a cost-accounting system for the correct-allocation of overhead expenses and for the determination of the cost of idle capacities. The Committee, however, reiterate the views expressed by them in the past that the installed capacity of these factories should be utilised to the fullest possible extent so as not only to restrict imports but also to reduce overheads. Only stores which cannot be manufactured in these factories should be imported.

33. *Para. 13 of Audit Report, 1954—Establishment of Machine Tool Prototype Factory.*—This para relates to the contract entered into by the Government of India in May, 1949 with a foreign Company for the establishment of a fully equipped machine tool-cum-prototype factory in India. According to the contract, subject to the payment to the Company of a maximum ceiling of the equivalent of approximately Rs. 2.226 crores, the Company undertook to supply to Government machinery, equipment etc. and to put up and instal the same in satisfactory running order and condition. The Company also agreed to provide the necessary technical personnel, data, information and supervision. Further, 25% of the ceiling figure was to be paid to the Company by Government as an advance payment

within 90 days of the conclusion of the Agreement. Thereafter payments were to be made against the forwarding agent's receipts to the extent of 75% of the price of each consignment. According to the time-table, the factory was to go into part production within 18 months of signing the agreement (i.e., by November, 1950) and was to be ready for full production within 24 months of signing the agreement (i.e., May 1951).

One of the reasons advanced as to why the factory could not go into production by May, 1951 was that buildings were not ready by then. The factory was opened in January, 1953 by which time the buildings were ready.

The Committee have noticed the following irregularities in this contract:

- (i) The ceiling figure of Rs. 2.226 crores approximately was stated to have been worked out on the basis of negotiations with the firm and no agreed list of machinery, equipment and other particulars of expenditure were found detailed in the Agreement. The plea put forth by the Ministry of Defence that there was a list of machines, stores etc. appended to the Agreement is not of much substance, as no value had been indicated against the items in this list. In the absence of the individual costs of the various items having been indicated, the payment of advance (25%) should have been made on a guess.
- (ii) Besides the payment of advance as mentioned above, the Company was paid further sums to the tune of Rs. 157.95 lakhs (approximately) which were in contravention of the terms of the agreement, as they were paid without the forwarding agent's receipts. According to the Ministry, there accrued to Government certain financial benefits as a result of these advance payments, but the Comptroller and Auditor—General was not able to verify or accept this claim.
- (iii) The Contract did not stipulate how the foreign Company should set about purchasing the stores from other sources, e.g., that it should buy in a competitive field or observe certain conditions which were essential in any purchase activity. In other words, the Company was given full discretion in this matter.
- (iv) The Ministry of Defence failed to exercise any check on the reasonableness, or otherwise, of the prices at which the purchases were made by the foreign Company although a provision to this effect existed in the contract. They, on the other hand, relied in this behalf on the certificate of the Auditors who were the Auditors of the Company itself.
- (v) The Company had failed to train adequately the Indian personnel as agreed upon, as 13 foreign technicians are still continuing.

- (vi) The Factory, which was to have gone into part production by November, 1950 and into full production by May, 1951, has so far been able to manufacture only two types of tool grinders, motorised grinders, polishing machines and monodrivers. The absence of an agreed schedule of detailed production programme as part of the Agreement is highly defective and has resulted in the Company's demand for formal closure of the contract before establishing beyond doubt that the factory could in fact go into full production. From these irregularities it is demonstrably clear that the whole project had been planned in an unrealistic manner and executed perfunctorily. The Committee note, however, that the contract with the foreign Company has ended for all practical purposes. They would, however, like to be apprised in due course how far the factory in its present state could meet the Defence requirements and what steps Government propose to take for utilising the installed production capacity fully.

34. *Para 14 of Audit Report, 1954—Establishment of a fully equipped modern plant for manufacture of certain latest types of ammunition.*—The brief facts of this case are as follows:—

In August, 1950, Government concluded an agreement with a foreign Company for the establishment of a fully equipped and up-to-date plant for the manufacture of ammunition of two call-bres of the latest types and also the rendering of supplies and services on the part of the Company for the operation of the same for a period of first six months after completion. The date fixed in the Agreement for the completion of the plant and commencement of full production was 1st April, 1951. The Agreement with the Company merely mentioned that ammunition of that Company's type was to be produced but it did not mention the detailed specifications, components, schedules of acceptance and other data which were usually associated with the description of all ammunition. According to the contract, the cost of services machinery, equipment, fuses and raw materials to be supplied by the Company including packing and freight charges were not to exceed the ceiling figure of Rs. 125.27 lakhs (approximately). 25% of this ceiling was to be paid within 90 days of the conclusion of the agreement and 75% of the price of each consignment against the forwarding agents' receipts. This clause was, however, amended in May, 1952 by an exchange of letters, according to which a further advance of 8½% over and above the advance payment of 25% was payable in respect of machinery etc. when orders were placed by the company for supply to the Government, the balance of 66½% being payable at the time of the actual supply of the machinery. The contract also provided an additional sum of Rs. 10.89 lakhs (approximately) to be paid by Government to the Company in addition to the above ceiling figure; 25 per cent within 90 days of signing the agreement and the balance of 75 per cent after the final establishment of the production of fuses for keeping the Government indemnified against claims and demands of the

Company or other persons for infringement of any process, invention, patent utilised in the undertaking and for making available to Government all patents, inventions, processes in the Company's possession for the purpose of execution of this contract.

From the memorandum submitted by the Ministry of Defence at the instance of the Committee (Appendix IV), they note that upto the 30th April, 1951, only a small portion of the supplies (amounting to 0.12 million Swiss Francs equivalent to Rs. 1.3 lakhs had been shipped by the foreign Company as against Rs. 53 lakhs, the total value of plant and machinery to be supplied under the terms of the contract. The Comptroller and Auditor-General brought to the notice of the Committee that although invoices of the above value had been received, equipment actually received by that date was only of the value of about 10,400 Swiss Francs. The Company explained, as stated in the above Memorandum, that changes in market conditions by supply of plant and machinery in Europe owing to a change in the political situation prevented the suppliers from adhering to delivery periods agreed upon previously. The Ministry of Defence have also on their part thought it inexpedient to press the Company hard because of delay at their end in the completion of buildings; further discussions about the design of the ammunition and the Ministry's anxiety to utilise as many machines as possible from German Reparations Machinery which the Ordnance Factories had acquired comparatively cheaply took some time. By the time all final decisions regarding the types of ammunition to be produced had been reached, most of the plant and machinery had arrived from Switzerland.

The Administrative authority in charge of Ordnance Factories informed the Committee that "in any case the plant provided by the company is capable of manufacturing any type of ammunition of the two calibres and if the concerned user service requires change in design to give different performance, the plant will still be capable of manufacturing such ammunition". The Committee are in full agreement with the Audit comments that the agreement obviously contemplated not only the establishment of the plant of specified capacity, but also the rendering of supplies and services on the part of the Company for the operation of the same for a period of six months after completion and for production of ammunition of the two calibres as per the Company's type. If, however, the project had been merely for the supply of the balancing plant and erection and installation of a complete plant adequate for the manufacture of ammunition of two calibres, the scope of the contract would have been different and the need for payment of a heavy sum of Rs. 10.89 lakhs (approximately) as indemnity as stated above would not have arisen. This would have also facilitated the inviting of competitive tenders with all its advantages.

The Committee consider these two cases as 'most unfortunate'. On the basis of the evidence placed before them, they are led to the conclusion that there had been a total lack of foresight and proper planning. Indecision at every stage and frequent changes in designing resulted in the chequered progress of the project. Further, there was undue haste in concluding the agreement with

the foreign firm though the Ministry of Defence were not ready at their end with the necessary buildings etc. The *raison d'etre* for the contract was the urgent need for the ammunition which was completely nullified by the delay of more than four years in the commissioning of the plant.

To sum up, the Committee are constrained to observe that these projects were ill conceived and the terms of the contracts were also heavily weighted in favour of the foreign Company.

35. Para 15 of Audit Report, 1954—Attempted manufacture of Dry Batteries in an Ordnance Factory.—In this case, an order for the manufacture of 28,000 batteries was placed on an Ordnance Factory in March, 1950 and action was taken to provide a large quantity of materials required for the manufacture of these batteries at a cost of over Rs. 3 lakhs. The anticipated out-turn of the factory was placed at 1,000 batteries per month. The progress of manufacture was, however, considerably hampered due to non-availability of certain important components like plastic trays and an attempt was, therefore, made to obtain plastic trays by resorting to stripping of old and unserviceable batteries. After spending Rs. 68,383 on stripping of 2,800 batteries, plastic trays valued at about Rs. 7,100 only were obtained, but no batteries could be successfully manufactured with these retrieved materials. The section which undertook to manufacture batteries in the Ordnance Factory was declared idle with effect from June, 1952 and eventually closed in May, 1953. The total infructuous expenditure to the State in the manufacture of 200 completed batteries (including the expenditure on stripping of old batteries and idle time payment) came to Rs. 1,11,383. Apart from this, any loss incurred in the disposal of the materials collected for the purpose valued at over Rs. 3 lakhs would be added to this.

The Committee observe that the economics of the manufacture of these batteries on such a large scale were not properly considered before embarking upon this experiment which has cost the Public Exchequer more than Rs. 1 lakh. They are not at all satisfied with the manner in which this scheme was conceived and executed. They would have appreciated if the technique of the manufacture of batteries had been acquired by the Ordnance Factory before attempting to undertake the job. The Committee suggest that all avenues including the possibility of restarting the production unit should be explored to utilise the material to the best advantage of the Government.

At one stage, it was urged by the Ministry that the standard of judging expenditure on research and development should not be the same as were applicable to other ordinary expenditure. The Committee recognise the difficulties of controlling expenditure on research and development without hampering essential progress. But the history of this case clearly establishes that this particular effort was neither in the nature of a development nor of research.

36. General Observations.—The review of these cases as well of the general administration of the Ordnance factories, and their

utilisation, has left an impression on the Committee that the planning or production in these well-established units have not so far been in the best national interests. The Committee urge, therefore, that an overhaul of the administration should be immediately undertaken so that the fuller beneficial utilisation of the installed capacity could be secured.

VII MISCELLANEOUS

37. *Para 39 of Audit Report, 1953—Unauthorised Sale of refrigerators.*—Between May and July, 1949, seven refrigerators were sold from an Engineer Park, in contravention of the rules, by the Chief Engineer of a Command to certain high-ranking Officers of the Military Engineer Services stationed in Delhi, for a total sum of Rs. 725/-. The sale of refrigerators was not advertised nor was it entrusted to the Disposals Organisation, as required under the rules.

During his evidence tendered before the Committee in this case, the Engineer-in-Chief disclosed that one of the Officers who purchased the refrigerators was also on the Board of Officers who drew up the report which stated that the refrigerators were surveyed and declared as beyond economical repairs. The Committee are distressed to note that adequate disciplinary action had not been taken by the authorities against the Officers concerned who joined hands in securing this favourable deal at such a ridiculously low price as Rs. 725 for seven refrigerators. Even remarks or entry about the displeasure of the Engineer-in-Chief having been conveyed to these Officers had not been kept in their Confidential Records. The Engineer-in-Chief observed that, under the M.E.S. Regulations, the Officers were empowered to dispose of certain articles and the sale of these refrigerators was done under these regulations. The Committee would like to express their strong disapproval of the manner in which these were disposed of in utter disregard of all the canons of financial propriety. The Committee wish to express their dissatisfaction with the various aspects of this case. They note that Government have since withdrawn the powers vested in subordinate authorities for sale of stores to Government employees and have laid down that prior sanction of Government was necessary in these cases.

38. *Para 46 of the Audit Report, 1953—Loss of Ordnance Stores by fire.*—In this case, a fire broke out in a Vehicle Depot on the 3rd April, 1950 resulting in the destruction of stores and buildings valued at Rs. 67.18 lakhs approximately before it could be brought under control. The Court of Enquiry which investigated into this case opined that the fire could have been localised in the beginning and prevented from spreading but for the ignorance, inefficiency and negligence on the part of the Depot Staff.

Eleven persons including 4 Commissioned Officers were held to blame. Two of these Officers were released from service on the 11th November, 1950, the third officer was debarred from attending the course of Staff College and severe displeasure of the Commander-in-Chief was conveyed to him. The Gazette Notification relating to the substantive promotion of the fourth Officer was not published and his substantive promotion was deferred till March, 1951. Action was also taken against the J.C.O., C.G.O. and other non-gazetted staff.

In the case of the fourth Officer, it was brought to the notice of the Committee by the Comptroller and Auditor-General that the statement made by the Ministry was not correct as the Officer had been given promotion with retrospective effect by a Gazette Notification dated the 22nd December, 1951 of the Ministry of Defence promoting him as a substantive Captain with effect from the 16th March, 1950. The Committee desired the Ministry to explain why a wrong statement of facts had been made to Audit in the first instance. In a note submitted to the Committee (Appendix VI) the Ministry have explained that the original order regarding the deferment of substantive promotion of the Officer concerned from March, 1950 to March, 1951 was interpreted 'to mean that the Notification of the promotion was to be deferred by one year, if in that period of one year a favourable report on the Officer was received. Such a report was received and the notification of the promotion was, therefore, made retrospectively'.

The Ministry have, however, admitted that the interpretation of the expression "Deferment of promotion" as "Deferment of Notification of promotion" was incorrect. The effect of this has been to nullify the decision of the Court of Enquiry and to set at naught the punishment proposed to be inflicted on this particular officer. The Committee would like to know what action has since been taken to see that the Officer does not on this account escape the punishment, which the Court of Enquiry had considered him to merit. The Committee would also like to know the result of the further investigation promised by the Ministry of Defence in regard to the person responsible for misinterpreting the orders.

39. *Para. 55 of Audit Report, 1953—Misappropriation of Public Funds.*—In this case, both the Officer Commanding of a Formation and the Cash Officer drew money from the Unit Cash Chest for their personal use, the former keeping in lieu personal chits and cheques drawn on self. To cover up the cash deficiency, cash realisations from payment for issues of rations and clothing were allowed to accumulate in the cash chest instead of their being promptly remitted into the Treasury and the cash relating to Regimental Funds was also mixed up with that of Public Funds. The Officers involved in the misappropriation were a British Lt. Colonel and an Indian Lieutenant. It was pleaded by the Ministry of Defence that disciplinary action could not be proceeded with due to certain reasons, as in this case the British Officer could only be tried under the (British) Army Act and the Cash Officer under the (Indian) Army Act.

In a note submitted to the Committee, (Appendix VII), the Ministry of Defence have stated that considering the fact that the British Officer was mainly responsible for the misappropriation, it was decided not to proceed against the Indian Officer alone in a Civil Court. Both the Officers were, therefore, released from service forfeiting release concessions.

The Committee are not satisfied with the reasons for not prosecuting the two officers in an ordinary criminal court.

COMMERCIAL APPENDIX TO THE APPROPRIATION ACCOUNTS (DEFENCE SERVICES), 1951-52 AND AUDIT REPORT THEREON.

40. *Para. 10—Canteen Stores Department.*—It has been pointed out in the Audit Report that the Canteen Stores Department was being

run as a Government commercial undertaking but its receipts and expenditure were still being kept outside the Government Accounts (Consolidated Fund of India) in contravention of the provisions of Article 266 of the Constitution. The effect of this irregular procedure has been that expenditure incurred on this Organisation and sums appropriated out of its profits for the purpose of welfare and amenities to troops from time to time had not been submitted to the vote of Parliament. 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.

41. *Para. 11—Hindustan Aircraft Ltd.*—The Committee are informed by the Chief of the Air Staff that the standard of work done by the Hindustan Aircraft Ltd. is good although it was a little more expensive as compared to the cost of a similar job done elsewhere.

The Committee feel that departmental accounts should be maintained, *viz.*, Aircraft, Railway Coaches and Bus Bodies so as to facilitate a comparison and scrutiny of the operational efficiency of the respective Wings. They would also suggest that a fuller Report embracing the various activities of this concern as also its Balance Sheet and Profit and Loss Accounts, separately for each Department, should be made available to Members of Parliament annually for their information.

GENERAL

42. *Para. 22 of Audit Report, 1954—Clearance of Outstanding Audit Objections.*—The Committee note that the bulk of the outstanding audit objections relate to the M.E.S. During the course of evidence given by him before the Committee the Engineer-in-Chief raised an important point *viz.*, that delegation of powers to the Officers at various levels to dispose of on the spot unimportant objections arising out of minor breaches of rules and regulations etc. would go a long way in reducing the number of outstanding objections. The Committee commend this suggestion for consideration not only by the Ministry of Defence but by all major spending Ministries as this measure would undoubtedly lead to the expeditious settlement of the majority of the outstanding objections and save considerable time and money, both in the Audit and Executive Offices.

* See also Appendix VIII.

VIII

OUTSTANDING RECOMMENDATIONS—ACTION TAKEN ON

43. The Committee shall now proceed to deal with some of the important items outstanding from the previous stages of progress (Appendix I). They recommend that in each case the disposal should be expedited.

44. *Item 4—Para. 16 of the Ninth Report—Irregularities in the Naval Stores Repot.*—(i) and (ii) In reply to the Committee's observation that the investigation should have been conducted by a Board of Senior Officers not connected with the Naval Stores Organisation, Ministry of Defence have stated that the Board consisted of three officers not connected with the Naval Stores Depot or even Dockyard. But the Captain Superintendent, Dockyard, was allowed to sit with the Board, which was irregular.

In regard to the Committee's observation that those who resisted audit inspection should be suitably dealt with, the Ministry of Defence have stated that no disciplinary action is called for. The Ministry's version of the case leading to the above conclusion does not, however, fit in with facts. On the 13th May, 1949, the Foreman of the Transit Shed did express his disinclination to give the documents to Audit. On the 24th May, 1949, the Naval Stores Officer issued orders that the documents under audit should no longer be made available for audit purposes. Later on, documents were produced but no action has been taken against those individuals who refused to produce documents in the first instance—*vide* page 109 of the Ninth Report—Volume I. They, therefore, recommend that the position should be further examined by the Ministry of Defence and a report made to them, after showing it to Audit. In this connection, the Committee observe that the Ministry did not show their reply to Audit before submitting it to them as required under the standing instructions given by them from time to time.

(iii) The Committee note that the Ministry of Defence are reviewing the existing instructions regarding the reporting of cases of loss or fire to the Police, which is not the same in the three Services, with a view to evolving a uniform procedure for adoption in all the Services. The Committee may be informed in due course of the decision arrived at in the matter.

45. *Items 9 and 10—Para. 33 of the Ninth Report—Loss on purchase of aviation stores without proper verification of the financial status of the firm named Messrs. Aircraft Instrumentation Ltd.*—The Committee should like to know in due course the action taken against the person or persons responsible for not verifying the credentials and financial standing of this firm, which had a capital of £2,000 before placing an order to the value of £8,115 with it.

46. *Item 18—Para. 52 of the Ninth Report—Setting up of Arbitration Tribunals to decide cases of disagreement under Works contracts.*—The Committee defer consideration of this matter till they take up next year's Accounts when they would like to examine the representatives of the Ministries of Defence and Finance (Defence) on the note (Appendix IX) submitted by Government.

47. *Item 19—Para. 53 of the Ninth Report—Irregular disposal of Engineer Stores.*—The Committee wanted Government to explain why when the party had agreed to the sale at cost price plus 10 per cent, the Saw Mill was released to him at 40 per cent of the book value. The Disposals Organisation came to know in July, 1948 that the individual had committed himself in July, 1948 to the purchase of the entire plant at cost price plus 10 per cent. In June, 1949, after taking legal opinion, the Ministry of Industry and Supply (now Works, Housing and Supply) decided to ask the party to return the plant if he was not prepared to pay the balance of Rs. 1,31,335/-. The Ministry, however, reversed their decision on 2nd July, 1949. The action to be taken against the officials responsible for the reversal of the decision taken in June, 1949 has not been stated. The Committee would like the case to be re-examined and a report submitted to them.

48. *Item 20—Para. 54 of the Ninth Report—Errors in letting out and operation of contracts—Alleged irregularities committed in the Term Contract.*—The Committee had recommended that as the delay in convening a Court of Enquiry and/or delay in taking action on their recommendations defeated the very object of such an enquiry, the Ministry of Defence should examine this aspect of the matter and amend the Army Act, if necessary, to ensure that adequate disciplinary action was taken in all cases against Officers who had been guilty of financial irregularities and they did not escape punishment by taking shelter under the 'time limit' clause. In explanation, the Ministry have stated in their Memorandum (Appendix X) that there was no need to alter the existing provisions since the 3-year limitation had no legal effect as it could not prevent action being taken in a civil court after the lapse of that period. The Committee have examined the matter and would reiterate the views already expressed by them in this respect in their previous Report and shall be glad if the Ministry of Defence took further action in the matter.

49. *Item 28—Para. 68—Uneconomical purchase of stores for military works.*—The Committee note that on the advice of the U.P.S.C. the increment of the Executive Engineer concerned has been stopped for one year.

The Committee are, however, unable to understand the implications of the remark "The matter is under consideration" offered by the Ministry of Defence in regard to the suggestion made by them in this case that 'contracts should be placed after tenders have been openly invited'.

50. *Item 29—Para. 70 of the Ninth Report—Compensation payments.*—The Committee may be informed of the result of the reference made to the West Bengal Government as suggested by them.

51. *Item 33—Para. 115 of the Ninth Report—Advance payments to the U.K. Government.*—The Committee note the remarks offered by the Ministry of Defence. As important issues arise therefrom the Committee desire to discuss this matter with the representatives of the Ministries of Finance, Defence and W. H. and S. at the time they take up examination of the next year's Defence Accounts. In the meantime, they defer further consideration of this item.

52. *Item 37—Para. 63 of the Ninth Report—Absence of control over production cost in Naval Dockyards.*—The Committee had suggested that Government should take steps to train sufficient manpower in cost accounting and estimating work, not only for the Naval Dockyards but also for employment in other Governmental Industrial Undertakings. The Ministry of Defence have stated that with a view to improving the system of estimating cost of jobs in the Indian Naval Dockyards, a Statistical Section has been set up since early 1954. They had also issued instructions that in cases where jobs were executed by the Dockyards for outside parties, a written undertaking should be obtained that in the event of the actuals exceeding the estimates, the actual charges would be recovered from them. As regards the Ordnance Factories, the Committee note that the Government are examining the recommendations made by the Ordnance Factories Re-organisation Committee for improving the system of cost accounting and estimates. The Committee desire to be furnished with a statement showing the important recommendations made by that Committee in this behalf and the action taken thereon by the Government.

B. DAS,
CHAIRMAN,

PUBLIC ACCOUNTS COMMITTEE.

NEW DELHI;

Dated the 29th June, 1955.

PART II

**Proceedings of the sittings of the Public Accounts Committee held
on the 9th, 10th, and 12th February, 24th and 26th March; 2nd,
4th, 15th, 22nd, and 27th April, 1955.**

Proceedings of the Thirtieth Sitting of the Public Accounts Committee held on Wednesday, the 9th February, 1955.

53. The Committee sat from 10 A.M. to 1 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri T. N. Singh
3. Shri S. N. Das
4. Shri Balwant Sinha Mehta
5. Shri Amarnath Vidyalkar
6. Shri S. V. Ramaswamy
7. Shri U. C. Patnaik
8. Shri C. P. Gidwani
9. Shri V. P. Nayar
10. Shri U. M. Trivedi
11. Shrimati Violet Alva
12. Diwan Chaman Lall
13. Shri P. S. Rajagopal Naidu
14. Shri Mohamed Valiulla

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

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

Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Witnesses

Shri M. K. Vellodi, *Secretary, Ministry of Defence.*

Shri B. B. Ghosh, *Joint Secretary, Ministry of Defence.*

Shri N. N. Wanchoo, *Joint Secretary, Ministry of Defence.*
Major General H. Williams, *Engineer-in-Chief, Army Headquarters.*

Major General S. D. Verma, *Master General of Ordnance.*

Shri J. Dayal, *Financial Adviser, Defence Services.*

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

MINISTRY OF DEFENCE

APPROPRIATION ACCOUNTS (DEFENCE SERVICES), 1951-52, AND 1952-53 AND AUDIT REPORTS THEREON.

54. The Committee took up consideration of the Appropriation Accounts (Defence Services), 1951-52 and Audit Report, 1953.

55. *Para 4 (iii) of the Audit Report, 1953—Savings in the voted grants as compared with the previous years.*—This Para disclosed that the total savings in the Defence Budget were over Rs. 20·83 crores in the year 1951-52. The Committee drew attention to the audit comments contained in para 3 of the Audit Report, 1954 which showed that the savings in the Defence Budget were steadily increasing from year to year. The Comptroller and Auditor-General pointed out that in the year 1953-54, the savings were of the order of Rs. 29·99 crores thus representing 10·5 per cent. of the total budget. The Committee observed that the savings or lapse of funds indicated that the plans which had been conceived by the Ministry of Defence were not being adequately implemented, and it reflected badly on the efficiency of the Administration. Further, it immobilised large sums of money which might have been diverted for more beneficial purposes by Government in other Departments.

56. The representative of the Ministry of Defence stated that the lapses or savings were due not so much to defective budgeting and planning as to defective execution. The Comptroller and Auditor-General, however, suggested that the Defence Secretary might discuss the matter with him with a view to evolving a better mechanism for budgetary control.

57. Explaining some of the measures which had been adopted to prevent such things happening in the future, the representative of the Ministry of Defence stated that they had tried to reorganise and improve the purchasing machinery for the purchase of stores from abroad. They had also appointed a Screening Committee in the case of defence requirements which screened all indents for imports from abroad. To the extent that goods were available or could be manufactured in the country the Committee saw that those were not imported. There also existed a cell in the Ministry of Works, Housing and Supply for processing indents of stores to be procured in India and full use of that cell was being made in framing the periodical estimates. They were also obtaining fortnightly statements showing progress of stores supplied to the Defence Services during the year.

58. *Para 8 of Audit Report, 1953—Excessive rates of daily wages of labour.*—In the Southern Command, the rates fixed for labour in Military Works Division were far in excess of the rates paid by other departments in the same station. This was done in contravention of the existing rules. The Committee wanted to know whether any responsibility had been fixed for continuing to pay on the basis of these excessive rates upto June 1952. The Engineer-in-Chief, Army Headquarters stated that monthly labour rates were calculated at 26 times the daily rate, and the Chief Engineer, Southern Command interpreting the Government orders that the labour should be paid at the monthly rate of Rs. 70/- (calculated @ Rs. 1/2/- plus Rs. 1/8/- Dearness Allowance plus Compensatory Allowance for 26 days)

thought that it was right to pay the daily rate at 1/26th of the monthly rate. He further stated that as soon as it was pointed out that this was wrong, action was taken to stop it. The Chief Engineer, he added, acted in good faith, and maintained that if he employed two kinds of labour, monthly labour at one rate and the daily labour at a much lower rate, there would be discontentment.

In reply to a question, the Engineer-in-Chief stated that while the local rate was Rs. 1/14/-, the rate paid by the Chief Engineer was Rs. 2/4/- per day. The representative of the Comptroller and Auditor-General pointed out that the local rate at Poona including dearness allowance prevailing at present was Rs. 2/- while the M.E.S. were even now paying Rs. 2/8/- or so per day. The Engineer-in-Chief undertook to check this up. The Engineer-in-Chief further informed the Committee that the Chief Engineer, Southern Command was competent to sanction local daily rates for payment of wages to labour. After some discussion, the Committee desired to be furnished with a note stating:

- (i) What is the present local rate of wages per day/per month for the labour in the area lying in the jurisdiction of the Southern Command;
- (ii) the rate of wages paid by the Defence authorities in the Southern Command—the rates of Dearness Allowance and Compensatory Allowance to be indicated separately; and
- (iii) whether there still subsists a variation of 25% in the two rates.

59. *Para 11—Purchase of Ordnance stores manufactured in a foreign country.*—In this case, an official of the Ministry of Defence attended a demonstration on the Continent of certain weapons in May, 1951 as a result of which he orally asked a firm, not on the approved list of contractors of the India Stores Department, to forward to India for trial purposes a sample of each of the two different weapons and necessary ammunition. The firm thereon placed a trial order with the manufacturers informing the High Commissioner for India in the U.K. on the 25th June, 1951 that they had done so, and the stores were shipped in August, 1951. The position was regularized by the D.G., I.S.D., London after the stores had been delivered, by the placing of a formal order at a cost of £6,990 with the firm in August, 1951 on the authority of a telegram from the Government of India. The Committee pointed out that this was another instance where the recognised procuring agency was by-passed without any justification. The urgency for the purchase of the stores, it was further pointed out, had not been established and the extraordinary procedure by which the order was placed with an unapproved firm lacked justification.

The representative of the Ministry of Defence stated that this was not considered a very big order and it was placed by a responsible Officer of the Government of India in good faith. There was no desire or intention to by-pass the normal procurement channels. In reply to a question, he stated that the particular official was the Defence Secretary himself and he was accompanied by an Army Officer in this visit to the Continent. It was further disclosed in reply to another question that the interme-

diary firm concerned in this case too was associated with the S.C.K (Agencies), Ltd. He pleaded that the Defence Secretary at that time was not concerned with so much about the intermediary but about the particular article which he found was good.

60. *Para 16—Non-accounting of stores.*—This para disclosed the non-maintenance or irregular maintenance of accounts in a certain Ordnance Depot. The Committee wanted to know whether the ledgers had now been completely posted and also what disciplinary action had been taken against those responsible for this omission. The representative of the Ministry of Defence stated that none of the persons concerned was in India at present, some of them had gone to Pakistan and some of them repatriated to U.K. It was, therefore, not possible for the authorities to take any disciplinary action. The irregularity in this case, he added, had been condoned subsequently.

61. Referring to the overall position of maintenance of Stores Accounts, the representative of the Ministry of Defence drew the attention of the Committee to the Controller General of Defence Accounts' Certificate on the Accounts for 1952-53 stating that the position regarding stock verification showed an improvement over the previous year and the results were also found to be generally satisfactory. The Comptroller and Auditor-General pointed out that there were cases where stores were indented even when large surpluses existed in certain depots etc. He, therefore, suggested that a stage had now been reached when the Defence Authorities should review the whole position and put it on a more rational and acceptable footing. The representative of the Defence Ministry undertook to consider that suggestion. He also assured the Committee that they were endeavouring to improve matters in this respect.

62. Elucidating the position regarding the accounting and stock-verification of stores as it existed in the Defence installations and Ordnance Depots, the Master General of Ordnance stated that immediately after Independence, the British Officers who mostly manned the Ordnance Services either went away to U.K. or Pakistan and thus they were confronted with shortage of technical personnel to look after the stores depots etc. Further, the process of opening of packages, verification of stores and their accountal took much time. The reorganisation process which they started in 1950, he said, had now been completed. He hoped that very shortly the whole thing would be set on a satisfactory footing.

63. As regards the disposal of surplus stores, the Master General of Ordnance stated that they were constantly endeavouring to find out alternative uses for them. But, at the same time, the major consideration which weighed with them was that they had to maintain certain standards for the services and had to ensure that these stores were fit for field service.

64. The Master General of Ordnance also informed the Committee about the method followed by them in the matter of provisioning of stores and its periodical review. He made a reference to the machinery that had been provided in the Central Ordnance Depots for the purpose of co-ordination in the matter of purchase and supply of the same kind of stores. He also hinted that, although he was not quite satisfied with the existing position, they

were examining the possibility of centralising provisioning, as it used to be before the War, but the question of economy and manpower stood in the way. The representative of the Ministry of Defence assured the Committee that they would take all possible steps to see that there was actual periodical stock verification and ledgers were regularly posted.

65. In reply to a question, the Master General of Ordnance stated that 80 per cent of the Depots under his charge were lacking in adequate covered accommodation. The representative of the Ministry of Defence stated that they were fully aware of the position and they had taken note of it and in the Priority Committee they did assess the relevant importance and urgency of all projects including that for the provision of covered accommodation for valuable Defence stores lying in the open.

66. The Committee then adjourned to meet again at 10-30 A.M. on the 10th February, 1955.

Proceedings of the Thirty-first Sitting of the Public Accounts Committee held on Thursday, the 10th February, 1955.

67. The Committee sat from 10 A.M. to 1 P.M.

PRESENT

Shri B. Das—*Chairman*

Members

2. Shri T. N. Singh
 3. Shri S. N. Das.
 4. Shri Balwant Sinha Mehta
 5. Shrimati Ammu Swaminadhan
 6. Shri Amarnath Vidyalkar
 7. Shri S. V. Ramaswamy
 8. Shri U. C. Patnaik.
 9. Shri C. P. Gidwani
 10. Shri V. P. Nayar
 11. Shrimati Violet Alva
 12. Diwan Chaman Lall
 13. Shri Mohamed Valiulla
- Shri A. K. Chanda, *Comptroller and Auditor-General of India*
- Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General of India*
- Shri V. Narayanan, *Director of Audit, Defence Services*
- SECRETARIAT**
- Shri V. Subramanian—*Deputy Secretary*

Witnesses

- Shri M. K. Vellodi, *Secretary, Ministry of Defence*
- Shri B. B. Ghosh, *Joint Secretary, Ministry of Defence.*
- Shri N. N. Wanchoo, *Joint Secretary, Ministry of Defence.*
- Shri Nagendra Singh, *Joint Secretary, Ministry of Defence.*
- Shri K. S. Krishnaswami, *Joint Secretary, Ministry of Finance.*
- Major General H. Williams, *Engineer-in-Chief, Army Headquarters*
- Major General Tara Singh Bal, *Quarter-master General, Army Headquarters*
- Col. N. B. Tandon, *Chief Director of Purchase, Ministry of Food*
- Shri A. Zaman, *Director-General (Food) and Joint Secretary, Ministry of Food and Agriculture*

Shri M. R. Sachdev, *Secretary of Works, Housing and Supply*

Shri T. C. Puri, *Deputy Secretary, Ministry of Works, Housing and Supply.*

Shri J. Dayal, *Financial Adviser, Defence Services.*

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

MINISTRY OF DEFENCE—Contd.

68. *Appropriation Accounts (Defence Services), 1951-52 and Audit Report, 1953—Para 17 of Audit Report, 1953.*—At the outset, the Committee asked the Engineer-in-Chief, Army Headquarters to make a few general observations on the state of stores accounting, stock verification and disposal of surplus stores in the M.E.S. formations under his control.

69. The Engineer-in-Chief stated that the big Engineer Stores Depots had been brought to a reasonable state of efficiency and definite progress had been made in putting right the irregularities which had been reported in the Audit Reports in this behalf and brought up before the Committee from time to time. But there was another handicap viz., according to Government orders, a hundred per cent stock verification of all stores had to be carried out. Thus even very valuable things were treated in exactly the same way as things which were not so valuable, and as a result of this, quite a number of staff had to be uneconomically employed for attending to this work. The Comptroller and Auditor-General suggested that the Engineer-in-Chief should put up concrete proposals regarding the percentage of checks that should be applied to the various categories of stores instead of cent per cent check as done at present.

The Committee referred to the comments made in para 17 of the Audit Report, 1953 that in an Engineer Stores Depot, where the tonnage of stores held was about 1.6 laks tons worth Rs. 20 crores approximately, but there was covered accommodation for 0.2 lakh tons only, the rest of the stores being stacked in the open, and wanted to know the views of the Engineer-in-Chief in the matter. The Engineer-in-Chief stated that the provision of covered accommodation in the depots was treated like a Works Project and it had to go before the Works Committee and had to take its turn with the other items. When asked whether he could assure the Committee that all the stores which were liable to deterioration as a result of exposure had been placed under covered storage, the Engineer-in-Chief stated that this had been done by and large but he would prefer to check it up by a personal visit to the depot concerned.

70. As regards the surplus stores, the Committee were informed that the Defence authorities were continually reviewing the position depending on the rate at which the stores were consumed and the rate at which the General staff informed the M.E.S. from time to time about what they would like them to hold, and their reserve altered accordingly.

71. The Comptroller and Auditor-General suggested that now that the stock-taking had been completed, the M.E.S. authorities

should take steps to cancel the orders for Stores placed abroad which were no longer necessary. The Engineer-in-Chief undertook to look into the matter and do the needful.

72. In reply to a question, the Engineer-in-Chief informed the Committee that the value of purchases of Stores made from U.K. did not exceed 10 per cent of the total purchases made by the M.E.S. in India and further stated that they were endeavouring, as far as possible, to use materials which were available in the country.

73. While replying to a question raised by the Committee regarding the utilisation of Stores manufactured by the Ordnance Factories, the Engineer-in-Chief stated that the cost of Stores supplied by the Ordnance Factories was considerably higher than the cost at which these could be procured from elsewhere. The C. & A. G. suggested that as Ordnance Factories belonged to the Ministry of Defence, that Ministry should evolve a formula by which they could make supplies to the M.E.S. and other Defence Organisations at competitive prices treating the difference in the cost as a standing charge of the factory.

74. *Para 39 of Audit Report 1953—Unauthorised sale of refrigerators.*—In this case, seven refrigerators were sold from an Engineer Park, in contravention of the rules, by the Chief Engineer of a Command to certain officers of the Military Engineering Services for a total sum of Rs. 725. The sale of refrigerators was not advertised, nor was it entrusted to the Government Disposals Organisation as required under the rules. It was, however, contended by the Engineer-in-chief that the sale was circularised to the officers of Army Headquarters but a copy of the circular could not be shown to audit. The Committee were given to understand that the officers who made the purchases in this case were of the rank of Colonels, Lt. Colonels and Majors stationed in Delhi. The Engineer-in-Chief stated that when the matter came up before him he went into it very carefully and had reasons to believe that the Officers concerned acted in good faith; but, at any rate, he made it clear to them that their action was foolish, though not criminal.

75. In reply to a question, the Engineer-in-Chief said that one of the officers who purchased the refrigerators was also on the Board of officers who drew up the manuscript report which stated that the refrigerators were surveyed and declared as beyond economical repairs. The Committee pointed out that they were distressed to see that no action had been taken against the officers concerned. The Engineer-in-Chief explained that after going into the whole matter, whether the action on the part of the officers was a *malafide* or whether it was a genuine mistake, he gave them the benefit of doubt. The representatives of the Ministry agreed with the Committee that such an action on part of the officers who were to deal with the contractors and made payments of lakhs of rupees was certainly undesirable.

The Engineer-in-Chief observed that the M.E. S. regulations allowed the right to sell certain things to Government personnel and the officers who carried out these transactions pleaded that they had done so under these regulations. The Ministry in consultation with

Finance had since withdrawn this authority and any sale of stores to Government employees would have to come to the Ministry. He assured the Committee that if such a thing happened again, serious action would be taken against the delinquent officers. In reply to a question, the Committee were informed that no remarks or entry about the displeasure of the Engineer-in-Chief, having been conveyed to the Officers concerned, had been kept in their confidential records.

76. *Para 62—Audit Report, 1953—Outstanding Audit Objections.*—The Committee wanted to know the present position regarding the clearance of audit objection relating to the M. E. S. Organisation. The Engineer-in-Chief stated that prior to 1950 a large number of objections raised by audit remained in their books unanswered and finally it was decided in consultation with Finance that they should appoint an *ad hoc* Committee which should go to the Command concerned and examine all those objections. Out of 15,000 objections, they had cleared over 12,000 on the spot, the remaining were being dealt with in the ordinary course and Government's sanction was being obtained wherever necessary. He assured the Committee that they were now endeavouring to keep themselves in closer touch with the representatives of Audit on the spot and dispose of all those audit objections very expeditiously.

77. The Committee then referred the Engineer-in-Chief to the cases commented upon in para 62 (c) (v) of the Audit Report wherein it was stated that advance payment of Rs. 1,00,000 was made to contractors in excess of the prescribed limit of 90% of work done, while in one case work done was also below specification or of inferior workmanship, and wanted to know what action had been taken against the officer who paid more. The Engineer-in-Chief stated that after the work was completed and during the maintenance period, the contractor was asked to rectify certain defective works under the terms of his contract, but it was found that he did not do the needful and refused to accept the bill prepared by the Garrison Engineer as a result of the work having been revalued by him. The contractor then raised a number of counter-claims and wanted the dispute to be referred to arbitration. The Contractor had offered to abide by the decisions of the Chief Engineer, Eastern Command in respect of many of his claims and the former was now examining them prior to arbitration.

78. In reply to a question, the Engineer-in-Chief informed the Committee that action had been taken against the same officer in connection with other items and he had already been convicted for taking bribe six months ago.

79. *Para 9 of Audit Report, 1953—Purchase of tinned milk and milk products.*—This para relates to the procurement of large quantities of tinned milk and skimmed milk powder by the High Commissioner for India in the U.K. for the Defence Services. The value of the purchases made during 1951-52 amounted to about £3,00,000 and to about £5,00,000 during the preceding year. This para brought out (i) the failure to follow the prescribed tender procedure and (ii) unnecessary restriction of competition in certain cases resulting in avoidable losses. The Committee wanted to know why the correct procedure was not followed in this case. The representative of the Ministry of Defence stated that this particular item was controlled by the Ministry of

Food and Agriculture and that the Committee might direct its questions either to that Ministry or to the Ministry of W. H. & S. who were controlling the I. S. D., London rather than to his Ministry. He added that so far as the Defence Ministry was concerned they simply placed the indent with the Indian High Commission and it was the latter who made the procurement in consultation with their Technical and Financial Officers and they did not, therefore, come into the picture. He therefore, urged before the Committee that as he was not ready with the answers, he should be given a little more time to look into this matter and if ultimately he found that he was answerable to the Committee in this case, he was quite prepared to do so. The Committee agreed to this and postponed further discussion on this para till their next meeting to be held on the 12th February, 1955.

The Committee, however, drew attention in this connection to the recommendations made by them in para 10 of their Second Report according to which the indenting Ministry was also answerable to the Committee in regard to the transactions concerning them.

80. *Para. 10 of Audit Report, 1953—Contracts for purchase of asbestos cement sheets.*—In this case, supply from indigenous sources of asbestos cement sheets being inadequate, two indents for 5,54,600 sheets and 1,10,000 numbers of ridges (asbestos cement sheets of various kinds and sizes) were cross-mandated to the D. G., I. S. D., London on the 31st March, 1949 and the 2nd June, 1949. In spite of wide publicity, only two offers from two British firms named Messrs Witting Bros. Ltd. and Messrs Kenbanks Enterprises Ltd. were received out of which one was for stores of Italian manufacture. These offers were accepted and before the actual contracts were concluded, Messrs Kenbanks proposed that the contract arising from their offer be placed with Messrs Crane Anderson & Co. Accordingly, contracts were entered into by the D. G., I. S. D., with Messrs Witting Bros. Ltd., on the 30th October, 1949 for 50,000 sheets and 12,500 ridges of U.K. manufacture and with Messrs Crane Anderson & Co. on 1.12.49 for 2,39,100 sheets and 42,500 pairs of ridges of Italian manufacture. The latter contract also provided for the opening of an irrevocable, divisible and transferable letter of credit covering stores of Italian manufacture to the extent of £ 1,82,401-15-11 and it was opened in the name of another firm named Messrs Sale & Co.

On arrival of the first consignment in India of asbestos cement sheets of Italian manufacture, abnormal breakages were noticed. The D. G., I. S. D., to whom the matter was referred, explained in reply that it had been found by experience over many years that the asbestos cement sheets travelled more safely when shipped loose and that the breakages were greater when they were cased or crated. Before, however, the D. G., I. S. D., could suspend further despatch of asbestos cement sheets as saked by the Ministry, almost all the contracted quantities except 8,000 ridges of British manufacture had been received in India and heavy breakages were reported. The initial loss due to breakage in transit of sheets of both U.K. and Italian manufacture upto the first receiving depot in India was over Rs. 8.32.490. Exact figures for further losses were not available. In about 34 per cent of the consignments, such transit loss was more than 10 per cent and the amount of this loss was estimated to be over rupees one lakh. Samples of these asbestos sheets were later sent to

the Government Test Houses in India and the results indicated that the sheets of U.K. manufacture were thinner by 1.6/64" than the standard specification and in those of Italian manufacture—in almost all cases—there were variations in all the dimensions and the sheets failed below the stipulated breaking load.

81. The Committee then drew the attention of the representative of the Ministry of W. H. and S. to the comments contained in Para. 6 of the Audit Report and wanted to know what had been the total loss in this transaction and whether any action had been taken in respect of the failure on the part of the Director General, I.S.D. Inspection staff.

Explaining first the reasons for opening a letter of credit in the name of a different firm for and on account of the firm which actually had the contract, the representative of the Ministry stated that Messrs. Kenbanks Ltd. did not have a satisfactory financial standing because a year later, i.e., on 27th November 1950, this firm went into liquidation.

82. The Committee wanted to know why despite the unsatisfactory financial position of Messrs Kenbanks, as the fertilizer transaction had indicated, the contract was entered into with them in the first instance. The Secretary, Works, Housing and Supply Ministry stated that the only offer received, apart from the U.K. offer, was the one from Messrs Kenbanks Ltd. So, the D.G., I.S.D., had no option in the matter but to go ahead with the contract. The representative of the Ministry of Works, Housing and Supply stated that the D.G. felt that it would not be safe to place an order on this firm; and this firm themselves suggested that they should be relieved of the responsibility of fulfilling this contract and that it might be placed with a new firm Messrs. Crane Anderson & Co. In reply to a question as to why the Government decided to accept the nominees of Messrs Kenbanks Ltd. without going into their (nominees') financial standing or calling for fresh tenders, the representative observed that the contract was placed with this firm as a result of negotiations instead of calling for a formal offer from them. Answering another question, he stated that the D.G., I.S.D., had reported that Messrs. Sale & Co. were bankers of Messrs. Crane Anderson & Co. and so the letter of credit was opened in their name. He agreed with the Committee that the D.G., I.S.D. followed an unorthodox and unconventional procedure in this case. None of these firms was on the approved list of contractors.

83. As regards the price factor, he stated that according to his information, the price of U.K. sheet was £-/5/1½ f.o.b. and it came to £-/5/9½ c.i.f. The Italian sheet price was quoted c.i.f. at £-/5/4 as against £-/5/9½ for the British sheets. So, the Italian price was less when the c.i.f. prices were compared.

84. Referring to the alteration in the size of Italian sheets, the representative of the Ministry of Works, Housing and Supply observed that at that time, a reference to the indorser was made regarding the size of these sheets. But that reference did not mention anything about the changed specifications according to which the contract was placed. But, later, during the discussions they were told

that the need for these sheets was so great that they would have accepted the charges. The representative of the Ministry confirmed this statement.

85. When asked whether the Italian manufacturers conformed to the specifications as given by the Ministry, the representative of the Ministry of Works, Housing and Supply stated that they were up to the Italian specifications. He, however, added that the Alipore Test House results showed that they were not up to the British standard. In reply to a question whether it was the practice to accept the supplies below specifications without reference to the indenter, the representative stated that as the need was great, the D.G., I.S.D. proceeded on the assumption that these sheets would be accepted.

86. As regards the action against the Inspector responsible for conducting the inspection of the sheets carried out in the U.K., the representative of the Ministry of W.H. & S. stated that the records of inspection which had been scrutinised showed that in the matter of thickness, there were so many sheets which were tested and except one the others were according to specifications. The Inspector concerned, he added, had retired at that time. He, however, subscribed to the Committee's view that the inspection carried out in the U.K. was not satisfactory.

87. It was further disclosed that such of these sheets which had not been broken were used for roofing the buildings of a certain factory and they became unserviceable in the course of a year or so.

88. The Committee then desired to be furnished with further information on the following points arising from the discussions which they had in this case:—

- (a) Were Messrs Sale & Co. the bankers of Messrs Crane Anderson & Co.?
- (b) Were this firm professional bankers? If so, what was their financial standing?
- (c) A copy of the letter head used by this firm.
- (d) Did the D.G., I.S.D., London examine the credentials of the above firm and also, the other three firms, referred to in the Audit Para or did he merely act on the suggestion of M/s Kenbanks and transfer the contract to M/s Crane Anderson & Co. without any further inquiry into their credentials? Were these genuine transactions or only *benami* transfer?
- (e) Are there any directors common to all these four firms? If so, what are their names?
- (f) Was any of the above firms in the approved list of Suppliers to HMG?
- (g) What were the f.o.b. and c.i.f.—Italian and U.K. prices of cement asbestos sheets referred to in this para? What would have been comparative c.i.f. price in India of cement asbestos sheets imported from both the countries?
- (h) The time-lag between the date of placing of the indent and actual receipt of asbestos sheets in India.

- (i) Any other additional information which the Ministry may like to place before the Committee in regard to this transaction.

89. The Committee then adjourned to meet again at 10-30 A.M. on the 11th February, 1955.

Proceedings of the Thirty-third sitting of the Public Accounts Committee held on Saturday, the 12th February, 1955.

90. The Committee sat from 10 A.M. to 1-05 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri T. N. Singh
3. Shri S. N. Das
4. Shri Amarnath Vidyalankar
5. Shri S. V. Ramaswamy
6. Shri U. C. Patnaik
7. Shri C. P. Gidwani
8. Shri U. M. Trivedi
9. Shri Ram Prasad Tamta
10. Shri Mohamed Valiulla
11. Shrimati Ammu Swaminadhan
12. Shrimati Violet Alva
13. Diwan Chaman Lall

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

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

Shri V. Narayanan. *Director of Audit. Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Witnesses

Shri M. K. Vellodi, *Secretary, Ministry of Defence.*

Air Marshal S. Mukerjee, *Chief of the Air Staff.*

Shri B. B. Ghosh, *Joint Secretary, Ministry of Defence.*

Shri N. N. Wanchoo, *Joint Secretary, Ministry of Defence.*

Shri A. Zaman, *Joint Secretary, Ministry of Food & Agriculture.*

Col. N. B. Tandon, *Chief Director of Purchase, Ministry of Food and Agriculture.*

Shri J. Dayal, *Financial Adviser, Defence Services.*

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

MINISTRY OF DEFENCE

Appropriation Accounts (Defence Services), 1951-52 and 1952-53 and Audit Reports, 1953 and 1954.

91. At the outset, the Committee felt that as the time at their disposal was very short, they would not be able to take up examination

of the Appropriation Accounts (Defence Services), 1952-53, Commercial Appendix thereto and the Audit Report thereon. They, therefore, decided to meet for two days in the last week of March to take up these Accounts etc.

92. *Non-linking of Air Force Stores received From U.K.—Para. 18 of the Audit Report, 1953, and Para. 17 of Audit Report, 1954—Arrears in the linking of invoices with packing accounts.*—The Committee wanted to know (i) whether the work of linking the invoices with the receipt of stores was being attended to with a due sense of urgency; (ii) what was the present position and (iii) whether it had been possible to establish definitely that any stores paid for had not been received and whether any claims had been made against the suppliers. The Air Marshal giving a background of the formation of the Air Headquarters in the Post-Independence era explained the various difficulties especially the lack of man-power which stood in their way in the correct accountal of the Air Force equipment etc. The representative of the Ministry of Defence stated that the procedural difficulties in obtaining stores or processing any programme delayed procurement and on these matters the Air Marshal had no control whatsoever. The Air Marshal stated that there were two main difficulties in getting the equipment, viz., (i) delivery dates of equipment and (ii) procedure for obtaining equipment. The representative of the Ministry of Defence informed the Committee that with a view to expedite disposal of indents placed by the Defence Headquarters on the D.G., I.S.D., London, they had recently suggested that there should be a certain number of technical Defence personnel on the staff of the D.G., I.S.D., who would assist him in the procurement of stores and this had been agreed upon. He hoped that this would lead to an improvement in the present situation.

93. As regards the non-linking of stores, the Air Marshal first referred to the equipment which had been ordered prior to 1947 and the deliveries of which were spread over from 1947 to 1949. These stores, he said, were sent by the Air Ministry in the U.K. to India and in many cases, they had no record as to their arrival here as the despatching authorities did not send the relevant documents to either the Air Headquarters or to the Depots. As payments were being made in the U.K., the audit staff there checked up in 1950 whether or not these items had been actually received in India. It was then found that they had no records regarding these items and early in 1954, the Air Headquarters ordered a Court of Enquiry to go into the matter. The Court found that there was a deficiency of roughly 10 lakh pounds worth of equipment and with the help of the local Audit staff approximately 7 lakh pounds worth of equipment had been traced. After further linking of vouchers, a balance of 1½ lakh pounds worth of equipment was still to be traced as they possessed no documents on the subject. The Air Ministry in the U.K. had agreed to trace these vouchers and they were doing so at present. He continued to say that even after 1949 and up to now there had been cases where the despatching authorities had not sent the despatch particulars to the Air Headquarters and to the Depots in India with the result that it had not been possible to link the vouchers. He assured the Committee that new orders had now been issued on the subject and there would be no deficiencies in future.

94. *Para 26 of Audit Report, 1953—Stock verification in Air Force Stores Organisation.*—Explaining the reasons for not carrying out the annual stock verification in the two Air Force Stores Organisations referred to in this para, the Air Marshal stated that these were formed in the middle of a financial year and on the formation of these units, equipment began to arrive during the next two or three months with the result that there was no time left to carry out the annual stock-taking. They had, however, suggested to the Ministry of Defence that where formations were set-up in the middle of a financial year, the annual stock verification should be carried out in the following financial year.

95. *Para 9 of Audit Report, 1953—Purchase of tinned milk and milk products.*—The Committee resumed further consideration of this para. The representative of the Ministry of Defence expressed his regret that he could not reply to the points arising from this para at the earlier meeting of the Committee as he was under the impression that the Ministry of Food and Agriculture were concerned with it and they would defend it. But now he was prepared to answer any question that the Committee might put to him.

He agreed with the Committee that strict tender procedure was not followed in this case and there was no explanation why the High Commissioner's office did not call for tenders. He further stated that the matter was looked into carefully by the High Commissioner subsequently and he was satisfied that there were no *mala fides* in this transaction.

96. Referring to the comments made in Para 9 (2) (v) of the Audit Report relating to the Irish supplies, the representative of the Ministry of Defence stated that it was true that the Irish Government offered to sell Irish milk to India. But after the work had been transferred to the D.G., I.S.D., they invited tenders for supplies for 1952. The Irish firms did not tender for the supplies. He added that there was no previous supply from Ireland of this product to India nor had there been subsequently. He, therefore, felt that even if the earlier offer had been pursued with the Irish Government it would not perhaps have been fruitful.

Another point that emerged from certain files read out by the Comptroller and Auditor General of India during the discussion was that the then High Commissioner for India was opposed to the transfer of this contract from his Commercial Department to the I.S.D., London. The representative of the Ministry of Defence stated that he should be given an opportunity of examining that point in consultation with Audit, if necessary, before any further question was put to him on that.

The Committee then desired to be furnished with information on the following points* :

- (a) Is the officer in the Indian High Commissioner's Office, London, who was entrusted with the purchase in this case still in service? If so, where, and what post, is he holding?
- (b) Has any action been taken against this Officer for the various lapses referred to in the Audit Report? If not,

*Since received. Not printed.

why not? (A copy of the note recorded by the High Commissioner that there were no *mala fides* against this Officer in handling this transaction).

- (c) What were the rates quoted by the firms X and Y referred to in this Para?
- (d) What were the reasons for entrusting this work to the Commercial Department in the Indian High Commission and not to the India Stores Department, London.

97. *Para 51, Audit Report, 1953—Fraud in a Military Dairy Farm.*—This para referred to the smuggling of milk out of a Military Dairy Farm for fraudulent disposal which was detected in June, 1951, and the misappropriation of the sale proceeds amounting to about Rs. 10,000/- per month by the farm staff. The Court of Enquiry had opined that to make up for the misappropriated milk, the milk issued to troops and other customers was adulterated. The Committee were informed that 11 out of the 23 persons involved were dismissed; they wanted to know the present position of the disciplinary action taken against the rest. The representative of the Ministry of Defence undertook to furnish a note* on the subject.

98. *Para 46 of the Audit Report, 1953—Loss of Ordnance Stores by fire.*—In this case, in a Vehicle Depot a fire broke out on 3rd April, 1950, resulting in the destruction of stores and building valued at Rs. 67.18 lakhs approximately before it could be brought under control. The Court of Enquiry which investigated into this case opined that the fire could have been localised in the beginning and prevented from spreading but for the ignorance, inefficiency and negligence on the part of the Depot Administration.

Eleven persons including 4 Commissioned Officers were held to blame. Two of the Commissioned Officers were released from service on the 11th November, 1950. The third Officer's name was removed from attending the course of Staff College. He was also debarred from being selected for future courses, and severe displeasure of the C-in-C. was conveyed to him. The Gazette Notification relating to the substantive promotion of the fourth Officer was not published deferring his substantive promotion till March, 1951. Action was also taken against the J.C.O., C.G.O. and other non-gazetted staff.

In the case of the fourth officer, it was, however, disclosed by Audit that the statement made by the Ministry was not correct, as the Officer had been given promotion with retrospective effect and a Gazette Notification promoting him as a substantive Captain with effect from March, 1950 appeared in the Gazette of India dated the 22nd December, 1951. The representative of the Ministry of Defence pleaded that he was not aware of this and he promised to look into the matter and submit to the Committee a note† on this point in due course. The Committee also wanted to know whether two of the Commissioned Officers who had been released from service were at present in the Civil employ and if so, what posts they held. The representative of the Ministry promised to look into this also and furnish a note to the Committee.

* See Appendix XI.

† See Appendix VI.

99. *Para 52 of Audit Report, 1953—Irregularities in the cash accounts of a military hospital.*—In this case, a Commissioned Officer who acted as an Accounts Officer of a Military Hospital misappropriated a sum of Rs. 3,630/- by manipulating the accounts and delaying remittance into the Treasury of sums received on account of payment issues of rations and laboratory fees. The Committee were informed that all these irregularities came to notice after this officer had handed over charge to his successor. A Court of Enquiry was held, and the question of taking legal action in a Civil Court of Law was examined but it had to be dropped, as the chances of conviction were remote.

100. *Para 55 of Audit Report, 1953—Misappropriation of Public Funds.*—In this case, both the Officer Commanding of a formation and the Cash Officer drew money from the unit cash chest for their personal use, the former keeping in lieu personal chits and cheques drawn on self. To cover up the cash deficiency, the cash realisations from payment issues of rations and clothing were allowed to accumulate in the cash chest instead of promptly being remitted to the Treasury and the cash relating to Regimental Funds was also mixed up with that of Public Funds. As a result of the findings of the Court of Enquiry, both the officers were suspended from service on the 16th November, 1950. It was stated that the disciplinary action against them could not be proceeded with due to certain reasons as in this case the Officer Commanding was a British Officer who could only be tried under the (British) Army Act and the Cash Officer being an Indian was to be tried under the (Indian) Army Act.

The Committee emphasised that criminal action should have been taken in this case. The representative of the Ministry of Defence undertook to examine* this aspect.

COMMERCIAL APPENDIX TO THE APPROPRIATION ACCOUNTS (DEFENCE SERVICES) 1951-52 AND AUDIT REPORT THEREON.

101. *Para 2(a)—Suspension of production of a cartridge case.*—The Committee wanted to know whether the suspension of production in this case was due to wrong planning. The representative of the Ministry stated that what he had been able to gather from the discussion with the M.G.O. and others was that the fall in the demand of the cases was somewhat sudden, which could not have been anticipated. The Committee emphasised that there should be closer co-ordination between the M.G.O. and the Director-General, Ordnance Factories in the matter of production, and steps should be taken to safeguard against the recurrence of similar cases in future. The representative of the Ministry of Defence promised to consider this.

102. *Para 2(b)—Heavy rejections.*—This para disclosed that there was about 24% of rejection in an item of store manufactured by a certain factory. The Committee wanted to know the explanations for this heavy rate of rejections. The representative of the Ministry of Defence stated that this was due to the fact that some of the machinery in certain Ordnance Factories was very antiquated and required renewal. Such rejections, he contended, did happen in certain cases.

* See Appendix VII.

103. *Para 4—Manufacture of Snow Goggles.*—The Committee wanted to know how the Director of Ordnance Services placed an order for the manufacture of 14,730 pairs of goggles when there were already in stock nearly seven times the number required. The representative of the Ministry of Defence stated that it happened a few years ago, viz., in 1950 and it was just possible that in those years the inspection and verification of the stores in stock were not done properly. He added that he could not give any explanation except that the persons concerned did not notice it.

104. (i) *Para 6—Delay in production in an Ordnance Factory*—and (ii) *Para 7 Heavy rejections.*—These paras revealed lack of proper planning which resulted in overhead charges to the extent of Rs. 70,88,974 upto the 31st March, 1952, being kept out of the production accounts. The representative of the Ministry stated that some of the machinery in all the Ordnance Factories was very antiquated and required renewal. He added that they were doing all that was possible to reduce rejections, but in certain cases rejections were high.

The representative of the Ministry stated that the plant and machinery acquired during the War were transferred to a certain station and installed in a factory there. As one had to perform 3,000 operations before a Bren Gun could be produced, it took continuously 18 months or so and thus if there was no production for 2½ years, it was not such a serious matter really.

105. *Para 8—Overhead expenses—utilization of idle capacity of Ordnance Factories.*—The Committee wanted to know whether the question of undertaking production on behalf of Civil had been considered by the Government with a view to reducing the idle capacity of the factories. The representative of the Ministry of Defence stated that they were now producing goods worth Rs. 3 crores for civil use. In reply to a question, he stated that the Report of the Committee appointed to go into this question was under examination by Government.

AUDIT REPORT, 1953

106. *Para 10—Canteen Stores Department.*—It was pointed out in the Audit Report that the Canteen Stores Department was being run as a Government commercial undertaking but its receipts and expenditure were still being kept outside the Government accounts (Consolidated Fund of India) in contravention of the provisions of Article 266 of the Constitution. The effect of this irregular procedure had been that expenditure incurred on this Organisation and the sums appropriated out of its profits for the purposes of welfare and amenities to troops from time to time had escaped the vote of Parliament. The representative of the Ministry of Defence stated that the whole matter regarding the future *set-up of this Organisation was under the consideration of Government.

107. The Committee then adjourned *sine die*.

* See also Appendix VIII.

**Proceedings of the Thirty-fourth sitting of the Public Accounts
Committee held on Thursday, the 24th March, 1955.**

108. The Committee sat from 10 A.M. to 12-45 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri T. N. Singh
3. Shri Eamananda Das
4. Shri S. N. Das
5. Shrimati Ammu Swaminadhan
6. Shri R. Venkataraman
7. Shri Amarnath Vidyalkar
8. Shri S. V. Ramaswamy
9. Shri Uma Charan Patnaik
10. Shri C. P. Gidwani
11. Shri U. M. Trivedi
12. Shrimati Violet Alva
13. Shri P. S. Rajagopal Naidu
14. Diwan Chaman Lall
15. Shri J. V. K. Vallabharao
16. Shri Mohamed Valiulla

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

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

Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Witnesses

MINISTRY OF DEFENCE

Shri M. K. Vellodi, *Secretary.*

Shri N. N. Wanchoo, *Joint Secretary.*

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

MINISTRY OF FINANCE

Shri M. V. Rangachari, *Secretary.*

Shri J. Doyal, *Financial Adviser, Defence Services.*

109. The Committee took up consideration of the note submitted by the Ministry of Finance regarding the contracts for the purchase of Jeeps in the United Kingdom and two contracts for the purchase of Defence Stores in a Foreign Country (Appendix II) and the statement made on the floor of the House by the Finance Minister on the 21st December, 1954 (Appendix III).

110. At the outset, the Committee asked the Secretary, Ministry of Finance (R. & E.) to state the basis on which Government were led to the conclusions as summed up in the Finance Minister's statement referred to above that there was no need to take action in the matter by way of holding a judicial enquiry as recommended by the Public Accounts Committee in Para 30 of their Ninth Report. In reply, he stated that he could not say why and how the statement was made, as in the case of all statements made by the Ministers on the floor of the House, it is for the Ministers to decide.

111. The Committee then proceeded to consider the implications of the letter dated the 4th September, 1950 from the Foreign manufacturers to the Military Adviser to the High Commissioner for India in the U.K. It was stated in that letter that S.C.K. (Agencies) had been appointed by them for the present as agents. The Committee wanted to know whether the S.C.K. (Agencies) were constituted as agents for the purpose of the purchase of these defence stores only or some other types of stores, or whether it came to be written, as their representative was also present at the demonstration which was given by the foreign manufacturers on the same date viz., the 4th September, 1950. The representative of the Ministry of Defence stated that from the letter dated the 4th September, 1950, it was evident that the S.C.K. (Agencies) were appointed as agents of the foreign manufacturers long before the requirements of the Government of India were settled and communicated to the Indian High Commission in the U.K. on the 22nd December, 1950. He added that there was, therefore, no question of leakage of the information regarding the requirement of the Government of India to place an order for the supply of the defence stores and the firm obtaining an agency from the foreign manufacturers for the purpose.

112. The Committee pointed out that unless the foreign manufacturers had some information that the Government of India would purchase this type of Defence Stores, they could not see any reason why the manufacturers should have addressed the letter of 4th September, 1950 to the U.K. High Commission. The representative of the Ministry of Defence pleaded that the letter itself, in his view, was the letter of a reasonable concern addressed to the High Commission in U.K. which said that the S.C.K. (Agencies) were their agents on that date and by reading that letter, he did not get the impression that they had been appointed only for the specific purpose of supplying the defence stores in question to the Government of India. The Committee, however, drew the attention of the Secretary of the Ministry to his predecessor's statement made before them previously wherein he had stated that the S.C.K. (Agencies) were appointed only for the purpose of this contract. While there was

no letter or document in their possession to show that the Government of India's intentions were not known to the intermediaries before the contract was entered into with them, he continued that as the Government of India definitely decided to go in for these defence stores on a certain date in December, 1950, no information of that fact could have been communicated earlier than the date on which the decision was taken.

113. In reply to a question, the representative of the Ministry of Defence stated that they had not got the letter dated the 4th September, 1950 referred to above in original but had a copy only which was sent to them by the High Commission.

114. As regards the contention that the appointment of intermediaries was inescapable in the case of the second ammunition contract, the representative of the Ministry of Defence pleaded that in the circumstances in which the supplies were made, it would not be held very unreasonable on the part of the High Commission to have employed agents for the procurement of these defence stores which were very effective and were in great demand by other countries including Pakistan. The Committee, however, drew the attention of the Ministry's representative to the evidence previously tendered before them by his predecessor and also the correspondence exchanged with the Indian Ambassador in the foreign country concerned which clearly established that the contract in question could have been placed direct. The representative of the Ministry of Defence, however, pressed his viewpoint that these purchases had got to be judged in the context of the circumstances that obtained at that time. According to him, there was some justification in such cases to depart from the normal methods and go to intermediaries.

The Committee, however, did not feel satisfied with the explanations given by the representative of the Ministry of Defence in the matter of interposition of intermediaries in the case of the second ammunition contract under consideration. They, therefore, decided to discuss the matter further among themselves on some other date and adjourned to meet again on the 26th March, 1955 for considering the Defence Audit Report, 1954.

Proceedings of the Thirty-fifth sitting of the Public Accounts Committee held on Saturday, the 26th March, 1955.

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

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri Ramananda Das
3. Shri S. N. Das
4. Shri Amarnath Vidyalkar
5. Shri U. C. Patnaik
6. Shrimati Violet Alva
7. Diwan Chaman Lall
8. Shri P. S. Rajagopal Naidu
9. Shri Mohmed Valiulla
10. Shri J. V. K. Vallabharao
11. Shri S. V. Ratnaswamy.

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

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

Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Witnesses

MINISTRY OF DEFENCE

Shri M. K. Vellodi, *Secretary.*

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

Shri N. N. Wanchoo, *Joint Secretary.*

Shri Nagendra Singh, *Joint Secretary.*

Major General H. Williams, *Engineer-in-Chief, Army Head-Quarters.*

Commodore R. D. Katari, *Deputy Chief of the Naval Staff*

Captain D. Shankar, *Chief of Material, Naval Head-quarters.*

MINISTRY OF FINANCE (DEFENCE)

Shri Batuk Singh, Additional Financial Adviser, Defence Services.

Shri A. Subrahmanyam, Controller General, Defence Services.

MINISTRY OF FINANCE (E.A.)

Shri H. S. Negi, Deputy Secretary.

MINISTRY OF W. H. & S.

Shri T. C. Puri, Deputy Secretary.

MINISTRY OF DEFENCE (Contd.)

AUDIT REPORT (DEFENCE SERVICES), 1954.

116. The Committee took up consideration of the Audit Report (Defence Services), 1954.

Para 8—Completion of works without technical sanction—

117. This Para **disclosed** that in contravention of the prescribed procedure for the execution of the Defence Works tenders were called for in the case of 93 contracts costing about Rs. 46.4 lakhs before recording technical sanction to the Works. Further, in respect of one works contract costing Rs. 10.65 lakhs the technical sanction had been accorded at a very late stage when a major portion of the work amounting to Rs. 10.56 lakhs had been completed. The Committee wanted to know the circumstances which led the M.E.S. authorities to deviate from the prescribed procedure and the measures that had been taken to prevent the recurrence of such cases in future.

The Engineer-in-Chief explained that this had happened because a number of works were executed by the Engineers in the Western Command in great hurry at the instance of the Executive Officers who were not aware of the importance of obtaining prior technical sanction. As regards the measures adopted to ensure that all the technicalities regarding technical sanction could be readily complied with, he stated that they had now decided to get the administrative approval to undertake a work at least 6 months before the financial year began. During these six months, the Engineers would have an opportunity to prepare the designs in detail and to get the contract documents, drawings etc. ready.

The Comptroller and Auditor-General informed the Committee that the result of the action taken by the Defence Headquarters in this behalf would, however, be reflected in the next year's Audit Report. He further suggested that it would be desirable in the interest of the Defence Services as well as the Ministry of Defence to have a forward programme of works prepared indicating approximately how much funds would be available for the execution of various works during a given period and a general overall picture on the basis of which the Services could prepare their plans and estimates. The representative of the Ministry of Defence undertook to look into this suggestion.

118. *Para 9—Purchase of an Italian tanker—*In this case, the Indian Embassy in Rome, on being asked by the Ministry of

Defence, directly negotiated with a firm of builders in Italy for the purchase of an ocean-going tanker at a price of \$1,025,000 whereas a firm offer for 1 million dollars for the same tanker had been received by the London Mission from a firm of brokers of a very high standing. This resulted in an extra price of \$25,000 being paid for the same tanker by the Rome Mission. The Committee endorse the audit comment that had the negotiations with the builders in Italy been entrusted to the Director General, I.S.D., London, whose jurisdiction extended to purchases on the Continent also, he might have secured a price advantage, armed as he was with the lower firm offer from a well-known firm of brokers in London.

119. The Committee wanted to know the circumstances under which the D.G., I.S.D., London was by-passed by the Ministry of Defence while placing an order for the supply of a tanker with the firm in Rome as also why \$ 25,000 were paid in excess for the same tanker when a firm of brokers had given a firm offer for 1 million dollars. The representative of the Ministry of Defence explained that offers were received for the same tanker from three places viz., London, Washington and Stockholm through brokers etc. The prices quoted were \$ 1,085,000 by Stockholm, \$ 9,00,000 by Washington and \$ 1,000,000 by London. As the Washington offer was the lowest, the I.S.M. Washington were asked to find out what that offer was like and the manufacturers of the tanker were also approached by the Rome Embassy and they stated that the manufacturers were not prepared to sell the tanker at a price less than the price they paid for it i.e. \$ 1,025,000 dollars and that the price of \$ 9,00,000 must be merely a speculative offer and that was why it was decided after serious consideration by the Ministry of Defence in consultation with the Ministries of W. H. & S. and Finance to authorise the Indian Embassy in Rome to proceed with this matter and finalise the offer with the manufacturers.

120. The Comptroller and Auditor-General pointed out that the offers from Washington and Stockholm might not have been firm offers. But it was not so as far as the London offer was concerned, which was a firm offer in writing addressed by the London firm to the Director General, I.S.D. The representative of the Ministry of Defence, however, agreed with the Committee that Government should have waited till the other offers were also looked into and then proceeded to negotiate the deal directly with the manufacturers through the D.G., I.S.D. London and not through the non-technical people of the Indian Embassy in Rome, more particularly when the D.G., I.S.D. had a written offer from a firm of brokers in London. It would have helped the negotiations very much.

121. *Para 10(c)—Over indenting of Stores.*—In this case, orders were placed by the D.G., I.S.D., London in October, 1948 for the supply of three ironing machines against a demand placed on him in March, 1947 by the Q.M.G's Branch. In July, 1949, the indenter found that the three machines of this particular type were not required. He, therefore, requested cancellation of the contract. The firm, however, did not agree to the cancellation without payment of heavy compensation. Ultimately all the three machines had to be accepted. Two of them which were purchased for £ 11,000 were disposed of to the same firm in U.K. for £ 2,000 and

the third machine, costing roughly £5000 was brought to India in March, 1952 and was stated to have been offered to the Disposals for sale.

The representative of the Ministry of Defence admitted that a mistake had been made in this case in accepting a different type of machines and that the Officer concerned who confirmed the indent had already been dismissed from service, though on some other account.

The C. & A. G. pointed out that the firm concerned demanded a compensation of £6,300 for the cancellation of the order and it would have been cheaper to have paid that amount rather than obtained these machines and tried to dispose of them, because they had got only £2,000 for two machines. The representative of the Ministry of Defence, however, pleaded that they did not know what the disposal value would be.

122. *Para 10(e), (f) and (g)—Overprovisioning and over-indenting stores.*—These paras disclose certain cases of overprovisioning and over-indenting of stores indented for by the Director General of Ordnance Factories. The Committee wanted to know what machinery existed in the Defence Headquarters to conduct a periodical provisioning review for the stores required by the Services and what steps had been taken to ensure that such lapses as disclosed in the Audit Report did not occur in future.

123. *Para 10(e)*—The Representative of the Ministry of Defence stated that in this case there was a delay of 2½ years in the procurement of stores and the D.G., I.S.D. was constantly reminded about it. When all this delay took place in obtaining supplies from abroad, they tried experiments in India with substitute material and it was eventually found that these substitute materials would serve the purpose. Unfortunately, by the time these experiments concluded, a commitment had already been made by the D.G., I.S.D. London. He further said that this supply had not resulted in any loss. This material, he added, was, however, for maintenance purposes and could be used later on.

124. The Committee then wanted to know why the D.G., I.S.D., London took 2½ years to comply with the order placed with him. The representative of the Ministry of Defence expressed his inability to answer this point.

125. *Para 10(f)*.—As regards this case where 15,000 ammunition boxes costing about Rs. 82,500 had to be accepted even though they were surplus to requirements, the representative of the Ministry of Defence explained that this was normally a type of stores for which there was a recurring demand from the Army. Unfortunately, during the period under report, the army reduced its demand thus resulting in this surplus.

These boxes, it was explained, were got manufactured both through the Ordnance Factories and the trade. The trade supplies came in very late but the supplies from the Ordnance Factories which were large enough to meet the demand became available during the year. If it had been known that the demand would shrink, no demand would have been placed on the trade for the supply.

Explaining further the extenuating circumstances, the representative of the Ministry of Defence stated that it was a special case because at that time experience had showed that there was serious delay in the supply of ammunition boxes. In order, therefore, to avoid this delay, they thought that on the basis of the requirements received, they might take some action so that when the ammunition was ready, there might not be any delay in supplying the boxes.

126. *Para 10(g)*.—In this case, demands were placed on an Ordnance Factory by the M.G.O. in October, 1950 for 10,000 great coats. As a result of the provision review carried out in 1951 and 1952, large surpluses of this item were revealed and in 1953 it was decided to cancel one of the demands for 7,000 numbers. But as the stores were already in process of fabrication by this time, only 1,975 numbers could be cancelled. The representative of the Ministry of Defence stated that when these surpluses were discovered, there was no immediate cancellation in 1951 because it was expected that the scales for great coats would be revised upwards but it did not, however, happen. He added that had it happened, the surpluses would have been absorbed. The revised scales, he pointed out, had not been finalised as yet.

The Comptroller and Auditor General informed the Committee that there were a number of similar items where provisioning plans had been done by the Defence authorities upon expectation and these would be brought to the notice of the Committee in the near future.

127. *Para 11—Irregular advances for the supply of stores*.—In this case, following requests from Naval Headquarters (expressly directed to the avoidance of the lapse of funds), a sum of £165,000 was paid on the 27th March, 1953 to the Admiralty (who had not asked for it) as an advance in respect of stores reported ready but not yet ordered for shipment (including about £5,000 in respect of the anticipated cost of moving the stores). The Committee wanted to know who was responsible for making the advance payment of such a huge amount to the Admiralty. The representative of the Ministry of Defence stated that the Naval Headquarters wrote to the Indian Naval Adviser, London, asking for this payment to be made but they did not take the consent of the Ministry of Defence. He admitted that this was rather an unusual case which the Ministry regretted. He added that they had warned the Naval Headquarters to adhere to the prescribed procedure in such cases in future.

128. *Para 12—Purchase of Engineer Stores*.—In this case, an indent for Tractor spare parts was placed in August 1951 on the Central Purchase Organisation for delivery before the 31st December, 1951. The Purchasing Department, treating it as an urgent demand, placed two contracts with a firm first stipulating on-stock delivery and the second 'forward delivery'. The rates for the former were higher than for the latter. The stores were actually required for bulk-provisioning and there was no urgency. This resulted in an infructuous expenditure of Rs. 8,500. The Committee wanted to know what action had been taken against the persons responsible for this.

The Engineer-in-Chief explained that in this case the confusion arose as a result of wrong marking of the order of priority on the

indents. According to him, the indent was marked on the top "Urgency 2". But at the bottom were noted the words "To be complied with within four months". Thus the Director-General, I.S.D., took it that it came under the category of 'Urgency 1' and according to the categorisation laid down by the W.H. & S. Ministry and followed by him, he ordered on 'en-stock' basis and not on 'forward delivery' basis. The contention, it was added, was caused because the indenter marked it "delivery within four months" instead of "between six to nine months", which was the prescribed period for "Urgency 2". That was merely an error.

In reply to a query on it was stated that the categorisation of indents was now being done in accordance with the rules laid down by the Ministry of W.H. & S. and that the Ministry of Defence had given up their own categorisation because it had been causing confusion.

129. Para 17—*Arrears in the Making of Invoices with packing accounts in respect of stores purchased in the U.K. for Defence Services.*—The Director-General, I.S.D., informed the Committee that since 1st November, 1954, out of invoices amounting to 92,424, 70,000 worth £32,67,301 had been adjusted, thus resulting in clearance of about 1,007 vouchers valuing about £736,730 on the 1st December, 1954. He added that there might have been some more adjustment since then.

130. Para 22—*Outstanding Audit Objections.*—The Committee pointed out that the bulk of Audit objections related to the M.E.S. The Engineer-in-Chief explained that they had set up *ad hoc* Committees to tackle these objections and out of a total of 15,000 objections, nearly 14,000 had been cleared. He further raised an important point, viz. the delegation of powers to the Officers at various levels to dispose of, on the spot, unimportant objections arising out of minor breaches of rules and regulations etc. The representative of the Ministry of Defence informed the Committee in this connection that this question of further delegation of powers not only in the Engineer-in-Chief's Branch, but in general, was under their active consideration.

131. The Committee then adjourned till 12 Noon on Monday, the 28th March, 1955.

**Proceedings of the Thirty-seventh Sitting of the Public Accounts
Committee held on Saturday, the 2nd April, 1955,**

132. The Committee sat from 10 A.M. to 1-15 P.M.

PRESENT

Shri B. Das—*Chairman*

Members

2. Shri T. N. Singh
3. Shri Shree Narayan
4. Shri Balwant Sinha Mehta
5. Shrimati Ammu Swaminadhan
6. Shri S. V. Ranaswamy
7. Shri U. C. Patnaik
8. Shrimati Violet Alva
9. Shri P. S. Rajagopal Naidu
10. Shri Mohamed Valiulla
11. Shri J. V. K. Vallabharao.

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

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

Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

Witnesses

MINISTRY OF DEFENCE

Shri B. B. Ghosh, *Secretary.*

Shri Nagendra Singh, *Joint Secretary.*

Shri N. N. Wanchoo, *Joint Secretary.*

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

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

Air Marshal S. Mookerjee, *Chief of the Air Staff.*

Shri H. K. Mendhi, *Manager (Accounts), Hindustan Aircraft
Ltd., Bangalore.*

MINISTRY OF FINANCE (DEFENCE)

Shri J. Dayal, *Financial Adviser, Defence Services.*

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

Ministry of Finance (E. A.):

Shri H. S. Negi, Deputy Secretary.

MINISTRY OF DEFENCE—contd.

Commercial Appendix to the Appropriation Accounts, Defence Services, 1951-52 and Audit Report thereon.

HINDUSTAN AIRCRAFT LTD.

133. At the outset, the Comptroller and Auditor-General informed the Committee that as the Hindustan Aircraft Ltd. had been constituted as a Company under the Indian Companies Act, it had its own Commercial Auditors who audited its Accounts. As such, his audit of those accounts would generally be in the nature of a propriety audit. He added that one of the purposes of the audit to be conducted by him would be to establish unit cost of production and to compare it with similar cost elsewhere. That would, according to him, provide an index of efficiency.

134. When asked whether the H. A. L. maintained separate accounts for each department, viz., (i) aircraft, (ii) railway coaches and (iii) bus bodies, the General Manager, H.A.L. stated that no separate Balance Sheet as such was prepared. The accounts relating to common facilities like machine shops, sheet metals, welding and painting shops were all combined. He added that in accordance with the decision taken by the Board of Directors, it was intended to separate the accounts of some major shops. The Accounts Manager, Hindustan Aircraft Ltd., explained to the Committee that for each shop they did the costing separately and controlled the cost of different products through work orders; and in this manner they calculated the costs separately for the three different activities undertaken by the Hindustan Aircraft Ltd.

In reply to a question, the General Manager stated that they had established machine hours for every machine and a time docket system for each operation which recorded the time of each operation for a job. In this manner, they could calculate the number of hours spent on a particular job. He, however, stated that complete separation of Accounts for each Department could be done, if desired, showing the working of each of the different activities in which the Hindustan Aircraft Ltd. was engaged at present.

135. The Committee pointed out that Annual Reports on the working of the Hindustan Aircraft Ltd., were not being furnished to Members of Parliament.

136. *Para 11—Bad Debts written off.*—The Committee wanted to know the present position regarding the recovery of repair charges from the Air Companies concerned and also what measures had been taken by the Hindustan Aircraft Ltd., to ensure such amounts being recovered from them. The representative of the Ministry of Defence stated that, wherever it was possible to file a civil suit to protect the interests of the Hindustan Aircraft Ltd., they had done so. The Liquidators of these Air Companies had been apprised of the outstanding claims and when they were wound up, whatever was available would be distributed and the Hindustan Aircraft Ltd., would also get its share. He added that it was not known as to what extent the position could be retrieved.

137. When asked whether the Hindustan Aircraft Ltd., had taken up with the Ministry of Communications the question of setting off of the outstanding amount recoverable from these Air Companies from the compensation payable to them as a result of nationalisation, the representative of the Ministry of Defence stated that it was doubtful whether it would be legally possible or permissible because some of the Companies were wound up or the claim was extinguished by an earlier compromise before they were taken over by the Government of India as a result of nationalisation.

138. The Committee pointed out that the Balance Sheets of the Hindustan Aircraft Ltd., for the years 1951-52, 1952-53 and 1953-54 showed losses under the heads "Welfare Units and Aerodrome Restaurant" and wanted to know whether they were run by the Company and, if so, for whom they catered. The General Manager stated that there were three separate Canteens—one for the employees in the main factory, one attached to the Rail Coach Factory—these being substantially subsidized—and the third was at the Airport and that was open to the visitors as also to the senior Company personnel and was run at a profit. As regards the welfare units, he said that there were a number of them like Apprentice Hostel, Sports Club in the Colony and Residential Quarters etc. The Aerodrome Restaurant, he added, was however running at a profit.

139. The Committee then referred to the appointment of a certain Officer in the Hindustan Aircraft Ltd., who had been in charge of another State Undertaking, the work of which had been the subject of criticism in one of their previous Reports. The representative of the Ministry of Defence promised to look into it.

140. As regards the rates for the recovery of charges for repairs of Government aircrafts by the Hindustan Aircraft Ltd., the General Manager stated that the profit made by them in this behalf was very limited.

The Chief of the Air Staff informed the Committee that as far as actual maintenance and repairs to their aircrafts were concerned, they had upto now received perfect co-operation from the Hindustan Aircraft Ltd. As regards the cost of the aircrafts built by the Hindustan Aircraft Ltd., he said, that this must have some relation to the total number of aircrafts produced upto-date by the Hindustan Aircraft Ltd., which was quite small. When asked to compare the cost of a job done in the Hindustan Aircraft Ltd., with similar work done elsewhere, the Chief of the Air Staff stated that normally one could say that the Hindustan Aircraft Ltd., was a little more expensive than other places, but he added that the standard of work done by them was good.

141. When asked about the implications of the provision in the Profit & Loss Accounts for 'accrued leave', the Manager (Accounts) of the Hindustan Aircraft Ltd., stated that it was a commercial system of accounting by which they knew exactly what their liabilities were at any time. They calculated the amount of leave salary due to an individual employee every year according to the leave earned by him.

AUDIT REPORT, DEFENCE SERVICES, 1954.

142. The Committee then proceeded to take up consideration of the Audit Report, Defence Services, 1954.

143. *Para. 14—Establishment of a fully equipped modern plant for manufacture of certain latest types of ammunition*—In this case, Government concluded an agreement in August, 1950 with a foreign company for the establishment of a fully equipped and upto-date plant for the manufacture of ammunition of two calibres of the latest types and also to render supplies and services for the operation of the same for a period of six months after completion. The date fixed in the agreement for completion of the plant and commencement of full production was 1st April, 1951. It was stated by the administrative authority in charge of Ordnance Factories in April, 1954 that the manufacture of one of the three kinds of the smaller calibre ammunition had been established, but that regular production in bulk output of the same had been delayed and that regular production was estimated to be established within another six months. Further, the agreement with the Company merely mentioned that ammunition of the Company's type was to be produced but did not mention the detailed specifications, components, schedules of acceptance and other data which were usually associated with the description of all ammunition. According to the contract, the cost of services, the machinery, equipment, tools and raw materials to be supplied by the Company, including packing and freight charges, was not to exceed the ceiling figures of Rs. 125.27 lakhs (approximately). The contract also provided for an additional sum of Rs. 10.89 lakhs (approximately) to be paid by Government to the Company in addition to the above ceiling figure, 25 percent within 90 days of signing the agreement and the balance of 75 percent after final establishment of the production of tools, for keeping the Government indemnified against claims and demands of the company or other persons for infringement of the patents for the patent utilized in the undertaking and for making available to Government all patents, inventions, processes in the Company's possession for the purpose of execution of this contract. The Committee endorse the view of the Comptroller and Auditor-General that 'if the project had been merely for the supply of the balancing plant and erection and installation of a complete plant adequate for the manufacture of ammunition of two calibres, the scope of the contract would have been different and the need for payment of a heavy sum of Rs. 10.89 lakhs (approximately) as indemnity, as stated above, would not have arisen.

144. The Committee wanted to know the amounts paid, and at what time, to the foreign company at the various stages before the factory went into full production. The Director-General, Ordnance Factories stated that 25% of the ceiling figure was to be paid to the Company by Government as an advance payment within 90 days of the agreement and the rest of the payments were to be made as and when the machinery was shipped and arrived in India. In reply to a question, the Director-General, Ordnance Factories informed the Committee that they had 23 foreign technicians and were retaining 19 only at the moment. He added that they had put one Indian understudy to each foreign technician. The foreign technicians' job

was two-fold *viz.*, to train our people and to establish manufacture. In the latter respect, they were not fully employed as production was delayed. Replying to a further question as to why our men were not trained by deputing them to the Factory abroad during these four years, the Director General, Ordnance Factories informed the Committee that the intention was to impart the training under Indian conditions and standards, which were not similar to those obtaining abroad.

145. The Chief of the Air Staff then gave to the Committee the background, particularly the urgent need for the ammunition against which the Government had to conclude an agreement with the foreign firm in this case. When asked about the delay in commencing production after the factory had been completed and necessary equipment installed, the Chief of the Air Staff stated that the delay occurred as they were not sure whether they were to go in for steel-cases ammunition or stick to the conventional type of ammunition. So, to that extent, some time was consumed and production on a large scale not commenced.

146. In reply to a question, the Director General, Ordnance Factories stated that there was no delay in production on account of the late arrival of plant and machinery. He further said that although the plant and machinery had arrived sometime towards the end of 1952, actually some of the buildings were not ready by then and thus there was no point in pressing for the plant by the contracted date as it would then have had to be left in the open, uninstalled and exposed to monsoon.

The representative of the Ministry of Defence admitted that there was lack of co-ordination and planning and there was undue haste in concluding this agreement with the foreign firm though they were not ready at their end with the necessary buildings etc. The *raison d'être* for the agreement was the urgent need for the ammunition which was completely nullified by the delay of more than four years in the commissioning of the plant.

147. Referring to the statement made by the Director General, Ordnance Factories at an earlier stage, that 75% of the plant and equipment had been received before 30-4-1951, the Comptroller and Auditor-General pointed out that it was not correct, as according to the Controller of Defence Accounts (Factories) letter dated the 10th August, 1951 to the Director General, Ordnance Factories the total value of plant and machinery as per invoices received from the Company upto that date was worth about Rs. 1.3 lakhs as against Rs. 53 lakhs, the total value of the machinery to be supplied under the terms of the contract. Further, from a communication from the Accounts Officer that although invoices to the above value had been received, equipment received by that date was only of the value of 10,400 Swiss Francs.

The representative of the Ministry of Defence, however, stated that as he was not in full possession of the facts at the moment, he would submit to the Committee a note* setting forth the correct position.

*See Appendix IV.

The Comptroller and Auditor-General further pointed out that when the Audit Para under consideration was sent to the Ministry, the plea of delay in the completion of building etc., had not been raised at that time and it was for the first time that Audit had heard this.

148. The Committee then asked the representative of the Ministry of Finance (Defence) to explain as to why payments were made to the Company when the plant and machinery had not been supplied by them in time. In reply, he stated that the question of delay was considered by the Ministry in consultation with the Ministry of Defence and both of them were trying to expedite matters as best as they could. Further, this payment had been authorised because of the specific provisions contained in the contract.

149. The Committee further wanted to know why the Ministry of Finance agreed to the terms of the contract being varied in May, 1952 by providing for an additional advance payment of 8½ per cent. The representative of the Ministry represented that the then supply position in Europe was such that the Firm were unable to obtain the plant and machinery from the Suppliers unless they paid advances amounting to sometimes 33½%—they even claimed that they had to pay larger advances to the manufacturers.

The Auditor-General, however, pointed out in this connection that 25% advance payment related not to the orders which had been placed by the Company but the total value of the project. Accordingly the Company had been paid about Rs. 75 lakhs whereas the value of the invoices received in India by April 1951 was only Rs. 1.3 lakhs (approximately). Thus, the amount at the disposal of the Company might have been far in excess of the value of equipment supplied and the further concession of payment of 8½% on the value of orders placed was not warranted by the facts of the case. The representatives of the Ministries of Defence and Finance (Defence) undertook to look into this matter and furnish a note* to the Committee clarifying this point.

150. *Para. 13—Establishment of Machine Tool Portotype Factory—* This para relates to the contract entered into by the Government of India in May, 1949 with a foreign Company for the establishment of a fully equipped machine tool-cum-prototype factory in India. According to the contract, subject to the payment to the company of a maximum ceiling of the equivalent of approximately Rs. 2.226 crores, the Company undertook to supply to Government machinery, equipment etc., and to put up and instal the same in satisfactory running order and condition. The company also agreed to provide the necessary technical personnel, data, information and supervision. Further, 25% of the ceiling figure was to be paid to the company by Government as an advance payment within 90 days of the conclusion of the agreement. Thereafter, payments were to be made against the forwarding agent's receipts to the extent of 75% of the price of each consignment. According to the time-table, the factory was to go into part production within 18 months of signing the agreement (i.e. by November, 1950) and was to be ready for full production within 24 months of signing the agreement (i.e. May, 1951).

* See Appendix XII.

According to audit comments, the ceiling figure of Rs. 2,226 crores approximately was stated to have been worked out on the basis of negotiations with the firm and on the best estimate Government could frame of the cost, as no agreed list of machinery, equipment and other particulars of expenditure were found detailed in the agreement. In addition to the advance payment of Rs. 43.36 lakhs (approximately) to the Company, further payments of Rs. 157.95 lakhs (approximately) were also made to the Company in March and July, 1950 in contravention of the agreement without the forwarding agent's receipts. Government had explained that they derived certain financial benefits from these premature payments. The Company had failed to train sufficient number of Indian personnel as agreed upon. Further, although the factory should have gone into part production by November, 1950 and into full production by May 1951, it has so far been able to manufacture only two types of tools.

The Committee wanted to know the number of foreign technicians at the time the project was started and at present and how many Indians had been trained. The Director General, Ordnance Factories, stated that the number of foreign technicians at the beginning was 23 and now 13 persons were left, 6 of whom would go within a period of three months. Thus there would be left only 7 foreign personnel—one of them was a Principal of an Artisan Training School and three were designers.

151. When asked to state the percentage of the manufacturing capacity of the factory employed at the moment, the Director General, Ordnance Factories stated that whereas 420 was the total direct labour they expected to employ on the machines, they had at present got something of the order of 290 men.

152. The Committee wanted to know why an agreed list of machinery had not been originally added to the agreement. The representative of the Ministry of Defence stated that there was a list of machines, stores etc., appended to the agreement. But the Auditor-General contradicted this and pointed out that there should have been a value put against the items in this list. He added that the Ministry had admitted that additions and alterations were made in the original list and they were incorporated in a supplemental agreement made on the 29th June 1953. In the absence of accurate costs of the individual items the payment of advance (25%) was made on a guess.

153. In reply to a question, the representative of the Ministry of Defence stated that they did not make any percentage payment to the foreign company concerned in case of supplies made by other agencies in respect of this contract. He further added that the contract did not provide for any payment of percentage. Except for the Company's Auditors' Certificates in token of having checked the figures, they had no proof to indicate whether they did pay any percentage or not.

The Comptroller and Auditor General pointed out that the contract with the foreign Company did not clearly stipulate how the Company should set about purchasing the stores from other sources.

e.g. that they should buy in a competitive field or observe certain conditions which were essential in any purchase. He summed up by saying that the company had been given full discretion.

The representative of the Ministry informed the Committee that there was a provision in the contract that purchases by the Company from other sources should be at the lowest possible prices. But the Ministry did not make any independent check in this respect. In reply to a question, the representative of the Ministry of Defence informed the Committee that the auditors who certified the prices were the auditors of the Company itself.

154. When questioned about the mode of provisioning, the representative of the Ministry stated that this factory was intended to be a prototype factory capable of producing any type of machines that they might require. Therefore, it must have one, two or three of every type of equipment which might be required for designing things. He added that a prototype factory should not be an economic proposition because most of the machines would remain idle unless it had numerous projects in hand. Therefore, the machine tool part of this factory was added as a balancing factor for the plant.

155. One of the reasons why the factory could not go into production by May, 1951 was, the representative of the Ministry stated, that the buildings were not ready in May, 1951. The factory was opened in January, 1953 as soon as the buildings were ready. He added that he could not say whether, after the completion of the buildings, there was any delay on the part of the Company. In reply to a question why the Director General, Ordnance Factories who was in overall control of these factories did not see that the project proceeded according to schedule, the Director General, Ordnance Factories replied that in phasing the building programme, artisan training workshops, hostels and everything connected with the school were taken up first; next, the designs office for machine tool and prototype design and the building. He could not foresee that a delay of 16 months would occur in the construction of the machine tool building although he admitted that in retrospect one might say that the phasing of the factory should have been done in a different way.

Referring to the foreign personnel, the Director General, Ordnance Factories informed the Committee that in three months' time the entire staff in the factory except the Principal would be Indian.

156. In reply to a question, the representative of the Ministry of Defence informed the Committee that for all practical purposes the contract with the Company had ended.

157. The Committee then adjourned to meet again at 11 A. M. on Monday, the 4th April, 1955.

Proceedings of the Thirty-eighth Sitting of the Public Accounts Committee held on Monday, the 4th April, 1955.

158. The Committee sat from 11 A.M. to 12-30 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri T. N. Singh.
3. Shrimati Ammu Swaminadhan
4. Shri Amarnath Vidyalkar
5. Shri S. V. Ramaswamy
6. Shri U. C. Patnaik.
7. Dr. Indubhai B. Amin
8. Shri U. M. Trivedi
9. Shrimati Violet Alva
10. Diwan Chaman Lall
11. Shri P. S. Rajagopal Naidu
12. Shri Mohamed Valiulla
Shri P. C. Padhi, *Additional Deputy Comptroller & Auditor-General of India.*
Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian, *Deputy Secretary.*

Witnesses

MINISTRY OF DEFENCE

Shri B. B. Ghosh, *Secretary.*
Shri N. N. Wanchoo, *Joint Secretary.*
Shri K. K. Framji, *Director-General, Ordnance Factories.*

MINISTRY OF FINANCE (DEFENCE):

Shri J. Dayal, *Financial Adviser, Defence Services.*
Shri Subrahmanyam, *Controller General, Defence Accounts.*

MINISTRY OF FINANCE (E.A.):

Shri H. S. Negi, *Deputy Secretary.*

MINISTRY OF DEFENCE Contd.

AUDIT REPORT, DEFENCE SERVICES, 1954.

159. The Committee resumed consideration of the Audit Report, Defence Services, 1954.

160. *Para 15—Attempted manufacture of Dry Batteries in an Ordnance Factory.*—In this case, an order for the manufacture of 28,000 batteries was placed on an Ordnance Factory in March, 1950, and action was taken to provision a large quantity of materials required for the manufacture of these batteries at a cost of over Rs. 3 lakhs. The anticipated out-turn of the factory was placed at 1,000 batteries per month. The progress of manufacture was, however, considerably hampered due to non-availability of certain important components like plastic trays, and an attempt was, therefore, made to obtain plastic trays by resorting to stripping of old and unserviceable batteries. After spending Rs. 68,383 on stripping of 2,800 batteries, plastic trays valued at about Rs. 7,100 only were obtained, but no batteries could be successfully manufactured with these retrieved materials. The section which undertook to manufacture batteries in the Ordnance Factory was declared idle with effect from June, 1952 and was eventually closed in May, 1953. Apart from the infructuous expenditure incurred on stripping of old batteries, the manufacture of completed batteries (in all 200) involved an expenditure of Rs. 39,800. In addition, an idle time payment of Rs. 3,200 was also made in the battery section. The total infructuous expenditure to the State thus came to Rs. 1,11,383. The materials collected for the purpose, valued at over Rs. 3 lakhs, had also become surplus to requirements and any loss incurred in disposal of the same would add to the loss already incurred.

161. The Committee wanted to know whether any research was made by the Defence Ministry or the Ordnance Factory concerned before attempting to undertake the manufacture of dry batteries.

The representative of the Ministry of Defence stated that the actual research and development was the function of the Technical Development Establishment which had produced dry batteries on a laboratory scale and gave a sample thereof to the Director General, Ordnance Factories (D.G.O.F.) as the manufacture of batteries on a mass scale was the responsibility of his Directorate.

162. The D.G.O.F. informed the Committee that when his Directorate accepted the experimental order of 1,000 batteries in 1949, it produced about 200 batteries in planned batches. The first trials carried out by the users were inconclusive and the users recommended and asked for a second batch for further trial. He added that he received a trial report from the users to the effect that they were satisfied with the second trial.

At this stage, the Director of Audit, Defence Services drew the attention of the Committee to the following letter of the Director General, Ordnance Factories dated the 9th July, 1953.

“The data obtained from the user trial, however, indicated that the manufacturer’s technique was not satisfactory and had not reached the stage where it could be applied to bulk or large batch production”.

Explaining the position, the Director General, Ordnance Factories stated that there was a difference of opinion between himself and the manufacturers, and the users and the designers. In this case,

according to the designers, the manufacturing technique was satisfactory for the purpose of going into mass production but the Directorate General, Ordnance Factories was sceptical about it. The above letter, he added, was written at that stage. The Director General, Ordnance Factories then read out to the Committee from the user's trial report dated the 21st July, 1951 which stated that the latter was satisfied with the results.

163. As regards the amount of Rs. 68,383, spent on stripping of batteries, the Director General, Ordnance Factories stated that with the first lot of batteries as stripped, there were not such high rejections. Later batteries showed higher rejections—nearly 50 per cent. rejection. Another difficulty, he said, was that the cost of stripping could not be assessed simultaneously while it was being done.

164. When questioned why the economics of the manufacture of such batteries on a large scale were not considered before embarking upon such a new scheme and why the Directorate accepted an order for 28,000 batteries without waiting for the user's report, the Director General, Ordnance Factories stated that there was then a great urgency of getting batteries and they were trying to learn the technique which they did not know.

Intervening, the representative of the Ministry of Defence stated that while he was not justifying what had been done in this particular case, he would plead that in a matter of research and development if one was not a little more indulgent that perhaps would kill the initiative. He further stated that they were not now manufacturing batteries but were purchasing from Estrellas and National Carbon.

In reply to a question, the representative of the Ministry of Defence stated that the M.G.O. gave technical assistance to these refirms and Estrellas took years before they could establish production.

165. As regards the disposal of the surplus material to the tune of Rs. 3 lakhs, the representative of the Ministry of Defence informed the Committee that they had approached all the manufacturers at various times to find out whether they were interested in those stores, but the latter had offered very low prices. The materials have been sent for disposal through the Director General, Supplies and Disposals in the ordinary way at the best possible price.

The Committee then wanted to be furnished* with information on the following points:—

(a) What is the value of the batteries which were purchased from the following firms and other sources, if any, during the years 1952-53 and 1953-54:

- (1) Solar Batteries,
- (2) National Carbons; and
- (3) Estrellas.

(b) How the prices are negotiated? Are they settled directly with the suppliers or through some intermediary firms?

*See Appendix XIII.

- (e) Does there exist any longer term contract with any firm for the supply of these batteries and whether it stands in the way of the restarting of the factory?

166. On being pointed out by the Committee that the orders placed by the M.G.O. were not being promptly executed by the Ordnance Factories, the representative of the Ministry of Defence stated that there were a large number of orders and priorities had to be assigned. Naturally, the lower priority orders got delayed. He added that there was a regular procedure whereby delayed orders were referred by the M.G.O. to the Ministry of Defence which made further enquiries into the matter.

167. *Para 16—Stock balances in Ordnance Factories.*—This para disclosed that the stock balance of materials held in some of the ordnance factories had increased considerably during the last three years.

The representative of the Ministry of Defence informed the Committee that the Departmental Committee appointed by them to review the level of stocks held by the Ordnance Factories had since submitted their Report. They had expressed the view that the amount of stores which factories should hold in their stocks would depend on how much time the factories would get in an emergency to expand their production. He assured the Committee that Government were anxious to restrict the stocks to as small a figure as possible, but even to decide that figure, it was necessary to know first of all, what would be the period of an emergency, what would be the time that the Services would require for building up stocks etc. All these factors had to be taken into account.

Audit Report on the Commercial Appendix to the Appropriation Accounts of the Defence Services, 1951-52.

168. *Para 8—Overhead Charges.*—This para pointed out that the idle capacity in the factories had resulted in increasing the overhead charges. The representative of the Ministry of Defence stated that, right from the beginning, they had a cost accounting system. One of the major reasons for high overhead charges, he said, was that when they manufactured in small quantities, these turned out to be high.

169. The Committee then adjourned to meet again on the 11th April, 1955*

**Proceedings of the Fortieth Sitting of the Public Accounts Committee
held on Friday, the 15th April, 1955.**

170. The Committee sat from 10 A.M. to 1-10 P.M.

PRESENT

Shri B. Das—Chairman

Members

2. Shri T. N. Singh
3. Shri S. N. Das
4. Shri B. S. Mehta
5. Shrimati Ammu Swaminadhan
6. Shri Amarnath Vidyalankar
7. Shri S. V. Ramaswamy
8. Shri Uma Charan Patnaik
9. Shri C. P. Gidwani
10. Shrimati Violet Alva
11. Diwan Chaman Lall
12. Shri K. S. Hegde.
13. Shri Mohamed Valiulla
Shri A. K. Chanda, *Comptroller and Auditor-General of India.*
Shri P. C. Padhi, *Additional Deputy Comptroller and Auditor-General of India.*
Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—Deputy Secretary.

171. The Committee took up consideration of the note submitted by the Ministry of Finance regarding the contracts for the purchase of jeeps in the U.K. and two contracts for purchase of Defence stores in a Foreign country (Appendix II) and the statement made on the floor of the House by the Finance Minister on the 21st December, 1954 (Appendix III).

172. The Committee regretted to note that the information that a sub-Committee of the Cabinet had considered the above cases in all these respects and had carefully studied all the papers, was brought to the notice of the Public Accounts Committee for the first time in the 1954 through the statement made by the Finance Minister. They were also given to understand that no record of the investigation by the sub-Committee of the Cabinet had been kept.

173. Referring to the procedure followed by Government in this matter, the Committee observed that Government should not have laid a copy of their note to the Committee on the Table of the House

and made a statement on the floor of the House without affording an opportunity to the Committee to review the position. This, the Committee thought, was against established parliamentary convention.

174. The Comptroller and Auditor-General pointed out that in view of the urgency of the matter and in view of the fact that the requirements for jeeps and Defence stores could not be met from the traditional sources of supply, in the case of the first jeep contract and the first contract for Defence stores Government had to resort to unorthodox methods and also to use intermediaries. He added that despite all this, the loss could have been averted, had the High Commission not relaxed the conditions of inspection and not authorised payment before the terms of the contract were enforced.

Continuing he said that in regard to the second jeep contract and the second contract for Defence stores, it should have been placed directly with the manufacturers or suppliers rather than with the intermediaries. Reaffirming his views expressed at an earlier meeting of the Committee, the C. & A. G. stated that in the case of the second contract for Defence stores the available evidence disclosed that it was not inescapable to use the middlemen.

175. The Committee then took up the letter dated 4th September, 1950 from the foreign manufacturers to the Military Adviser to the High Commissioner for India in the U.K. about the appointment of Messrs. S. C. K. (Agencies) as their agents, furnished by the Ministry of Defence in rebuttal of the earlier findings of the Committee that the information had leaked out (c.f. para 30 of their Ninth Report). Government had taken the view that as the letter was dated the 4th September, 1950, there was no question of leakage of information to the intermediaries. The Committee learnt that the letter happened to be written on the same day on which the trials were held in the foreign country and at which both the representatives of the intermediaries and the Indian Military Adviser were present. Further, the letter was addressed to the Military Adviser to the High Commissioner for India in U.K., which in itself led to the conclusion that there must have been some previous intimation, as otherwise the Committee could not see any provocation for the manufacturers to write that letter on the 4th September to the High Commission.

176. In reply to a question, the Comptroller and Auditor-General informed the Committee that he had not seen the letter dated the 4th September, 1950 in original, but, as the Defence Secretary had himself informed the Committee, a copy of it only was available with them. The original, he added, must be available in the Indian High Commission, London.

177. The Committee then adjourned to meet again at 10 A.M. on the 22nd April, 1955.

Proceedings of the Forty-first Sitting of the Public Accounts Committee held on Friday, the 22nd April, 1955.

178. The Committee sat from 10 A.M. to 12-10 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri T. N. Singh
3. Shri Ramananda Das
4. Shri Amarnath Vidyalkar
5. Shri U. C. Patnaik
6. Shri C. P. Gidwani
7. Shri V. P. Nayar
8. Dr. Indubhai B. Amin
9. Shrimati Violet Alva
10. Diwan Chaman Lall
11. Shri K. S. Hegde
12. Shri P. S. Rajagopal Naidu
13. Shri Ram Prasad Tamta
14. Shri Mohamed Valiulla
15. Shri J. V. K. Vallabharao.

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

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

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

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

179. The Committee resumed consideration of the note submitted by the Ministry of Finance regarding the contracts for the purchase of jeeps in the U.K. and the two contracts for purchase of Defence stores in a foreign country (Appendix II) and the statement made on the floor of the House by the Finance Minister on the 21st December, 1954 (Appendix III).

180. The Chairman read out to the Committee the draft of a note outlining the trend of the discussion and the observations which the members had made on the above cases during their earlier sittings.

After some discussion, it was decided to appoint a drafting sub-Committee consisting of the following members to go through the

whole matter and present a Report to the main Committee for their consideration:

Shri T. N. Singh—*Chairman.*

- | | |
|-----------------------|-------------------|
| 2. Diwan Chaman Lall | } <i>Members.</i> |
| 3. Shri K. S. Hegde | |
| 4. Shri V. P. Nayar | |
| 5. Shri U. C. Patnaik | |

181. The Committee then adjourned to meet again at 10 A.M. on Wednesday, the 27th April, 1955 to take up consideration of the Report to be submitted by the above sub-Committee.

Proceedings of the Forty-second Sitting of the Public Accounts Committee held on Wednesday, the 27th April, 1955.

182. The Committee sat from 10 to 11-50 A.M.

PRESENT

Shri B. Das—Chairman.

Members

2. Shri T. N. Singh
3. Shri Ramananda Das
4. Shri Shree Narayan Das
5. Shri Balwant Sinha Mehta
6. Shri Amarnath Vidyalkar
7. Shri S. V. Ramaswamy
8. Shri Uma Charan Patnaik
9. Shri Choithram Partabrai Gidwani
10. Shri V. P. Nayar
11. Dr. Indubhai B. Amin
12. Shri U. M. Trivedi
13. Shrimati Violet Alva
14. Diwan Chaman Lall
15. Shri K. S. Hegde
16. Shri P. S. Rajagopal Naidu
17. Shri Ram Prasad Tamta
18. Shri Mohamed Valiulla.

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

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

Shri V. Narayanan, *Director of Audit, Defence Services.*

SECRETARIAT

Shri V. Subramanian—*Deputy Secretary.*

183. The Committee considered the Report of the sub-Committee on the *note regarding the contracts for the purchase of jeeps in the U.K. and two contracts for the purchase of ammunition in a European country and the ** statement made on the floor of the House by

**See Appendix III.

the Finance Minister on the 21st December, 1954 and approved it subject to the concluding sentence of para 6 thereof being modified as under:

“However, on the facts of the various cases, the Committee had made their views known from which they see no reasons to deviate; but obviously what further action is to be taken is essentially a matter for Executive determination”.

(The portion underlined represents the modification made by the Committee).

184. It was also decided that both the note and the Finance Minister's statement referred to in para 1 above should be appended to the above Report and reference thereto quoted at appropriate places in para 2 of the Report.

185. Before concluding their deliberations, the Committee decided that the above Report should be presented to Parliament during its next session along with the Report of the Committee on the Defence Accounts, 1951-52 and 1952-53 which had been examined by them during their last session.

186. The Committee then adjourned.

Proceedings of the Forty-seventh Sitting of the Public Accounts Committee held on Wednesday, the 22nd June 1955.

187. The Committee sat from 10 A.M. to 12-15 P.M.

PRESENT

Shri B. Das—*Chairman.*

Members

2. Shri Ramananda Das
3. Shri Shree Narayan Das
4. Shri Amarnath Vidyalankar
5. Shri S. V. Ramaswamy
6. Shri U. C. Patnaik
7. Shri C. P. Gidwani
8. Shri U. M. Trivedi
9. Shrimati Violet Alva
10. Shri Ram Prasad Tamta
11. Shri Mohamed Valiulla
12. Shri J. V. K. Vallabharao

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

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

SECRETARIAT

Shri M. Sundar Raj—*Deputy Secretary.*

Shri K. K. Das—*Under Secretary.*

* * * * *
* * * * *

188. The Committee then took up consideration of the Draft Fourteenth Report on the Appropriation Accounts (Defence Services), 1951-52 and 1952-53 and approved Chapters I—VII (upto Para 4† thereof) subject to certain additions and alterations. They desired that wherever substantial changes were involved by the redrafts or amendments, these should be circulated to them so that they could finalize the same at their sitting to be held on the following day.

189. The Committee then adjourned to meet at 10 A.M. on Thursday, the 23rd June, 1955.

* Renumbered as Para 38 of the Report.

Proceedings of the Forty-eighth Sitting of the Public Accounts Committee held on Thursday, the 23rd June, 1955.

190. The Committee sat from 10 A.M. to 12-30 P.M.

PRESENT

Shri B. Das—*Chairman*

Members

2. Shri Shree Narayan Das
 3. Shri Amarnath Vidyalankar
 4. Shri S. V. Ramaswamy
 5. Shri U. C. Patnaik
 6. Shri C. P. Gidwani
 7. Shri U. ~~K~~ Trivedi
 8. Shrimati Violet Alva
 9. Shri Ram Prasad Tamta
 10. Shri Mohamed Valiulla
- Shri A. K. Chanda, *Comptroller and Auditor-General of India.*
Shri P. C. Ghosh, *Deputy Director of Audit, Defence Services.*
Shri S. Venkataramanan, *Accountant General, Central Revenues.*
Shri V. R. Mahadevan, *Chief Audit Officer, Food, Rehabilitation and Supply.*

SECRETARIAT

Shri M. Sundar Raj—*Deputy Secretary.*

Shri K. K. Das—*Under Secretary.*

* * * * *

191. The Committee then took up further consideration of their Draft Fourteenth Report on the Appropriation Accounts (Defence Services), 1951-52 and 1952-53.

The Committee first considered the re-drafts of the following paras and sub-paras of their above Draft Report and approved them subject to minor changes:

CHAPTER III.—Para 3 (c) (last sub-para)*

V.—Para 3 (sub-para 2) **

VI.—Para 4 (sub-para 2) and Para 5 †

VII.—Para 4 (last sub-para) ‡

192. The Committee then proceeded to take up consideration of the remaining portion of the draft Report and approved it subject to minor addition and alterations being made in the undermentioned Paras and sub-paras:

CHAPTER VII.—Para 7.§

CHAPTER VIII.—Para 3 [sub-paras (i) & (ii)] ||

Para 12. ¶

* * * * *

4. The Committee then adjourned till 11 A.M. on Monday, the 27th June, 1955.

*Renumbered as Para 13(c) of the Report. §Renumbered as Para 32 in the Report.

**Renumbered as Para 24 of the Report. ||Renumbered as Para 44 (i) and (ii) in the Report.

†Renumbered as Paras 35 and 36 of the Report. ¶Renumbered as Para 47 in the Report.

‡Renumbered as Para 38 of the Report.

APPENDIX I

Statement showing action taken or proposed to be taken on the recommendations of the Public Accounts Committee.

DEFENCE SERVICES ACCOUNTS

Serial No.	Item No. as per summary of the recommendation	Ministry or Department concerned	Particulars of item	Remarks of the Ministry or action taken thereon	Remarks
1	2	3	4	5	6
<i>Ninth Report (1949—50 and 1950—51)</i>					
1	1	Finance (Defence)	The excess relating to the year 1950-51 be regularised in accordance with the provisions of Article 115 of the Constitution.	Necessary action to regularise the excess will be taken.	No comments.
2	2	Defence	As recommended by the Committee in Para 14 (a) and (b) of their Seventh Report, provisions made on account of stores or supplies indented should be reviewed periodically especially during the closing months of the year concerned, so that funds not required are surrendered in time to avoid lapse of grants. A close liaison should also be maintained with the supplying Department to achieve this object.	In regard to the actual materialisation of the supplies, the M.G.O. Branch are already maintaining a close liaison with the D. G. S. & D. New Delhi and with our Military Adviser in the United Kingdom. Monthly reports are furnished by the D.G.S. & D. showing the progress of materialisation of the various indents placed on him and also indicating the amounts that are likely to be spent on those indents during the financial year.	No comments.

3

3

Defence

Whatever excuses there may have been, valid or invalid, during the War and the post-war periods, the latter of which was affected to some extent by the Partition, it is imperative that the Store Accounts should be improved and brought on an entirely correct basis. The Committee trust that the promises made to them that satisfactory arrangements would be made to maintain correct Store Accounts and to conduct necessary stock-takings in order to ensure the efficient administration of Stores are being implemented and that the authorities would satisfy them in this matter. It is essential that adequate and efficient manpower should be employed for the administration of stores and the maintenance of satisfactory accounts.

Necessary instructions have been issued to the Branches of the Defence Services, etc. for compliance with the recommendation that special efforts should be made to see that Stores Accounts are maintained correctly and stock verification is done periodically. The existing instructions on the subject are comprehensive and all concerned have been informed that non-compliance with these instructions would be dealt with severely in future.

See Para 11 of this Report.

As regards employment of adequate manpower, a special reorganisation scheme for stores in Ordnance Depots was sanctioned in June, 1950 and has been completed by October, 1953, except for a few heavy items in one Depot for which special equipment is required and is being obtained. About 4,000 personnel were sanctioned for this scheme and as a result it is expected that Stores Accounts in future will be quite satisfactorily maintained.

76

4

7

Do.

The investigation of the cause of the fire that occurred in the Naval Stores Depot, on the 2nd June, 1949 should not have been left to the Departmental Officers. It should have been conducted by a Board of Senior Officers not connected with the Naval Stores Organisation and the Police should have been called in, if necessary. The failure to make this investigation calls for serious admonition. Those who resisted Audit inspection should also be suitably dealt with.

The Board of investigation of the fire that occurred in the Naval Stores Depot on 2-6-1949 comprised the following officers, none of whom was connected with the Naval Stores Department or even the Dockyard:-

See Para 44 (i) and (ii) of this Report.

1. Rear Admiral J. T. S. Hall, C.I.E. Flag Officer, Flotilla (Indian Fleet).
2. Capt. R. Sawhny, I. N., Captain I. N. Barracks, Bombay.

3. Comdr. (E) P. K. Mukerjee, I. N. Staff Engineer Officer.

The police were also called in and the Commissioner of Police, Bombay reported on the 7th November, 1949 as follows :—

“I appreciate the co-operation rendered to the C.I.D. as the Board's findings were most helpful and did greatly facilitate the police enquiry which so far has not succeeded in locating the cause of the fire.”

No further information has been received from the Police.

In order to prevent recurrence of such cases, the Ministry of Defence should issue instructions that all cases involving material loss or destruction of property as a result of fire, theft, etc. in the Defence Stores Depots and installations should also be reported to the Police for investigation.

There was no question of resisting audit inspection. A member of the ministerial staff declined to produce the documents without the permission of his officer which permission was promptly given. No disciplinary action is, therefore, called for in this case.

Certain regulations exist for reporting to Police cases involving loss or destruction of property as a result of fire, theft, etc. in Defence Installations. These are being examined with a view to adopt a uniform procedure in all cases.

The Ministry of Defence may also examine the point whether under the existing rules regulating the constitution of the Boards of Inquiry, it is open to Government to pursue the matter further in case they feel dissatisfied with their findings. The Committee should like to know, in due course, the views of the Ministry of Defence in the matter.

It is always open to Government to ask for re-examination of the findings of the Board of Inquiry if the former is not satisfied with the findings of the Board.

1	2	3	4	5	6
5	8	Defence W. H. & S.	Consequent on the promulgation of the Revised Rules regulating the policy and procedure to be observed by the India Stores Department, London in the purchase of stores and the engagement of freight to India, it is hoped that there would not be any confusion in future in the matter of fixing of responsibility for the purchases of stores made through the agency of the India Stores Deptt., London.	<p>The Ministry of Defence have stated as below : "No action on the part of the Ministry of Defence is necessary as clear instructions have already been issued by the Ministry of Works, Housing and Supply laying down the policy and procedure to be observed for the purchase of stores in the United Kingdom through the I.S.D., London. These instructions also define the exact powers and functions of the two authorities namely the High Commissioner and the D.G.I.S.D., London. In view of these instructions, there is no likelihood of any confusion arising in future in regard to responsibility for the purchase of stores in U. K. from the trade. As far as this Ministry is concerned, all indents for the purchase of stores are forwarded to Military Adviser in U.K. If the stores are to be obtained from the United Kingdom Govt., the indents are retained by the Military Adviser for further action to procure the stores on a Government to Government level. In such cases the I.S.D., London is not brought into the picture. If the stores mentioned in the indents are not procurable from Government sources in the U.K. or are of such nature that they have necessarily to be obtained from the trade, then the indents are passed to I.S.D., London by the Military Adviser for all further action."</p> <p>The Ministry of W.H. & S. have noted.</p>	No comments.
6	9	Do.	Government should consider the question of adequately equipping the I. S. D. London for carrying out the inspection of Defence	<p>The Ministry of Defence have stated as below : "This Ministry do not consider it practicable</p>	No comments.

Stores, such as arms and ammunition etc. purchased abroad.

to appoint Defence Inspectors on the I.S.D., London for inspecting the arms and ammunition, etc. purchased abroad. Our major purchases abroad are through the Govt. of the foreign country concerned and in the U. K. particularly through the Government of the U. K. In such cases, inspection is carried out by the U.K. Govt. agency on our behalf and there is normally no need for any separate inspection by our own inspectors. Where trade purchases are made through the D.G.I.S.D. of arms and ammunition and other such military stores, the purchases are so varied in nature that we would require a number of Inspectors specialised in different items to inspect the stores properly. In such cases, wherever possible, we engage the inspectors of the U. K. Govt. or send our own inspectors from India. In the case of M. T. stores, this Ministry has agreed to provide an Army Officer for posting in the I.S.D., London. This Ministry do not think it is either necessary or practicable to do so in respect of purchases of arms and ammunition.”

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

“The suggestion has been examined in consultation with the Ministry of Defence. They have agreed to make an Army Officer available for inspection of M. T. Stores in the U. K. As regards arms and ammunition, their view is that it is neither practicable nor necessary to attach Defence Inspectors to the staff of I.S.D. This is because the majority of such purchases are made through the foreign Governments

10 Defence

W.H.&S.

The Committee should be apprised of the comments of the Ministries of Defence and W. H. & S. on the observations made in para 11 of Chapter III of the Report of the India Stores Department, London, for the year 1951-52 urging the desirability of establishing manufacture of common-user items in India. In the meantime, the Committee would stress the desirability of procuring the common-user items for the use of Defence Services in India as such a course would not only give a fillip to the indigenous industries but also conserve our foreign exchange resources.

The Ministry of Defence have stated as below :

“Demands for Defence stores are normally placed sufficiently ahead of the period for which the stores are required. The observation referred to in the Report mentioned in the recommendation would appear to relate to indents for defence stores placed on U. K. as a result of Provision Reviews held soon after Partition, *viz.*, in 1948 and 1949. It will be appreciated that conditions during those times were not so static as they are today and indigenous production had not sufficiently developed. Since then the position has radically changed. In accordance with the procedure now in vogue, chances of demands for defence stores which are produced indigenously being placed on overseas countries have more or less been eliminated. In order to ensure that this is done, all demands are vetted by technical authorities before being placed on overseas countries. Items which in their knowledge can be procured indigenously are deleted from the demands. A copy of all demands placed abroad is also forwarded to the Director General, Ordnance

concerned who undertake the necessary inspection. Trade purchases besides being few in number are so varied in nature that it would be necessary to have a number of specialised Inspectors to inspect the stores properly. In such cases inspection is entrusted to U. K. Govt. Inspectors or to Inspectors specially deputed from India”.

No
comments.

Factories, Director General, Supplies and Disposals and the Ministry of Commerce Development Wing (if the value exceeds Rs. 10,000) in order to enable them to explore the possibility of indigenous production and advise the indentors whether the items can be procured or manufactured within the country. Based on their advice, trial demands are placed on indigenous sources of supply and if the stores supplied against these trial indents are found acceptable, then further demands for the items in question are placed on the indigenous source of supply even if a higher price has to be paid, and action is taken to cancel supplies from foreign sources to the extent possible. All local resources are also tapped in respect of items of simple and petty nature before they are demanded from abroad. All the important and costly indents are placed with the prior concurrence of the Ministry of Defence and Finance (Defence).

“The problem of attaining self-sufficiency in respect of Defence requirements of stores is continually under active consideration of the Government of India. There is a standing Committee called the Imported Stores’ Screening Committee, which is engaged in the examination of all categories of Defence Stores which are procured from abroad with a view to examining the possibility of their indigenous production/procurement. In this task, the Committee is assisted by various Sub-Committees which include representatives of the DGS. & D., D.G.O.F. and Ministry of Commerce and Industry (Development Wing) in addition to the representatives of the Defence indentors.

"The Imported Stores Screening Committee recently directed its various Sub Committees to draw up agreed lists of stores which could continue to be imported because their manufacture in India has not been established. These lists are nearing finalisation. Once they have been finalised, Service authorities will not be allowed to indent on D. G. I. S. D., London or on the I.S.M., Washington for stores not included in the lists. It is also intended that the lists should be revised annually so as to make sure that meanwhile capacity for some of the items included in the lists has not been developed in India. When those lists come into force, there should be little chance of orders being placed abroad for items which can be produced in this country".

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

"It is only in order to obviate possible delay in routine indents for imported stores through the D. G. S. & D. that Defence indentors have been permitted to place indents for stores known to be procurable only in the U. K./U.S.A. on the I. S. D./India Supply Mission direct. They are, however, required in such cases to record a certificate to the effect that the stores involved are not procurable from indigenous sources. Even so, copies of such indents are required to be sent to the D.G.S. & D. so that a further check regarding availability from indigenous sources can be carried

out before a commitment is made by the I.S.D./I.S.M. Despite these precautions there is a possibility of cases arising in which stores available indigenously are included in indents placed on U. K./U.S.A. mainly by oversight. In order to obviate such contingencies in future, a list of such items as are definitely known to be not procurable in India is being compiled by the Imported Stores Screening Committee, which includes a representative of the D.G.S. & D. and the Development Wing of the Ministry of Commerce & Industry. This Committee is also compiling a list of items for which it is desirable to develop indigenous capacity. Once these lists are compiled and the Defence Indentors also act on the basis of the lists, the chances of indigenously produced articles being indented for from abroad will be eliminated. The Ministry of Defence have also been asked to consider what further action can be taken by them to tighten up the screening of indents pending compilation of list of items which alone have to be imported from abroad and to establish manufacture of common-user Defence items."

83

8 11 to Defence . . .
17 & 23

*Action taken separately to inform the committee.

See Para 16-21 of this Report.

9 18 Defence . . .
W. H. & S.

No steps were taken by the D. G., I. S. D., London before placing the order to the value of £ 8,115 or making the advance payment, to verify the credentials and financial standing of the firm Messrs. Aircraft Instrumentation Ltd., which was a private Company with a nominal capital of £ 2,000.

The Ministry of Defence have stated as below with regard to S. Nos. 9 and 10:—

18 & 19. The question of fixing responsibility is under consideration by Ministry of Works, Housing and Supply. They have asked our High Commissioner in the U. K. to look into the matter of fixing responsibility on person or persons concerned. It is also understood that they have issued necessary

See para 45 of this Report.

*See Statement made by the Finance Minister in Lok Sabha on 21-12-54 (Appendix III of Vol II)

remedial instructions to India Stores Department. As instructed by this Ministry, Air Adviser in the U. K. has agreed to afford all possible assistance which the High Commissioner may require in the course of the enquiry.

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

“Steps have now been taken by the I.S.D. London to check the suitability of the firms recommended by the Air Adviser before placing orders on such firms. The I.S.D., are also now maintaining an up-to-date list of firms approved by the U. K. Ministry of Supply and the Aircraft Registration Board of U. K. Ministry of Civil Aviation.

84

10

19 Defence
W.H.&S.

The Committee think that if the Air Adviser recommended some firm which was unsuitable and which failed to execute the job, he cannot escape responsibility. The Ministry of W. H. & S. should in consultation with the Ministry of Defence, fix the responsibility on the person or persons responsible for placing the orders with the above firm and take action against those responsible. The Committee should be informed of the action taken in the matter.

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

“The High Commissioner for India in U. K. has been requested to investigate the case. His report is awaited”.

Further report may be expedited.

(For comments by the Ministry of Defence see S. No. 9)

11

22 Do.

The files regarding purchase transactions should be kept for longer periods so that Government could be in a position to resist any claims from suppliers at a later date.

The Ministry of Defence have stated as below :—
Ministry of Works, Housing and Supply has already taken action and issued necessary instructions to the various purchasing

No. comments.

organisations under them. As far as this Ministry is concerned, the existing procedure followed by them in regard to the destruction of files, specially those regarding purchase transactions, is being ascertained. On receipt of this information, we propose to issue instructions laying down a suitable period for which such files should be preserved."

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

"According to the existing instructions, no purchase files can be destroyed until three years after due completion of the contract. This period should normally be sufficient for audit scrutiny to be carried out. Instructions, have, however, been issued to the Purchase Organisations that cases which are the subject matter of audit objections should not be destroyed until the necessary review has been made by the Public Accounts Committee."

85

12 23 Defence

*Action has been taken separately to inform the Committee, along with Items II to 17. See Paras 16-21 of the Report.

13 24 Defence/All other Ministries.

In future no contract should be negotiated through intermediaries having little or no standing or which appear to have been formed a few months before the contracts are negotiated. It is also essential that in all cases where contracts or transactions are entered into with private firms, every care should be taken to verify their financial position through Banker's reference or by consultation with the Government concerned. It is desirable when dealing

The Ministry of W.H. & S. have already issued instructions to their purchasing organisations. So far as the Defence Ministry is concerned, the observations of the Committee will be borne in mind. No. Comments.

*See statement made by the Finance Minister in Lok Sabha on 21-12-1954. (See Appendix III of Vol. II.)

with private firms in a foreign country to take both our Ambassador in that country as well as the Government concerned into confidence particularly as in these days supplies of Defence Stores are not possible from a foreign country without the concurrence and co-operation of the Government of that country.

14

25 Defence/Finance
(Defence)

In order to expedite settlement of the outstanding advances paid to former Indian States for execution of Defence Works during the War, a team consisting of an Officer each of the M.E.S. and the Defence Accounts Department should be deputed to undertake some kind of visual audit or local inspection with a view to seeing on the spot that there was reasonable evidence of the expenditure having been incurred, and, if such evidence was forthcoming, the matter could be treated as settled.

Out of a total of Rs. 2.3 crores which was originally outstanding, we have been able to adjust all except Rs. 3 lakhs. In view of the progress made it is not considered necessary at this stage to appoint a Committee for visual audit as recommended.

No
comments

8

1

27 Defence/Law

A rule similar to Law Officers Rule No. 173 of the Government of Bombay which provides that 'no suit or other civil proceeding is to be settled out of court or compromised in the court without the express orders of Government' should be adopted by the Government of India in order to avoid recurrence of cases similar to that referred to in Para 8 of the Audit Report, Defence Services, 1951--Payment relating to settlement of cases out of Court.

It has been decided to issue instructions to Government Counsels to the effect that no suit or other Civil proceeding to which the Government of India is a party should be settled out of Court or compromised without the express sanction of the Government of India save in exceptional circumstances when there is not sufficient time to consult the appropriate authorities of Government. When, however, such a compromise is made without the authority of Government, the Counsel or the Advocate appearing for the Government should

No.
comments

16	29	Defence/Finance (Defence)	The question of recovery of the outstanding amount from the State Governments concerned should be vigorously pursued by the Ministry of Defence and the Committee informed, in due course, of the results achieved.	record in writing the special reasons for entering into such a compromise. Ministry of Law are issuing instructions on these lines.	No. Comments.
17	32	Finance (Defence)	In order to prevent any malpractices in the issue of the Military Credit Notes to the contractor, a cent per cent check of all Credit Notes issued by the M.E.S. to the contractors should be conducted by the Defence Accounts Department.	The bulk of outstanding rents is on account of accommodation occupied by displaced personnel. This question has been discussed at an interdepartmental meeting between representatives of the Ministries of Defence and Rehabilitation. Necessary details of outstandings have been collected from the State Governments and furnished to the Ministry of Rehabilitation except in the case of few camps where details are under revision. It is anticipated that adjustments will be completed during the current financial year.	No Comments.
18	33	Defence	An early decision should be taken in the matter of the implementation of recommendation made in the second sub-para of para 6 of the Report of the Public Accounts Committee on the Appropriation Accounts 1947-48 (Post-Partition) regarding setting up of Arbitration Tribunals to decide cases of disagreement under Works contracts.	A note has been submitted to the Committee. (Appendix XIV)	No Comments.
18	33	Defence	An early decision should be taken in the matter of the implementation of recommendation made in the second sub-para of para 6 of the Report of the Public Accounts Committee on the Appropriation Accounts 1947-48 (Post-Partition) regarding setting up of Arbitration Tribunals to decide cases of disagreement under Works contracts.	The Ministry of Defence have submitted a Memorandum No. F 59/14/53/674 E/D (E & Qtg.) dated the 20th January, 1955. (Appendix IX)	See Para 46 of this Report.
19	34	Do.	The case relating to the irregular disposal of Engineer Stores referred to in Para 47 of Audit Report, Defence, 1952 reveals ignorance of the canons of financial propriety on the part of the authorities handling this unbusinesslike transaction. When the party was committed to the sale at cost price plus 10 per cent and Government had after taking legal opinion decided to enforce	The disciplinary action against the Unit Accountant has been finalised by the Accounts authorities and the Accountant has been warned. The O.C., E.S.D., Kandivli, at that time was Major F. C. Cook who has since been released. No action against him can, therefore, be taken.	See Para 47 of this Report.

the terms of the agreement, it was not correct on their part to have released these stores at 40% of the book value on the ground that it was in pursuance of a new policy decided by Government to sell surplus plant and machinery to industrial users in order to speed up disposals and encourage rehabilitation and expansion of industry.

In the opinion of the Committee, Government should pursue the matter further with a view to fixing responsibility on the persons who did not safeguard the public interests.

20	35	Defence	<p>The delay in convening a Court of Enquiry and/or delay in taking action on their recommendations defeats the very object of such an enquiry. The Ministry of defence should examine this aspect of the matter and amend the Army Act, if necessary, to ensure that adequate disciplinary action is taken in all cases against officers who have been guilty of financial irregularities and they do not escape by taking shelter under the 'time limit' clause.</p>	<p>The matter has been examined and the position explained in the Defence Ministry's Office Memorandum No. 4(16)D(AG)/53/800-E/ (E & Qtg.), dated the 28th January, 1955. (See Appendix X)</p>	<p>See Para 48 of this Report.</p>
21	38	Do.	<p>The Local Audit Officers of the Defence Accounts Department should also carry out surprise checks of cash with the Imprest Holders and the Defence authorities should render them all necessary facilities to carry out such checks.</p>	<p>S. Nos. 21 & 22. Various remedial measures have been taken to prevent retention of excessive cash balances and to eliminate losses of public money entrusted to Imprest Holders. The local audit officers of the Defence Accounts Department are vested with powers to check cash balances of the units whenever they find it necessary. The question whether this should be extended to Imprest Holders is under examination. The question of adequacy of the existing orders for correct maintenance of accounts and careful handling of cash with a view to avoid misappro-</p>	<p>No Comments.</p>
22	39	Do.	<p>The Ministry of Defence should examine the adequacy of the various internal checks including checks by the Defence Accounts Department of the cash accounts in consultation with the Controller-General of Defence Accounts, the Ministry of Finance</p>		

(Defence) and Comptroller and Auditor-General and suggest improvements, if any.

All the pensionary increases sanctioned by the Commonwealth Relations Office of the nature referred to in para 33(3) of the Audit Report 1951 may be reviewed and steps taken to recover overpayments, if any.

priation/fraud is also under consideration.

The question of recovery of overpayments had been taken up further by the High Commissioner for India in London with the Commonwealth Relations Office, London, who made enquiries of the War Office regarding their practice in the treatment of business losses. The reply from the Commonwealth Relations Office indicated that the suggestion in the letter from Royal Hospital, Chelsea that the Commonwealth Relations Office had failed to conform to War Office practice and on which the Audit Report was based, was not correct. At the request of the Auditor of Indian Accounts, the Commonwealth Relations Office approached the U. K. Treasury to ascertain their views on the principles adopted by War Office, and the Treasury after discussions with other pension paying departments, endorsed the practice followed by the War Office with regard to the treatment of business losses in the assessment of income. The Commonwealth Relations Office, London, therefore, approached this Ministry through the High Commissioner for India in London to agree to the cancellation of the Orders enjoining recovery of overpayments made on the basis of the Audit Report.

No Comments.

As the above position has been accepted by the Auditor of Indian Accounts, the Government of India have agreed that no recoveries need be made and the High Commissioner for India in London has been informed accordingly.

1	2	3	4	5	6
24	41	Defence	Government should arrive at an early decision for taking over the work relating to the payment of Military pensions from the U. K. Government with a view to entrusting it to the High Commissioner for India in London. This will also enable the Government to save the payment of agency fees on the pensions paid by the C.R.O. on their behalf.	Originally it was proposed that the work relating to the disbursement of these pensions should be taken over by the High Commissioner for India in London, but as alternative arrangements are under discussion with the Government of U. K. the proposed transfer of work to the High Commissioner has been held in abeyance.	See Paras 18 to 22 of the Fifteenth Report.
25	44	De.	Government should take all possible steps to enforce recoveries of the existing heavy outstandings on account of stores supplied or services rendered to private individuals by Ordnance and Clothing Factories during the years 1944—48.	The claims against the defaulting firms are being energetically followed up in Courts of Law or by negotiation. Out of a total amount of Rs. 12·51 lakhs shown as outstanding in the Report of the Public Accounts Committee, Rs. 9·22 lakhs represent the dues outstanding to the late Branch Harness and Saddlery Factories from Fabricating Contractors on account of non-return of material supplied to them and Rs. 3·29 lakhs represent the dues from private firms on account of stores supplied against orders placed by them on Ordnance Factories. From cases as on 30th November 1954 of the Rs. 9·22 lakhs outstanding, recoveries had been made or otherwise accounted for to the extent of Rs. 1·96 lakhs leaving a balance of Rs. 7·26 lakhs still to be recovered. D. G. S. & D. is taking action to finalise outstanding cases. Regarding the remaining sum of Rs. 3·29 lakhs recoveries or adjustments upto the 30th November 1954 accounted for Rs. 1·82 lakhs leaving a balance of Rs. 1·47 lakhs still to be cleared. Action to recover or to adjust balance is being pursued vigorously.	Further report may be submitted to the Committee.

26	45	Defence	The question of allocation of the unaccounted expenditure in the case of the projects for the erection of a Factory at a certain station (referred to in Para 7 of the Audit Report on the Commercial Appendix to the Appropriation Accounts (Defence Services, 1949-50) should be settled and necessary adjustments made as early as possible.	A Board comprising Engineer, Accounts and Factory representatives has examined the case and has reconciled the unaccounted expenditure on Technical Project I Kanpur. The report of the Board has been received and further action in the matter is in hand.	Further report may be submitted to the Committee.
27	46	Do.	With a little more energetic action on the part of the Technical Officers of the Director-General, Ordnance Factories, the defect in the manufacture of certain stores could have been remedied much earlier and a considerable portion of the loss of Rs. 6½ lakhs avoided.	The factory concerned has since located adequate supplies of good Silica Sand and has been able to reduce the percentage of rejections considerably. Manufacture to a new process schedule has produced considerable improvement. When difficulties of material like that in the present case occur, it is not always practicable to find a satisfactory substitute immediately. In this case, however, the efforts of the factory, in conjunction with that of the Technical Development authorities of the Army, have been fruitful.	No Comments.
28	47	Works, Housing and Supply.	(ii) In the case referred to in Para 10 of the Audit Report, Defence Services, 1952 the Committee should like to know the action taken by the Ministry of W.H. & S. against the Executive Engineer on receipt of the advice of the U.P.S.C. (iii) Contracts should be placed after tenders have been openly invited.	(ii) The Ministry of W.H.&S. have stated as below: "On the advice of the U.P.S.C. the increment of the Executive Engineer concerned has been stopped for one year." (iii) The matter is under examination.	See Para 49 of this Report.
29	49	Defence	The Government of West Bengal should be urged to expedite reply to the points referred to in Para 42 of Audit Report, 1951 and Para 42 of the Audit Report, 1952.	The irregularity referred to in Para 42 of Audit Report, 1951 occurred during the Pre-Partition period. The Accountant General West Bengal, made all efforts to effect recovery of Rs. 18,407/- from the firm. It was ultimately intimated by the Director of Audit, Defence Services, in May 1954 that it was not possible for the A.G., West Bengal to make any recovery and it was accordingly advised by him to regularise the loss. That has since been done.	See Para 50 of this Report.

As none of the Military Officers responsible for handling the transaction were in India after Partition and Messrs. Maitland Craig Lubricants, Ltd., had gone into liquidation, the question of taking disciplinary action or remedial measures did not arise. The local military authorities have, however, already been warned so that such irregularities do not recur.

With regard to Para 42 of the Audit Report, 1952 the West Bengal Government have been addressed in the light of the recommendation of the Committee.

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Defence

(i) The object for which the scheme for cannibalisation of post-war vehicles was launched viz., to meet the shortage of spares was not fulfilled to any appreciable extent.

(ii) The Ministry of Defence should make a careful study of the whole scheme from the technical and financial aspects and arrive at an early decision about the disposal of the remaining vehicles, as they are likely to depreciate further by the efflux of time.

(i) The progress of the scheme was very carefully examined at the time both from the technical and financial aspects and it was as a result of this examination that a decision was taken to abandon the scheme. It is felt that another examination at this stage is not likely to reveal any new facts.

(ii) As regards the disposal of the vehicles, a total of 5861 vehicles were initially earmarked in the Depots for cannibalisation, out of which quantity 2667 were cannibalised before the scheme was abandoned. Instructions for the disposal of the balance quantity of 3194 vehicles were issued to the Depots on the 3rd January 1951. Now it is reported that a total of 3145 vehicles have been declared to the Director General, Supplies and Disposals for disposal, out of the quantity of 3194 which had been earmarked for cannibalisation, but not actually cannibalised. The position regarding the remaining 49 vehicles is that these have been merged into stock after necessary repairs,

No comments.

31	51	(Defence)	The High Commissioner for India in London should be asked to pursue the question of early settlement of outstanding claims against the U. K. Government which amounted to £ 3,788,100 at the end of March 1953 at high level with the War Office as further delay is likely to complicate matters.	A note has been submitted to the Committee. (Appendix XV)	Further report may be awaited.
32	52	Defence	The Committee desire that the Ministry of Defence should in consultation with the Ministry of Finance (Defence) and Audit evolve a method to clear off the backlog of unimportant audit objections which are outstanding since long.	The matter is under examination in consultation with Finance and Accounts and Audit authorities.	See also Para 42 of this Report.
33	53	Do.	The Ministry of W. H. & S. should take up the question of making advance payments to the U.K. Government for the supply of certain stores to the Government of India in consultation with the Defence Ministry.	The matter was taken up by the High Commissioner with the U.K. Government and the Ministry of Supply U.K. proposed on 19th January, 1953 that in future.—	See part 51 of this report.

(a) 80% advance payments should continue to be made for short term delivery orders, i.e., where delivery will not be later than 12 months ; and

(b) in the case of long term delivery orders, pre-payment will be of expenses of U.K. Government incurred from date of placing of order till delivery begins and thereafter pre-payment of 50% per annum of value of deliveries in a given year; the balance to be paid against documents.

The Ministry of Supply explained that they had to have these advances in order to provide for supplies, which are made either for production by Government Ordnance factories or purchases from the trade and sometimes from stocks. The Ministry has to make payments for purchase of raw material labour charges, etc. and their

* budgetary grants are not sufficient to provide for their own supplies and to meet demands for procurement made on them. The payments they receive from us and similar customers are taken in reduction of the expenditure and the vote of U.K. Parliament is sought only for the net amount.

This matter was carefully examined by this Ministry in consultation with the Ministry of Finance (Defence) and it was accepted that there is no alternative to making advance payments as required by the U. K. Government but our High Commission in London was asked to ensure that the system of advance payments applied to us is the same as that applied to other Commonwealth Governments. The advances should be the minimum necessary for the purpose and should not remain unadjusted for long periods. We wanted the High Commission to lay down a procedure in consultation with their Financial Adviser indicating the broad basis for calculating the amount of such advance payments and also the period on the expiration of which the stores should materialise or the advance should be refunded. Ministry of W. H. & S. has also agreed with the above view, which has since been communicated to our High Commissioner in London.

34	5 of Eleventh report	Defence	A Chief Technical Examiner should be appointed by all such Ministries which incur large amount of expenditure on major works and big projects. The Chief Technical	A chief Technical Examiner already exists in the Defence Organisation. He is independent of the Engineer-in-Chief who is the head of the Military Engineering Service.	No comments.
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Examiner should be directly responsible to the Ministry and he should go round and inspect the works on its behalf.

The Chief Technical Examiner's duties cover :—

- (a) making test measurements of works during their progress ;
- (b) test examination of works expenditure and
- (c) technical examination of MES bills after payment.

The C.T.E. works directly under the Quarter-Master General. The present arrangement has worked satisfactorily. The question of bringing the organisation directly under the control of the Ministry of Defence has been examined and it was decided that, as the present arrangement ensured independent check of the work of the M.E.S., there was no advantage to be gained by transferring the control of the work to the Ministry of Defence.

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The Ministry of Defence should examine the conditions of contracts in the Military Engineer Services in consultation with Audit authorities and amend them suitably to ensure that anomalies in the form of wrong pricing as a result of amendments to a contract as disclosed in Para 9 of the Audit Report, Defence Services, 1951 will not recur.

The Ministry of Defence have in consultation with the Ministry of Finance (Defence) examined the conditions of contract relating to the issue of deviation orders with a view to determining whether any amendments are necessary to avoid the recurrence of the type of case mentioned in para 9 of the Audit Report 1951. The examination has revealed that it was not a defect in the deviation clause which has led to the occurrence of such a case. It has also been found that neither the enhancement of the percentage limit laid down for the deviation, nor the total abolition of such a limit would be in the interest of the State. In the circumstances of the particular case, an amendment was resorted to as the deviation exceeded the

No comments.

authorised limit. As, however, a radical change was involved in the scope of the contract by the deletion of the particular item of work, it was more than probable that, even if the deviation limit has not been exceeded, the contractor would have questioned the recourse to the deviation clause. The item of work was omitted as certain stores, which the Government were committed to supply the contractor at a price stated in the Schedule to the contract, were not available for issue. In the circumstances, if the item of work had not been wholly omitted, i. e., if it had been partially deviated from, the authorised deviation limit being adhered to, the contractor would not have agreed to the deviation as it would have involved his obtaining the stores from private sources at a higher price. Negotiations would, therefore, have been necessary even if the deviation had not exceeded the authorised limit.

The point, therefore to be considered is whether the labour and the material elements allowed by the Engineers in the price at which the deviation order was valued, on the basis of the negotiation, was justified. In the absence of relevant records, this point could not be examined. The only remedial action that is therefore called for is to publish an analysis of the material and labour elements in the M.E.S. Schedule of Prices, which has been done. The new MES Schedule, along with its companion volume, showing the element of labour and material for principal items, is under print.

Executive instructions have also been issued, *vide* Army Headquarters letter No. 33416/E8 dated 14-1-55, to the effect that alterations which are likely to materially affect the basis and scope of contract agreements should be avoided.

36 31 Defence

The M.E.S. Organisation should ensure that the special billing teams appointed for the clearance of outstanding contractors' bills for the years 1951-52 perform their task adequately and that there will be no necessity for any billing team in future.

Necessary instructions for expeditious clearance of bills have been issued to Chief Engineers from time to time. Most of the wartime arrears of bills have been cleared. The Engineer-in-Chief while on tour personally inspects the position relating to arrears of bills. Every effort is being made to avoid the necessity of forming billing teams in future.

No. Comments

The element of delay in the settlement of a contractor's bill not only leads to corruption and other malpractices but also serves as an incentive towards the raising of the contractor's rates which means loss of public money.

Some effective measures should be taken by the Ministry of Defence to tone up the working of the M.E.S. Organisation and instructions should be issued to all Command/Formations etc. that contractors' bills should be dealt with with promptitude.

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37 43 Do.

Government should take steps to train sufficient manpower in Cost Accounting and estimating work not only for the Naval Dockyard, but also for employment in other Governmental Industrial Undertakings.

With a view to improving the system of estimating cost of jobs in the Indian Naval Dockyard, a Statistical Section has been set up and is functioning since early 1954. The Statistical Section is preparing a library of costs for typical repair items shipwise. These figures are then carefully analysed and the average costs are used for future estimating. Instructions have been issued

See Para 52 of this Report.

Cost accounting is very necessary in cases where jobs are executed for outside parties and cost has to be recovered from them. It is also necessary for watching economy in the Depart-

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ment itself, as a kind of index or barometer to see how the business is being done. The absence of estimates provides opportunities for all kinds of evils.

to the Captain Superintendent, I.N. Dockyard, that in cases where jobs were executed for outside parties, a written undertaking is to be obtained that, in the event of the actuals exceeding the estimates, the actual charges will be recovered from them. In regard to Ordnance Factories, the Ordnance Factories Re-organisation Committee has made certain recommendations for improving the system of cost accounting and estimates. These recommendations which have just been received are under examination.

APPENDIX II

Summary of the main conclusions / Recommendations of the Fourteenth Report of the Public Accounts Committee on Appropriation Accounts (Defence Services), 1951-52, and 1952-53.

S. No.	Para No.	Ministry or Department concerned.	Conclusions/Recommendations
1	2	3	4
1	9	Defence . . .	<p>Large savings and lapses of appropriations disclosed in the Appropriation Accounts (Defence Services), 1951-52 and 1952-53 indicate a laxity in the preparation of estimates as well as serious lacunae in both planning and execution of capital projects.</p> <p>The Committee would observe that lapse of funds on such a large scale not only indicates that the plans for which provision is made in the Budget of the Ministry of Defence are not being implemented as contemplated, but it also immobilises large sums of money which might have been diverted for more beneficial purposes by the Government in other Departments or spheres of activities.</p>
2	10	Do. . . .	<p>Large savings arising from unnecessary or unnecessarily large supplementaries or what in the event proved to have been excessive provision in the original Estimates themselves, continue to be a feature of the Defence Appropriation Accounts for the last four years (<i>i. e.</i>, from 1949-50 onwards). In the opinion of the Committee, "Safe" supplementaries and or estimates "erring on the safe side" are features which are no less serious than excesses over estimates. In the interests of defence programme as a whole, closer estimating is very essential so as to ensure that the greatest possible use is made of the money available.</p>

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S. No.	Para No.	Ministry or Department concerned	Conclusions/Recommendations
1	2	3	4
3	11	Defence	<p>The position of stock verification in army ordnance Depots is still not satisfactory. Reconciliation of ledgers should be made at regular intervals for all the items of stores in the depots after conducting a physical verification of the ground balances of the various categories of stores and immediate action taken to reconcile the discrepancies.</p> <p>The Committee are unable to accept the opinion that the stores accounts are generally satisfactory. They would like to draw the attention of the Ministry of Defence to the recommendations made by the previous Committees of Public Accounts stressing the need for an adequate standard of stores accounting, in the interests both of economical administration and operational efficiency.</p> <p>A periodical review of stocks is necessary to avoid large resources being immobilised. The Ministry of Defence should review the whole position regarding procurement, stocking and accounting of stores and set it on a more rational and scientific footing.</p>
4	12	Do.	<p>Over provisioning and over indenting of stores indicate lack of planning and co-ordination between the different branches of the Defence Services. Action to indent stores should be initiated only after firm and final decisions have been reached on the type and quality of equipment of stores required. <i>and</i></p> <p>The present system of provisioning of stores should be thoroughly overhauled so that surpluses do not occur.</p>

- 5 13 (a) Do. . . . (i) The Ministry of Defence should, in consultation with the Ministry of Finance (Defence) and the Comptroller and Auditor-General, examine the feasibility of suggestion made by the Engineer-in-Chief before the Committee that cent percent stock verification should be confined to major items only and a percentage or test check prescribed for the rest taking care to see at the same time that a relaxation of the quantum of checks does not expose the system of stores control to undue risks or abuses.
- 13 (b) (ii) With the stock-verification in the M.E.S. now having been completed, the Defence authorities should conduct a review of all the outstanding indents for the purchase of stores and take necessary steps to cancel the orders for stores abroad which placed are no longer required.
- 13 (c) (iii) The Committee note that want of adequate finances was an important factor which stood in the way of increasing covered accommodation, but in the ultimate analysis the financial effect of the deterioration due to exposure might well be greater than the expenditure in constructing covered storage.
- 6 14 Defence The Ministry of Defence should evolve a suitable procedure in consultation with the High Commissioner for India in the U. K. whereby it would be possible to ensure that in respect of all purchases for which payments are made abroad the stores have actually been received in India and have been taken on charge by the receiving depots. Every Effort should be made to tighten up the procedure for control by the the Services Headquarters over the receipt and accountal of such stores.
- 7 15 Do. . . . The Committee note with satisfaction that the authorities have agreed that works will be administratively approved at least 6 months before funds are allotted and actual construction work is taken in hand. The Committee would like to be furnished with a copy of the instructions issued in this behalf.

S. No.	Para No.	Ministry or Department concerned	conclusions/Recommendations
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It would be in the interest of the Defence Services as well as the Ministry of Defence to have a forward programme of works prepared indicating approximately how much funds would be available for the execution of various works during a given period so that general overall picture is available on the basis of which the Services could prepare their plans and estimates. The Committee would be glad to know, in due course, the action taken by the Ministry to implement this suggestion.

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Defence .

(i) The Committee consider that Government should not have placed their Note in connection with the Committee's recommendation made in Chapter V of their Ninth Report regarding the contracts for the purchase of Jeeps in the U. K. and the two contracts for the purchase of ammunition in a European country on the Table of the House without affording a reasonable time to the Committee for considering the note. In accordance with well-established parliamentary practice, consideration by the House should arise only when the Committee have made their final recommendations after reconsideration of their previous views, if this is considered necessary.

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Do.

(ii) In respect of the first Jeep contract and the first contract for the purchase of Defence stores, it was, perhaps, not possible to adhere to the normal contracting arrangements or to obtain supplies without the intervention of intermediaries because of the urgent demand. In so far as the selection of the particular intermediaries is concerned, however, the Committee reaffirm their earlier views, *viz.*, that there was no necessity or justification for the intervention of intermediaries in this case.

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(iii) As the relevant record of the proceedings of the sub-Committee of Ministers is not before them, the Committee are unable to decide whether the material and the evidence placed before the sub-Committee were the same as that which the Public Accounts Committee had before them when they suggested a judicial enquiry. The Committee would like further to draw attention to a disturbing feature, namely, employment of the same intermediaries for the execution of some other contract involving Government in financial loss which have come up for examination by the Committee.

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

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Defence

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

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Do.

The Committee are distressed to note that the purchase of goods valued at such large amounts (£5,00,000 in 1950-51 and £3,00,000 in 1951-52) should have been left to be arranged by a comparatively junior officer with very little experience, in the Indian High Commission in London, and trust that suitable action will be taken by Government to see that powers vested in the Officers are commensurate with their status, experience etc.

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Defence

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

(1) following an unorthodox and unconventional procedure in placing the contract with a firm not borne on the list of approved contractors ; and

S. No.	Para No.	Ministry or Department concerned.	Conclusion/Recommendations.
1	2	3	4
12	28	Defence/W.H.S.	<p>(2) having failed to inform the indenter about the sizes and the changed specifications of the cement sheets according to which the contract was placed.</p> <p>(i) The Committee cannot help commenting adversely on the repeated failure of the Inspecting Staff in the I.S.D., London to carry out proper inspection of goods purchased from abroad before their shipment to India. Such a reckless disregard of the primary duties merits much stronger punitive action than what the Government have, because of the retirement of the Inspector concerned, been disposed to take against him.</p>
		Defence W.H.&S.	<p>(ii) The Committee wish to express their displeasure at the delay in the submission of the information called for by them on points which arose from the discussions they had with the representatives of the Ministries of Defence and Works, Housing & Supply in this case. This should be made available to them forthwith so as to enable them to examine this case in further detail.</p>
13	29	Defence	<p>The committee endorse the observations of the Controller and Auditor-General that if the negotiations in this case relating to the purchase of an Italian tanker (referred to in Para 9 of Audit Report, 1954) had been conducted with the manufacturers direct by the Director-General, I.S.D., London, who had the necessary technical staff and whose jurisdiction extended to purchases on the Continent also, it might have resulted in securing an advantageous price, more particularly as he was fortified with an offer from a very well-known firm in respect of the same tanker. The Committee feel that Government should have waited till the other offers were also looked into and then only proceeded to negotiate the deal directly with the manufacturers through the D. G., I.S.D. London instead of through the Rome Mission.</p>

- 14 30 Do. Since these Ordnance Factories are under the control of the Ministry of Defence and they have to be maintained not only as war potential but also on a care-and-maintenance basis, some formulae should be evolved by the Ministry of Defence in consultation with the Financial Adviser, Defence Services, under which these factories would make supplies not only to the M.E.S. but to other Defence and Civil Organisations, as well, at competitive rates, treating the difference, if any, between the cost of manufacture and the sale price as a standing charge of the Factory concerned.
- 15 31 Do. There should be a closer co-ordination between the Master General of Ordnance Branch and the Director-General, Ordnance Factories in the matter of production, as the demands for supplies of the various categories of stores do not remain static. Steps should, therefore, be taken to safeguard the recurrence of cases similar to that reported in Para 2(a) of the Commercial Appendix to the Appropriation Accounts (Defence Services), 1951-52.
- 16 32 Do. The installed capacity of the Ordnance Factories should be utilised to the fullest possible extent so as not only to restrict imports but also to reduce overheads. Only stores which cannot be manufactured in these factories should be imported.
- 17 33 Do. Attention is drawn to the following irregularities in the contract for the establishment of a Machine Tool Prototype Factory, referred to in Para 13 of Audit Report, 1954 :—
- (i) The ceiling figures of Rs. 2.226 crores was stated to have been worked out on the basis of negotiations with the firm and no agreed list of machinery, equipment or other particulars of expenditure were found detailed in the agreement. In the absence of the individual costs of the various items having been indicated in the list appended to the agreement, the payment of 25% advance should have been made on a guess.
 - (ii) Besides the payment of advance, further sums to the tune of Rs. 157.95 lakhs have been paid to the firm, in contravention of the terms of the agreement, without the forwarding agents' receipts.
 - (iii) The contract gave full discretion to the foreign company in the matter of purchase of stores and did not stipulate that the Company should buy in a competitive field or observe other conditions which were essential in any purchase activity.

S. No.	Para No.	Ministry or Department concerned.	Conclusions/Recommendations
1	2	3	4

- (iv) The Ministry of Defence failed to exercise any check on the reasonableness, or otherwise, of the prices at which purchases were made by the foreign company although a provision to this effect existed in the contract. They relied, instead, on the certificate of the Company's Auditors.
- (v) The Company had failed to train adequately Indian personnel as agreed upon, as 13 foreign technicians are still continuing.
- (vi) The absence of an agreed schedule of detailed production programme as part of the agreement is highly defective and has resulted in the Company's demands for formal closure of the contract before establishing beyond doubt that the factory could go into full production.

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

18 34 Defence

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

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

19 35 Do

(i) The economics of the manufacture of Dry Batteries in an Ordnance Factory on such a large scale were not properly considered before embarking upon this experiment which has cost the Public Exchequer more than Rs. 1 lakh. The Committee are not at all satisfied with the manner in which this scheme was conceived and executed and they would have appreciated if the technique of the manufacture of batteries had been acquired by the Ordnance Factory before attempting to undertake the job.

(ii) The Committee suggest that all avenues including the possibility of re-starting the production unit should be explored to utilise the material to the best advantage of the Government.

(iii) While the Committee recognise the difficulties of controlling expenditure on research and development, they find that the history of this case clearly establishes that this particular effort was neither in the nature of a development nor of research.

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20 36 Do

Planning or production in these well-established units under the Ministry of Defence have not so far been in the best national interests. The Committee, therefore, urge that an overhaul of their administration should be immediately undertaken so that a fuller beneficial utilisation of installed capacity could be secured.

21 37 Defence

(i) The Committee are distressed to note that adequate disciplinary action had not been taken against the Officers concerned who joined hands in securing for themselves 7 refrigerators at a very low price of Rs. 725 and that not even an entry regarding the communication of the displeasure of the Engineer-in-Chief to these officers had been kept in their confidential records.

(ii) The Committee would like to express their strong disapproval of the manner in which these refrigerators were disposed of in utter disregard of all canons of financial propriety.

Sl. No.	Para No.	Ministry or Department concerned	Conclusions/Recommendations
1	2	3	4
22	38	Do.	The effect of misinterpretation of the expression "deferment of promotion" as meaning "deferment of Notification of promotion" has been to nullify the decision of the Court of Enquiry and to set at naught the punishment proposed to be inflicted on the particular officer involved in the case relating to loss of Ordnance Stores by fire, referred to in Para 46 of the Audit Report, 1953. The Committee would like to know (i) what action has since been taken to see that the Officer does not escape the punishment which the Court of Enquiry had considered him to merit, and (ii) the result of the further investigation promised by the Ministry of Defence in regard to the person responsible for misinterpreting the orders.
23	39	Do.	The Committee are not satisfied with the reasons given by the Ministry for not prosecuting in an ordinary Criminal Court the two Officers involved in the misappropriation of public funds in the case referred to in Para 55 of the Audit Report, 1953.
24	40	Do.	The Committee should like to know, in due course, the decision arrived at in the matter of the future set-up of the Canteen Stores Department.
25	41	Do.	The Accounts of the Hindustan Aircraft Ltd., should be maintained department-wise viz., separately for Aircraft, Rail Coaches and Bus Bodies so as to facilitate a comparison and scrutiny of the operational efficiency of the respective wings. Further, a fuller Report embracing the various activities of this concern, as also its Balance Sheet and Profit and Loss Accounts separately for each Department, should be made available to Members of Parliament annually for their information.

26	42	Defence . . <hr/> All Other Ministries	The Ministry of Defence as well as all other spending Ministries might consider the suggestion that powers should be delegated to Officers at the various levels to dispose of, on the spot, unimportant audit objections arising out of minor breaches of rules and regulations so as to achieve a speedy reduction of the number of outstanding audit objections. This, in the opinion of the Committee, would lead to expeditious settlement of a majority of the outstanding objections and save considerable time and money both in the Audit and Executive Offices.
27	44	Defence . .	<p>(i) & (ii) It was irregular to have allowed the Captain Superintendent, Dockyard to sit with the Board of Enquiry set up to determine the cause of fire that occurred in the Naval Stores Depot. The Ministry's version of the case leading to their conclusion that no disciplinary action was called for in respect of the persons who were alleged to have resisted audit inspection does not fit in with facts. The position should, therefore, be further examined by the Ministry of Defence and a report made to the Committee after showing it to Audit.</p> <p>(iii) The Committee should be informed, in due course, of the decision arrived at in the matter of evolving a uniform procedure in all the three Services with regard to reporting of cases of loss or fire to the Police.</p>
28	45	Do. . .	The Committee should like to know, in due course, the action taken against the person or persons responsible for not verifying the credentials and financial standing of the firm concerned, in the case relating to the purchase of Aviation Stores commented upon in Para 33 of their Ninth Report.
29	47	Do. . .	The action to be taken against the officials responsible for the irregular disposal of Engineering Stores, as commented upon in Para 53 of the Ninth Report of the Public Accounts Committee, has not been stated by the Ministry of Defence. The Committee would like the case to be re-examined and a report submitted to them.
30	48	Do. . .	The Committee reiterate the views already expressed by them in Para 54 of the Ninth Report that the Army Act should be amended to remove the time-limit of 3 years laid down for departmental action.

Serial No.	Para No.	Ministry or Department concerned	Conclusions/Recommendations
1	2	3	4
31	49	Defence .	. The Committee are unable to understand the implications of the Ministry's remarks "The matter is under consideration" with respect to the suggestion made by them in Para 68 of the Ninth Report that contracts should be placed after tenders have been openly invited.
32	50	Do. .	. The Committee may be informed of the result of the reference made to the West Bengal Government as suggested by them in Para 70 of their Ninth Report.
33	52	Do. .	. The Committee should be furnished with a statement showing the important recommendations for improving the system of cost accounting and of estimates made by the Ordnance Factories Reorganisation Committee and the action taken thereon by Government.

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