

PUBLIC ACCOUNTS COMMITTEE
(1969-70)

(FOURTH LOK SABHA)

HUNDRED AND NINETEENTH REPORT

**[Appropriation Accounts (Defence Services), 1967-68 and
Audit Report (Defence Services), 1969.]**



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1970/Chaitra, 1892 (S)

Price : Rs. 250

336.3951A
k9

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA
SECRETARIAT PUBLICATIONS**

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
ANDHRA PRADESH					
1.	Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam)	8	12.	Charles Lambert & Company, 101, Mahatma Gandhi Road, Opposite Clock Tower, Fort, Bombay.	30
2.	G.R. Lakshminpathy Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District.	94	13.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.	60
ASSAM					
3.	Western Book Depot, Pan Bazar, Gauhati.	7	14.	Deccan Book Stall, Ferguson College Road, Poona-4.	65
BIHAR					
4.	Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.	87	15.	M/s. Usha Book Depot, 585/A, Chira Bazar, Khan House, Girgaum Road, Bombay-2 B.R.	55
GUJARAT					
5.	Vijay Stores, Station Road, Anand.	35	MYSORE		
6.	The New Order Book Company, Ellis Bridge, Ahmedabad-6.	63	16.	M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1.	16
HARYANA					
7.	M/s. Prabhu Book Service, Nai Subsimandi, Gurgaon, (Haryana).	14	RAJASTHAN		
MADHYA PRADESH					
8.	Modern Book House, Shiv Vilas Palace, Indore City.	13	17.	Information Centre, Government of Rajasthan, Tripolia, Jaipur City.	38
MAHARASHTRA					
9.	M/s. Sunderdas Gianchand, 601, Girgaum Road, Near Princess Street, Bombay-2.	6	UTTAR PRADESH		
10.	The International Book House (Private) Limited, 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.	22	18.	Swastik Industrial Works, 59, Holi Street, Meerut City.	2
11.	The International Book Service, Deccan Gymkhana, Poona-4	26	19.	Law Book Company, Sardar Patel Marg, Allahabad-1.	48
WEST BENGAL					
ANDHRA PRADESH					
ASSAM					
BIHAR					
GUJARAT					
HARYANA					
MADHYA PRADESH					
MAHARASHTRA					
MYSORE					
RAJASTHAN					
UTTAR PRADESH					
WEST BENGAL					
20.	Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24 Parganas.	10	21.	W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.	44
21.	M/s. Sunderdas Gianchand, 601, Girgaum Road, Near Princess Street, Bombay-2.	6	22.	Firma K. L. Mukhopadhyay, 6/1A, Bancharam Akbar Lane, Calcutta-12.	82
22.	The International Book House (Private) Limited, 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.	22	23.	M/s. Mukherji Book House, 8-B, Duff Lane, Calcutta-6.	4
23.	The International Book Service, Deccan Gymkhana, Poona-4	26			

AGENDA TO THE 119TH REPORT OF PAC(1969-70)
PRESENTED TO LOK SABHA ON 29.4.1970.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
	-	1	Consequentuy	Consequently
	-	6	receivd	received
	1.36	2	watness	witness
	-	1	He	We
	1.37	6	country	country
	1.67	1	also that	also note that
	1.68	8	to	so that
	1.69	1	fuzes this	fuzes for this
	1.70	4	this	his
	1.87	4	centroct	contract
	1.96	6	outs tannding	outs tanding
	1.112	3	exports	experts
	1.113	14	this	his
	1.158	14	Principles	Principals
	1.171	6	Nissam	Nissan
	1.176	1	Paragraph 1.3.	Paragraph 1.36
	1.177	3	remaind	remained
	1.183	9	Produtcion	Production
	1.186	4	wae	was
	1.189	10	3½	3½%
	1.190	8	tone	tonne
	1.194	4	latte rupto	latter up to
	1.209	11	503.540	583.540
	1.211	10	established	establishment
	1.249	1	ovserve	observe
	1.252	4	SCIR	CSIR
	1.278	4	lailoring	tailoring
	1.278	8	larger	lodger
	-	1	Omit the word "be"	
	1.283	3	allow	follow
	2.13	16	expendomle	expendable
	2.20	2	2.14	2.41
	2.32	12	waiting	awaiting
	2.39	9	add	odd
	2.42	2 from bottom	for	or
	2.44	4	MEML's	BEML's
	2.47	3	spare	spares
	2.47	4	when	then
	2.47	10	acocrding	according
	2.49	8	critica I	critical

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
176	S.No.66	18	Departmentt	Department
176	S.No.68	col.2	2.12	3.12
179	S.No.74	5	Indicate	indicate
179	S.No.74	17	priecs	prices
179	S.No.76	6	representative	representative
180	S.No.76	18	scraped	scrapped
180	S.No.76	29	on	or
181	S.No.77	10	carryinvg	carrying
181	S.No.78	8	attendent	attendant
181	S.No.79	6	exetent	extent
182	S.No.80	15	or	to
182	S.No.80	20	ze	be

PUBLIC ACCOUNTS COMMITTEE
(1969-70)

CHAIRMAN

Shri Atal Bihari Vajpayee

MEMBERS

2. Shri Syed Ahmed Aga
3. Shri Bhagaban Das
4. Shri C. Chittibabu
5. Shri K. G. Deshmukh
6. Shri Bimalkanti Ghosh
7. Shri K. M. Koushik
8. Shri Mohan Swarup
9. Shri H. N. Mukerjee
10. Chaudhary Nitiraj Singh
11. Shrimati Sushila Rohatgi
12. Shri Ram Awtar Sharma
13. Shri Ramshekhar Prasad Singh
14. Shri Tayappa Hari Sonavane
15. Shri Balgovind Verma
16. Dr. Z. A. Ahmad
17. Shri A. P. Chatterjee
- *18. Prof. Shanti Kothari
- *19. Shri S. S. Mariswamy
- *20. Shri G. H. V. Momin
21. Shri N. R. M. Swamy
- *22. Shri Tarkeshwar Pande

SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri A. L. Rai—*Deputy Secretary.*

Shri K. Seshadri—*Under Secretary.*

*Ceased to be a Member of the Committee w.e.f. 3rd April, 1970.

INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Nineteenth Report on Appropriation Accounts (Defence Services), 1967-68 and Audit Report (Defence Services), 1969.

2. The Appropriation Accounts (Defence Services), 1967-68 and Audit Report (Defence Services), 1969 were laid on the Table of the House on the 31st March, 1969. The Committee examined these at their sittings held on 6th (FN), 7th (FN), 8th (FN), 9th (FN) and 23rd (FN) January, 1970. The Minutes of these sittings form part of the Report (Part II)*.

3. The Committee considered and finalised the Report at their sitting held on the 28th April, 1970.

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

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

6. The Committee would also like to express their thanks to the Officers of the Ministry of Defence and the Department of Defence Production for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 28, 1970
Vaisakha 8, 1892 (S).

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

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

I

DEFENCE PRODUCTION

Slow progress in manufacture of an improved model of a weapon and related ammunition

Audit Paragraph

Mention was made in paragraph 13 of Audit Report, Defence Services, 1963 about delay in establishment of production of a weapon and ammunition. The project was sanctioned by Government in April, 1959 for Rs. 347 lakhs.

1.2. In September, 1962 Government sanctioned an additional Rs. 108 lakhs for expansion of facilities for progressive indigenous manufacture of this weapon and ammunition.

I. Progress in manufacture of weapon

1.3. The total number of weapons programmed to be manufactured in three phases was 184 units—60 in phase I ordered in September 1959, 42 in phase II ordered in May, 1961 and the balance 82 in phase III ordered in March, 1964. Initially, it was planned to manufacture six units per month in two ten-hour shifts after establishment of production. This was scaled down in April, 1964 to four units per month. Production commenced in August, 1960 but there was a steady shortfall in actual production, the average monthly production being less than one. Originally, the manufacture of 60 units in the first phase was to be completed by April, 1962 (i.e., within three years of the date of signing the agreement with the foreign collaborators in April, 1959). This was later revised to October, 1964; manufacture was, however, completed only in August 1967. Of the subsequent orders for 124 units (phases II and III) manufacture of only seven has been completed so far (September, 1968).

1.4. According to the Ministry, shortfall in production is attributable to—

- (i) delay in receipt of drawings, manufacturing scheduled and tool drawings from collaborators till July, 1959—August, 1960;
- (ii) delay in delivery of imported toolings till October, 1961;
- (iii) delay in supply of steel sheets and plates till December, 1961;
- (iv) time taken to rectify a defective part supplied by the collaborator; and

(v) unexpected difficulties in machining complicated parts.

1.5. In order to avoid further setback, indent for all sub-assemblies required for production of the remaining weapons has been placed on the collaborator.

1.6. To augment the production of the weapon to eight units per month (in two ten-hour shifts per day) Government also sanctioned in November, 1965 Rs. 348 lakhs for setting up of additional facilities. Production was expected to increase to that level in 10 months after receipt of all machines by November, 1967.

1.7. Out of 159 machines to be installed for this augmentation only 112 have been received (April, 1968). It is now expected that production of four units per month would be achieved in 1969-70 and that this would be increased to eight per month from April, 1970.

1.8. Due to the slow progress in manufacture of the weapon and also in view of the urgent need to equip the Defence units with the improved version of the weapon, Government sanctioned in March, 1967 import of the weapon from a foreign source at a cost of over Rs. 5 crores. Further, electronic equipment (Rs. 9.66 lakhs) purchased locally and other costly equipment (Rs. 70 lakhs) imported for being fitted to the weapon are also lying in stock since procurement between August, 1964 and June, 1967.

1.9. The Ministry have stated that a committee has been set up (November, 1968) to study the reasons for the low output and submit recommendations for stepping up production; the report is awaited (January, 1969).

II. Progress in manufacture of related ammunition

1.10. Production of the ammunition in Ordnance factories was planned at the rate of 10,000 rounds per month in one shift of 8 hours. There was to be progressive increase in the indigenous content. But the actual production achieved is only about 50 per cent of this target. The shortfall in the rate of production has been attributed by the Ministry to delay in receipt/erection of required machinery and setback in production of fuzes indigenously. It was envisaged that after October, 1964 the ammunition would be produced with indigenous fuze and imported propellant and that indigenous propellant would be available for ammunition produced after March, 1967. Though production of fuze was established in October, 1965, it failed at proof stage and therefore bulk production could not be undertaken. The manufacture of propellant was established early in 1966 but production is not sufficient to meet the

requirements of this ammunition. Consequently, fuzes costing Rs. 93 lakhs and propellant costing Rs. 12 lakhs had to be ordered from abroad up to April, 1968.

[Paragraph No. 3, Audit Report (Defence Services), 1969]

1.11. During evidence the Committee pointed out that the Department of Defence Production had informed the Public Accounts Committee in November, 1963 that 35 units of the weapon would be produced by March, 1964, and that thereafter production would be maintained at the rate of six units per month. The Committee enquired about the reasons for shortfall in the anticipated production. The witness explained that the foreign manufacturers had indicated a time lead of about 18 months for the supply of this weapon. When there were difficulties in the indigenous manufacture of components, the matter was taken up with the collaborator who then advanced the lead time by as many as 33 months. Specialist teams from the overseas manufacturers were invited on a number of occasions. Our own people also went to their factories to study the processes and get expertise as quickly as possible. But unfortunately they had even now not succeeded in their efforts. The representative of the Department of Defence Production added that "this is a very complicated weapon. I must frankly admit that with all good intentions, the planners did over simplify the technical difficulties in the manufacturing processes. They perhaps over-estimated our own capabilities and a projection was given, efforts were made to keep to it, but then difficulties came which belied those expectations and there were shortfalls."

1.12. To a further question why 60 units of the weapon as per phase I of the programme could not be got ready by April, 1962, the witness stated that initially it was contemplated that the indigenous content would be 15 per cent but at the implementation stage it was raised to 35 per cent. In a complicated weapon, if there was larger indigenisation there were bound to be greater difficulties. The second reason was that "there was difficulty in getting all the drawings etc." from the overseas collaborators. After receiving the initial lot, it was found that some more documentation was necessary. The matter was, therefore, taken up with the collaborators. As a result, there was delay in the procurement of plant and machinery. On account of these reasons, the production of 60 units during the first phase could not be achieved according to schedule (April, 1962). A revised target (October, 1964) was laid down which also did not materialise and ultimately the 60th Weapon was produced only in August, 1967.

1.13. The Committee enquired why there was a gap between the ending of the first phase in 1967 and the starting of the second phase in 1968. The witness stated that serious difficulties were encountered in the indigenous manufacture of gear assemblies. These had

not been anticipated and were solved as and when they arose during the process of manufacture. The second difficulty was in another component assembly which was indigenously produced. It was a very complicated one consisting of nearly 900 parts. Thirdly, the hydraulic gear box control equipment presented lot of difficulties as it consisted of high precision assemblies. All these factors had led to the delay in the commencement of the second phase.

1.14. The Committee enquired why in view of the initial difficulties, additional sanctions were obtained in September, 1962 and November, 1965 for expansion of facilities. The representative of the Department of Defence Production stated that the rate of production envisaged in the original sanction (April, 1959) and in the sanction given in September, 1962 was 4 per month. It was expected that out of 48 units produced in a year, 40 would pass the inspector's test. As the requirements of the forces developed, it was found that many more units would be needed. Therefore in November, 1965 Government took the decision to double the production.

1.15. The Committee enquired about the actual expenditure incurred against the aforesaid sanctions in terms of foreign exchange and rupees separately. The witness stated that the total outlay could be divided into 3 categories *viz.*, capital invested, deferred revenue on tooling etc. and revenue expenditure. For all the three phases put together the break-up of the amount sanctioned under these heads was as follows:—

	Foreign Exchange	Rupee Expenditure	Total
	(Rupees in Lakhs)		
Capital	189.94	252.48	442.42
Deferred revenue	79.59	62.83	142.42
Revenue	386.12	2.30	388.42
Grand Total :	655.65	317.61	973.26

1.16. In a subsequent statement furnished to the Committee, the Ministry have given the following break-up of the sanctions given in April, 1959, September, 1962 and November, 1965 for the weapon|

ammunition or both.

Details	First sanction	Total	Second sanction	Total	Third sanction	Total
(a) Date of sanction and whether for weapon, ammunition or both	22 Apr 59 for both		6 Sep 62 for both		3 Nov 65 for wapons only	
Phase II						
(b) Amount of sanction	Rs. 44.20 lakhs } (RE) 302.88 lakhs } (FE)	Rs. 347.08 lakhs	Rs. 26.57 lakhs } (RE) 83.17 lakhs } (FE)	Rs. 109.74 lakhs	Rs. 234.61 lakhs } (RE) 113.73 lakhs } (FE)	Rs. 348.34 lakhs
Phase III						
(c) Related phase of production	Phase I		8.80 lakh } (RE) 110.81 lakhs } (FE)	119.61 lakhs	For augmentation of the weapon from 4 to 8 Nos. per month.	
(d) Anticipated rate of production	60. Nos. were to be completed by April 62		42 Nos. in Phase II & 82 in Phase III were to be completed by 1963 and 1964 respectively.		This sanction was given to enable the ordnance factories to increase the indigenous content as well as meet the target of 8 Nos. per month.	

1.17. As for the actual expenditure incurred under each of the sanctions, the Department of Defence Production have stated that "it has not been possible to work out phase-wise expenditure but the total expenditure upto March, 1969 is Rs. 2,09,74,617 in rupees and Rs. 6,91,51,750 in foreign exchange. The Committee further understand from Audit, that due to slow progress in manufacture of the weapon and also in view of the urgent need to equip the units with the improved version of the weapon, Government sanctioned in March, 1967 import of the weapon at a cost of over Rs. 5 crores.

1.18. The Committee enquired when the 159 machines required for augmentation of facilities sanctioned in November, 1965 was ordered and how many of them had been received and installed. In a note on these points, the Department have stated that the machines were ordered between February and May, 1966. A total of 143 out of 159 machines had been received between April, 1966 and April, 1969. All of them excepting 5 have been installed. The Department have added: "Of the 16 machines yet to be delivered, 4 are special purpose lathes and one a rifling machine which have to come from.... (a foreign country). Two are Horizontal Boring

and one Gear Hobbing Machine which have to come from HMT. One Engraving Machine has to come from.... (another foreign country) and 7 others are from other different sources. Every effort is being made to obtain these machines at the earliest and reminders are regularly being issued for immediate supply. These are expected to be received shortly.

1.19. The Committee enquired about the progress made in manufacture of the weapon. The witness stated "I would candidly admit that even today the projection given earlier of production at the rate of 4 per month could not be fulfilled. The maximum we have been able to reach is 2.5 per month. In December, it was 3 and in November, 2.....The original expectation that we will in 1970-71 go to 8 per month is not going to be fulfilled."

1.20. In reply to a further question, the witness gave the following figures of production since 1965-66:—

1965-66—25

1966-67—14

1967-68—1

1968-69—15

1969-70—12

(upto December, 1969).

1.21. Explaining the reasons for the poor performance in 1967-68, he stated that in that year the process of indigenisation was stepped up. As a result, lot of difficulties had to be faced. Now the production was going up and by next year it would be about 3 to 4 per month. The witness added: "Our people have gained some experience and at the moment we are trying to increase production. Something is going wrong somewhere and there is so much rectification to be done. We are steadily going up to the target but not too fast. If we go too fast, there will probably be a slip."

1.22. The Committee enquired whether steps had been taken to avoid any further set-back in achieving the production targets. The witness stated that it had been decided not to hold up the production programme if there was delay in mastering the processes in the overall process of indigenisation. With that end in view, certain important critical components had in anticipation been imported and kept in reserve to be used when the occasion arose. At present 57 per cent of the components were being produced indigenously. The rest 43 per cent were still imported.

1.23. On its being pointed out that in 1967 the Committee were told that the indigenous component was 50 per cent which showed

that the progress in the preceding two years was only 7 per cent, the witness stated "When we talk of percentage of indigenisation we give the figure of ability developed in our factories to produce various parts. 57 per cent is the figure today. But it may actually happen that in an equipment delivered in the last week of December, the import content may not be higher than 43 per cent, because we might have got stuck up and we might have used some imported components kept in reserve. The figure of 50 per cent given earlier also would be subject to the same qualification."

1.24. Asked whether there was any definite target date for achieving complete indigenisation, the witness stated that for some components and highly specialised materials, the requirements might be so small and the investment required for its development and production in the country might be so large that it would not be an economical proposition to aim at producing that material or that component in the country. In such cases, it would be much better to import the items from abroad.

1.25. In a further note on this subject, the Ministry have stated as follows:—

"In the first instance the following programme was drawn up for indigenous content of the weapon:—

Phase I—60 units : 35 per cent by 1962

Phase II—42 units : 60 per cent by 1963

Phase III—82 units : 80 per cent by 1964

It was expected to step up the pace of indigenisation in phase IV (for 152 units) to 90 per cent by 1965.

"The difficulties in respect of three items viz., Gear Component assembly comprising 900 parts for the elevating mass and gear and hydraulic gear-box control equipment, came to light during progressive manufacture in Phase II. The problem became serious in 1967-68. Although most of these difficulties have been sorted out, it is difficult to say that all the hurdles have been crossed. Some production problems are still being encountered which it is hoped will be overcome through remedial measures being taken. No definite programme has been drawn up for indigenous manufacture of imported components as efforts are being concentrated at present to establish production in quantity so as to avoid import of complete weapons."

1.26. The Committee enquired whether the Report of the Committee set up in November, 1968 to study the reasons for the low output and to suggest measures for stepping up production had

been received and if so, what its recommendations were. The representative of the Department of Defence Production stated that the Committee had given a voluminous report. One of the important recommendations was that the inspection system should be modified and there should be integrated stage inspection so that inspection facilities would be available at all necessary stages of production. This recommendation had been accepted by Government. Some posts had been sanctioned and within a couple of months, the integrated stage inspection system was going to be adopted. This would lessen some of the difficulties at the final stage of assembly.

1.27. Another important recommendation of the Committee was regarding authorised holders of sealed particulars. In the Directorate General of Inspection for each and every weapon, there is a designated authority known as the authorised holder of sealed particulars. The Committee had recommended that the office of the authorised holder for this particular type of weapon should be shifted to the place of final assembly of the weapon so that there could be cross check immediately and any deficiency defect or need for rectification could be looked after on the basis of the original drawings, available with the authorised holder. This recommendation had also been accepted and was being implemented.

1.28. From a further note on this subject, the Committee find that the following main difficulties and draw-backs were found by the Committee appointed by Government to be responsible for retarding production:—

- “(a) Belated maturity of connected projects due to lengthy procedures and too many departments being involved.
- (b) Insufficiency of technical know-how and experience coupled with the intricate nature of the equipment.
- (c) Complicated stores provisioning and accounting procedures.
- (d) Elaborate and complex inspection procedures both for material and equipment by many inspectors and lack of integrated inspection system.”

1.29. The Department have further stated that subsequent to this, a high level departmental committee has been appointed by the Government. After the recommendations of this Committee become available, coordinated action will be taken to remove the difficulties and draw-backs as suggested.

1.30. The Committee enquired whether the imported weapons were found to be satisfactory by the units. The representative of the Ministry stated that the imported weapons and also those which were manufactured in India were found to be satisfactory.

1.31. When asked whether the weapons manufactured in India correspond to the modified version imported from abroad, the representative of the Department of Defence Production stated that the modified version only was being manufactured.

1.32. The Committee enquired whether the ordnance factories were in a position to manufacture the spares needed for maintenance of this weapon. The representative of the Department stated "In the whole defence production organisation it has been accepted as a rule now that side by side with the manufacture of the store, spares and components required for maintenance or overhaul should also be taken care of. A part of the capacity is earmarked for this purpose. As far as this weapon is concerned, what you have mentioned will certainly be taken care of."

1.33. The Committee enquired whether the electronic and other costly equipment which had been imported at considerable cost had been utilised for manufacture of the weapon and if held in stock, whether there was any risk of its deterioration. The witness stated that due to deficiencies in actual production, some of it had been lying in stock but it would be utilised. To a question why its import was not correlated with production, he replied that "it was in accordance with the programme then in view that importation was arranged." He added, "if you total up the actual production of these weapons, you will find that there has been a very big deficiency as far as the total number is concerned. Therefore, the surplus is still continuing. As I said, indigenous efforts are also being made to make them here. These will remain as reserves and will be utilised as and when necessary."

1.34. From a note subsequently furnished to them, the Committee observe that imported components and sub-assemblies valuing Rs. 113.67 lakhs are also held in stock by the DGOF. It has been stated that none of these have outlived their self life and all of them are expected to be utilised in production.

1.35. Asked how the cost of production of the weapon manufactured in India compared with the cost of the weapon imported from abroad, the witness stated that the imported weapons were supplied at a very concessional price. These weapons were lying unused for a long time in the originating country as they had been replaced by a more modern weapon. The cost of production of the weapon in India in 1963-64, that is, before devaluation was Rs. 4.25 lakhs for each weapon. The present cost was Rs. 5.64 lakhs.

1.36. Asked whether the cost of production was expected to go down with increase in production, the witness stated that "I would not be able to say that. Firstly, it has to be acknowledged that in the process of indigenisation, there is a little rise in cost because

our industrial base is not so well-organised as it is elsewhere. He have to improvise and depend on our own initiative and our own resources and the indigenisation cost is some times higher than the importation cost."

1.37. The Committee enquired whether in view of the latest developments relating to the development of surface-to-air missiles this weapon would not become outdated by the time its manufacture was fully established. The witness stated that it was still being used by a large number of countries "though the original county has switched on to other types" i.e., surface-to-air missiles. The witness added "We still consider that it is tactically a useful weapon for us." The Committee enquired what recommendations the Aeronautics Committee had made in regard to the development of surface-to-air missiles and whether the development of those missiles will not make this weapon obsolete. The Department of Defence Production have stated in a note: "As certain recommendations made by the Aeronautics Committee in regard to the development of surface-to-air missiles are still under examination by the Government, it would be premature to deal with them at this stage.

1.38. The weapon referred to in the Audit Paragraph is likely to remain in service for several years to come and the planning is to use both the weapon and surface-to-air missile as complementary systems". During evidence, the witness stated: "We are all struggling with the development of local expertise. The experience of our people will be an asset to us. It will enable us to go in for a production programme of the successor. So, the capital that we have invested on machines, etc. will be made use of. Some machines also can be diverted to the production of successor item. That way, we may not be the losers. But we have to be watchful about it. We shall arrange to limit our production programme in such a manner that its utilisation is within the safety period and it does not become obsolete."

1.39. The Committee enquired whether the Research and Development Organisation had been brought into the picture with a view to improving the design and maximising indigenous manufacture of components of the weapon. The representative of the Research and Development Organisation stated "As regards this particular type, . . . because it is under licenced production and there are certain warranty and guarantee clauses with the foreign licensor, we have not come into the picture. But on the indigenisation side, the drawing and specifications being available, the D.G.O.F., in conjunction with the inspection authorities, are going ahead with it and, if there are any difficulties, I am sure, they must be getting the help from the foreign licensor." The representative of the Department of Defence Production added—"What can be done is on the basis

of experience achieved in licence production the problems can be noted by the Research and Development Wing for further subsequent development and producing something which is more efficacious and powerful to what is being produced."

1.40. To a question if any difficulty had been experienced with the foreign collaborator in getting the required data and designs for this sophisticated weapon, the witness replied: "This doubt has crossed our minds also but quite frankly it would be difficult to be conclusive on that; we have been pointing out their own shortcomings and putting the responsibility on them and as collaborators, they themselves are responsible for ensuring that we do develop expertise for the production programme which was envisaged; they have been sending their experts frequently to us. Two experts will be coming in this month or early in February. We are discussing about various shortfalls and various bottlenecks and it is possible a team of our officers will go and find out how they are solving their similar problems there. We do feel sometimes that they may be more interested in supply and export of full equipments rather than on enabling us to develop our own production effort.... Overtly, I would say that they have not given us an opportunity by which openly we could accuse them of not parting with all that they have. They have not given us that opportunity. But that lurking doubt in our minds still remains."

1.41. To a question if the Committee appointed in November 1968, (c.f. para 1.28) had given any indication in its report that the collaborators were responsible for retardation of production, the Ministry have in a written reply stated that the Committee had not given any such findings.

1.42. In reply to another question, the witness informed the Committee that the collaboration agreement had been extended for another five years. The Committee enquired whether royalty was still payable in respect of weapons manufactured after the expiry of 10 years since the signing of the original collaboration agreement in 1959. The Department have stated that the relevant clause in the agreement as now extended provides that royalty shall be paid by the licensee to the licensor at the rate prescribed in the original agreement for all the weapons satisfactorily manufactured upto and including 7th April, 1969.

1.43. The royalty shall also be paid for all the weapons satisfactorily manufactured during the period 8th April, 1969 to the 7th April, 1971 subject to a maximum of 135 weapons provided that if 135 weapons are not manufactured by the Licensee upto 7th April, 1971 or earlier, royalty for the weapons falling short of 135 shall be paid by the licensee to the licensor during the year 1971-72 and that no royalty shall be payable thereafter.

(ii) *Progress in manufacture of related ammunition*

1.44. The Committee desired to know the reasons for shortfall in production of ammunition for the weapon. The witness stated that originally the production of this ammunition was planned in two phases. In the first phase, both the fuze and propellants were to be imported but in the second phase both were expected to be produced indigenously. Later on, when production started it was found that there would be difficulties in developing the indigenous propellants. Therefore, the production programme was divided in three phases. The first phase contemplated the use of imported fuze and imported propellant, in the second phase the fuze was to be indigenised and that propellant to be imported and in the third phase, the propellant also was to be indigenised. On reaching the second phase, lot of difficulties were experienced in the production of fuzes and the programme was held up on that account. Thus, while they were able to attain the expected programme of 10,000 fuzes per month with imported components, the moment they went in for indigenisation of the fuzes, they suffered a set back.

1.45. The witness added that even though the fuzes were produced exactly in accordance with the drawings supplied by the manufacturer, they failed at the proof stage and in spite of lot of time and effort being devoted by the experts to find out the reasons for the failure, they could not pin-point where the failure was. Ultimately, it was decided to import more fuzes. There was considerable delay in obtaining the supplies. When production was resumed, further problem of gas leak in the primer was noticed. After trying various kinds of things to stop the leakage, a material called 'dobekot' was discovered with which the gas leakage was sealed. Thereafter, difficulties were felt due to premature action of these fuzes which caused several accidents. The imported fuzes had therefore to be rectified by hundred per cent X-ray. This was a time-consuming process and was carried out at the cost of the manufacturer. Most of the difficulties had now been overcome and in the current year they expected to attain the programme of 10,000 fuzes per month.

1.46. The Committee enquired whether the matter was taken up with the collaborator. The witness stated that the fuze was based on the licensor's drawings. The matter was, therefore, referred to them. They also applied their mind but they could not pinpoint why the fuze failed.

1.47. The Committee enquired whether any enquiry was conducted into the causes of the failure. The representative of the Department of Defence Production stated that this was done but it was not possible for the experts to specify the reasons. The representative of the D.G.O.F., however, stated that "under assembly, certain aspects of the performance could not be completed. It was

not that it was 100 per cent failure. But certain defects-about 10 per cent are allowed. We took about 2,000 fuzes. In one lot the failure was 21-double the allowable number." He added "...Even fuzes imported last year gave a serious defects... despite everything being done according to drawings, sometimes in the manufacture of ammunition, these things do happen. It is not always possible to pin-point it."

1.48. On its being pointed out that the collaborator was responsible for the end result, the witness stated that the matter was still under investigation with a view to determine responsibility as between the licensor and the producer.

1.49. To a question if in respect of defence supplies, they should not insist on 100 per cent satisfaction, the representative of the D.G.O.F. stated "Nowhere... a design is guaranteed 100 per cent. Ammunition acceptance is done by destruction proof only. On firing we know whether the ammunition is good or bad. Even if the ammunition is 99.9 per cent foolproof, an occasion may arise when only .1 per cent failure may be there. There is a normal procedure followed for the purpose. In this particular case, if we had taken action against the collaborators we were afraid that in future their support might not come in. We could not take a rigid attitude in the initial stage."

1.50. Asked if the defect had since been rectified, the witness stated that it was the contractual obligation of the licensor that in case of any difficulty in production by the licensee according to the former's designs, the rectification would be done by the licensor at his own expense and that was done in this case. Satisfactory production had now been established.

1.51. To a question, if there was any inherent defect in the design, the witness replied, "It cannot be said that there was inherent defect in the design, because the same design is leading to good results now. But there was obviously something wrong somewhere which nobody has been able to pinpoint."

1.52. Asked if any penalty would be levied on the manufacturer for supply of defective fuzes, the witness stated, "We shall certainly take up the matter and discuss that... He will have to pay the penalty for that and there is no doubt about it." He, however, added that during the period of collaboration they would like to master the art of producing the ammunition to the maximum extent possible and for that they would like to maintain cooperative spirit with the collaborators.

1.53. The Committee called for a note showing the number of fuzes which failed at proof and the loss incurred thereon. The Ministry have informed them that the number of fuzes which failed at proof is 3,057. The reason for failure at proof has not yet been determined and investigations is still continuing. The estimated value of the rejected fuzes is Rs. 40,000.

1.54. In reply to another question, the Ministry have informed the Committee that no royalty was paid to the collaborator for production of fuzes which were found to be defective.

1.55. The Committee enquired about the reasons for delay in erection of the machinery. The witness stated that actually only 12 machines had to be procured for phase I from the local market as well as import for the production of shell. These machines were available by March, 1965 and erection was completed by April, 1965. In the second phase, 72 machines produced from local market were available by September, 1966 and erection completed by December, 1968.

1.56. In a note on this subject, the Ministry have further explained that for the phase I the machines were ordered between March, 1960 to November, 1960. These were expected to be received within 10 to 18 months. They were received between March, 1962 to March, 1965.

1.57. Building for the Time Fuze sanctioned against another Project was partly allocated for Fuze 104. The Building was handed over in June, 1966 when the erection of the machines in question could be taken up. Available space was only sufficient utilised for erection of essential machines for starting production in October, 1965 at reduced level.

1.58. Asked whether any quantity of ammunition had been imported since 1965 due to inadequate production, the witness stated that ammunition had been imported before the production programme began. Afterwards, only the parts namely fuzes and propellants had been imported. The first order (February, 1964) for 60,000 fuzes meant for phase I programme had been received and consumed. The second order placed in November, 1967 was for 120,000. Out of it, 60,000 had been received and consumed and the balance 60,000 was in stock. The third order (April, 1968) was for another 120,000 fuzes and this consignment was being received

1.59. The Committee enquired why a third order was placed when 60,000 fuzes were already in stock. The representative of the Department of Defence Production stated that they had not till then overcome the problems in indigenous fuze manufacturing. As the level of manufacture of ammunition was 10,000 per month, a second lot of fuzes were imported for another year's programme.

1.60. The Committee enquired about the cost of indigenously produced fuze as against that of the imported fuze. The Ministry have furnished the following information: "The cost of production of indigenous fuze in the year 1967-68 is Rs. 11.51 each. The cost of imported fuze as per S.O. dated 6th November, 1967 is Rs. 34.4 each."

1.61. When asked what the position was regarding the indigenous manufacture of the propellant, the witness stated that it was being produced and they were able to meet the requirements in full.

1.62. The Committee are far from happy about the progress achieved in the manufacture of this weapon. The investment in the project, which was sanctioned in 1959, has by stages amounted to over Rs. 9 crores. 184 weapons were to be produced in three phases, the first phase covering 60 weapons to be completed by April, 1962, later changed to October, 1964. The rate of production was also to be scaled up by degrees to eight units per month starting from November, 1967. None of these expectations have been realised. The 60 weapons to be produced in the first phase were actually completed in August, 1967 i.e., after a delay of 3 years. The maximum rate of production achieved so far has been 2.5 units per month—less than even what was contemplated in 1964, when it was fixed as 4 per month. The substantial shortfall in production has compelled Government to resort to import of this weapon at a cost of over Rs. 5 crores. It has also led to the accumulation of imported components and sub-assemblies valued at Rs. 1.14 crores, which can be used up only when production is stepped up.

1.63. Apart from shortfall in production, the target set for indigenisation of production of components has also not been achieved. It was expected that 80 per cent of the components would be indigenously made by 1964. The present position however is that 43 per cent of the components still continue to be imported.

1.64. The Committee are aware that the production of a complicated weapon of this nature will present difficulties in the situation which obtains in the country e.g., lack of adequate industrial base, know-how etc. But it would appear that the Defence authorities consistently over-simplified these difficulties and set fanciful targets for production at every stage, even after having become aware of the difficulties that arose. As late as November, 1965—after the project had worked for over six years Government sanctioned provision of extra facilities for raising the scale of production to 8 units per month, though till then the average production had not exceeded 1 per month.

1.65. The Committee note that Government are themselves exercised over the slow progress of the project and have set up a Departmental Committee to go into this question. The Committee would like the work to be expeditiously finished, and to be apprised of their findings as also of the measures to correct the existing situation.

1.66. Apart from lack of adequate know-how and various other procedural delays, an important factor which apparently retarded the progress of the production would appear to be the fact that co-operation from the foreign collaboration has not been so rapidly forthcoming. It was stated during evidence that at the initial stage "there was difficulty in getting all the drawings etc." from the collaborators and this, in turn, led to delay in procurement of plant and machinery needed for indigenous production. The Committee would like it to be impressed on the collaborators that the progress in production has not been satisfactory and that they have to share the responsibility for this state of affairs. For the future, Government should examine what safeguards should be built into collaboration agreements of this type, so that the collaborators gets a stake in ensuring that contemplated production schedules are achieved. Ultimately the solution to the problem lies in developing expertise in the country through intensified research and development effort.

1.67. The Committee also that 16 out of 159 machines for which orders were placed between February 1966 and May, 1966, as part of the programme to step up production are still to be received, though they were to have been received between April 1966 and April 1969. Government should take steps to ensure that these machines are delivered without further delay. It is essential that production be stepped up, apart from other reasons, for ensuring that imported components worth Rs. 1.14 crores, now lying unused, are utilised before their shelf-life expires.

1.68. The Committee observe that this weapon is no longer in use in the country of manufacture, which has switched over to surface-to-air missiles. The Committee have in paragraph 1.20 of their Ninety-Ninth Report (Fourth Lok Sabha) already stressed the need to develop missile technology in the country, in the context of developments elsewhere in the world. In any programme for future production of this weapon, it is necessary that Government should keep in view its plans for development of missiles, so that production is based on a proper appreciation of the role and scope for use of this weapon vis-a-vis others proposed to be developed.

1.69. The Committee note that 3057 fuzes this ammunition produced indigenously at a cost of Rs. 40,000 have turned out to be defective. Due to production not having been satisfactorily established, Government have been forced to resort to import of fuzes. 60,000 numbers were imported in 1964, 1,20,000 numbers in 1967 and an identical number in 1968.

1.70. It is a matter for concern to the Committee that it has not still been possible to identify the cause for failure of the indigenous fuzes. The matter needs to be pursued with the collaborator who should be asked to rectify the fuzes at this cost and re-imburse Government for the losses sustained. The Committee would also like to be apprised of the steps taken to stabilise indigenous production at a satisfactory level, so that imports could be avoided. It seems particularly necessary to stop imports, as imported fuzes are stated to be costlier than indigenous fuzes.

Indigenous manufacture of special types of ammunition

Audit Paragraph

1.71. In May, 1962 Government sanctioned a project for setting up of facilities in Ordnance factories for indigenous manufacture, in collaboration with a foreign firm, of a weapon and related ammunition (types A and B). The civil works (Rs. 1.95 lakhs) were completed in September 1964. The Plant and machinery (Rs. 18 lakhs) were received during February 1963-February 1966. Excepting 10 machines costing Rs. 9.30 lakhs, all the remaining machines have been installed and commissioned.

1.72. Production of type A ammunition was commenced in August 1963 and production of tail fins for this ammunition was established in April 1964. Nevertheless, an order for import of 1 lakh tail fins was placed in March 1966 at a cost of Rs. 15.50 lakhs.

1.73. Bulk manufacture of type B ammunition commenced only in June 1967 after receipt of proof trials. In the meantime, components and propellants (valued at Rs. 253 lakhs) for production of this ammunition (type B) including 8 components not originally planned for import (Rs. 104 lakhs) had been imported. Due to the delay in establishment of its production, orders for import of this ammunition valued at Rs. 7.22 crores were placed in September 1966-July 1967 and about 55.4 per cent thereof has been received (October 1968). After the ammunition received from abroad was subjected to check proof, it was found defective, the defect being attributed to a basic design characteristic of the ammunition. It was decided in March 1968 to suspend further production of the ammunition in the Ordnance factories after manufacture of quantities for which components have been imported and also to suspend the outstanding quantities still to be supplied. The exact financial implications of the suspension of production in Ordnance factories and suspension of outstanding orders are still to be assessed. (February 1969).

[Paragraph No. 4, Audit Report (Defence Services) 1969]

1.74. During evidence, the Committee pointed out that in this case the Civil works which were estimated to cost only Rs. 1.95 lakhs took more than 2 years to complete after the Project was sanctioned and enquired what the reasons were for the delay in this regard. The representative of the Department of Defence Production stated that the project sanction was given in May, 1962. Administrative approval was issued in October, 1962 and MES part of the work was completed on 24th August, 1964. Sanctions for minor departmental works were issued by DGOF in October, 1962 and these works were completed by May, 1964. There were certain difficulties with regard to materials and contractors etc. To a question whether the delay in completion of the civil works also delayed production, the representative stated that "it is difficult to establish that this was because of delay in civil works. I think the two programmes were coordinated."

1.75. In a further note on this point, the Department of Defence Production have stated that "the civil works included site clearance and demolition of some ARP shelters standing at the site. Clearance of the site as also the procedural formalities to be completed by MES had caused some delay in the completion of the civil works. In view of the above, the work could not be carried on according to the originally planned schedule which was 9 months."

1.76. The Committee enquired when orders for various items of plant and machinery were placed and what the stipulated date of supply was. The Department of Defence Production have stated in a note that orders for various items of plant and machinery were placed in August-September, 1962. The last date of supply was stipulated as 31st March, 1963. The machines were received between February, 1963 and February, 1966 although the majority of them were received by 1963 and 1964. Some of the machines had to come from overseas and the Indian agent "had little control over the lead time for supply".

1.77. The Committee desired to know the reasons for delay in commissioning ten machines and what the present position in this regard was. The Department have stated that these machines were intended for manufacture of the connected Fuze. It was decided to locate manufacture of the fuzes at an Ordnance Factory against the original idea of machining them in another factory. Out of the 27 machines, 10 machines had to be shifted as a result of the decision. Later on due to dropping of this ammunition itself, the idea of manufacture of the fuze was dropped. The delay in the installation of these machines did not affect the production of the ammunition since an existing fuze manufactured in an Ordnance Factory was allowed to be used in the interim period. It was proposed to utilise 4 machines in one Ordnance factory and 6 in another.

1.78. The Committee enquired about the targets for manufacture laid down in this case and how far production come up to the targets. The representative of the Department of Defence Production stated that the ammunition consisted of two parts, one type 'A' ammunition and the other type 'B' did not present much difficulty. It commenced in August, 1963 i.e. with 7-8 months of the receipt of sealed particulars but due to certain defects in the imported augmenting charges used in this ammunition, issues were stopped under instructions from Chief Inspector of Armament. Issues were resumed in November, 1963 after receipt of clarification from the collaborators.

1.79. The Committee were informed by Audit that the production of tail fins for this ammunition was established in April, 1964. Between April, 1964 and July, 1967 only about 41 per cent of the capacity created for the production of tail fins in the ordnance factory was actually utilised. This was attributed by the Ministry to the fact that production had to be kept low as considerable quantity of the tail fins (87362 nos.) was lying in stock and manufacture to the full installed capacity would have inflated the stock resulting in its deterioration. The Committee enquired why an order for import of 1 lakh tail fins was placed in March, 1966.

1.80. The representative of the Department of Defence Production stated that these could not be manufactured in adequate numbers on account of the non-availability of the cold drawn tubes. Following the Indo-Pakistan hostilities in 1965, the foreign Government placed an embargo on the supply of various components including raw material for tail fins. Against this background a decision was taken in November, 1965 to import one lakh tail fins to ensure an alternative source of supply.

1.81. On its being pointed out that the existing capacity itself was not being fully utilised, the witness stated that the planned capacity was based on the annual training requirements of the forces as also a certain percentage of war wastage reserve. The actual production was therefore less than the actual capacity.

1.82. In a note subsequently furnished to the Committee the Department have stated that in view of the importation, the capacity in the factory for this item was diverted to the extent possible to production of other ammunition items.

1.83. The Committee enquired about the purchase price of the imported tail fins and how it compared with the cost of the item indigenously produced. The Department of Defence Production

have stated in a note that the cost of imported tail fins is approximately Rs. 15.48 each, while the cost of indigenously produced tail fin is Rs. 24.68 each.

1.84. Asked about the present stock position of the tail fins and whether these were expected to be used up before their normal life, the Department have replied that the present stock of tail fins is 52,306 Nos. out of imported quantity and 15,392 Nos. indigenously produced. The stock is expected to be utilised during its normal life in the near future.

1.85. The Committee enquired when type 'B' ammunition was introduced in the Services and whether any trials were carried out to assess its suitability. The Department of Defence Production have stated in a note that initial demonstrations were held in November, 1960. User trials were carried out in October, 1961 and Technical trials were conducted in November, 1961. The ammunition was cleared as suitable for use by the Services and for indigenous production in December, 1961. The representative of the Department stated in evidence that in the first round of user trials carried out in October, 1961, there was a lot of dis-satisfaction because there was some failure of the rocket and dispersion was also not satisfactory. When it was brought to the notice of the manufacturers they made some modifications. After the rectification trials were again held towards December, 1961. It was then that the ammunition was found to be satisfactory.

1.86. The Committee enquired during evidence as to how the need for importing the components and propellant for production of this ammunition including 8 components not originally planned for import, arose. The representative of the Department of Defence Production stated that "when the licence for manufacture was negotiated they did not give us at that stage manufacturing designs. Only the general assembly drawings and general type of work was known. It looked simple enough to manufacture in the first phase. But when we got the full manufacturing particulars, we found that even in the first phase, there was no possibility of indigenous manufacture. That is why we imported these items later." To a question if the matter was taken up with the collaborator, the witness stated "At the negotiating stage, the full particulars of the drawings are not made known. Subsequently, when we get the drawings, after the conclusion of the agreement, we examined them. We made our own assessment as to what we can manufacture in our Ordnance factories. At that time, there was a little over-assessment of our capabilities and it was thought that these 8 items could be manufactured indigenously. Later on, they discovered that there were difficulties and they thought it was much better to start the production and import these 8 items also."

1.87. The Committee called for particulars of quantity and value of the ammunition B imported from 1962 onwards. The Department have accordingly furnished the following information:

Contract	Qty.	Value
		Rs. in lakhs
(a) Dated 4.6.1962	5,000	14.35
(b) Dated 25.7.1963	38,000	134.58
(c) Agreement of 5-9-1966 as amended by Agreements of 3.1.67 and 6-7-67.	100,000	722.00

1.88. The Committee enquired whether the ammunition had been tested before its import. The representative of the Ministry of Defence stated that "these items were subjected to complete test by the foreign Government and on the basis of their certification the imports were allowed." To a question whether Indian personnel were associated when tests were carried out, the witness stated that "... the inspection was done by the (foreign) Army Experts—not by the manufacturers. The normal procedure is that when the inspection is done at the other end, then we send our observers and the inspection is conducted by them in the presence of our observers."

1.89. The Committee enquired whether any defects were noticed when the initial supplies ordered in 1962-63 were received. The witness stated that "When ammunition was being used no such thing had come to their notice. Then, out of our initially imported quantity we also used a large number in practice... as many as 13,000 rounds were used by our army and these defects were not noticed." To a question when exactly the ammunition was used, the witness stated that it was used for practice purposes in 1963-65. He added "During 1965 (hostilities) also these rounds were used. About the reference to rocket failure, I must mention that even in 1966 and 1967 out of 117 rounds which were fired there was one rocket failure and even one failure out of 117 is considered to be a serious one because it can lead to demoralisation. But when they were used in 1965, there was no case of actual rocket failure"

1.90. The Committee enquired about the reasons for delay in obtaining the proof trials of the ammunition produced in the ordnance factories till June, 1967. The Department have explained that the first lot of ammunition was produced in early, 1967 which was subjected to proof in April, 1967 but dispersion in range and accuracy beyond Range Table Limits was observed. Since the indigenous ammunition was being assembled from imported components, a comparative trial of the indigenously produced ammunition with the imported one was undertaken. This comparative trial was conducted in June, 1967."

1.91. Asked about the cost per unit of ammunition manufactured in India as compared to the cost per unit of imported ammunition, the Department have stated that the cost of the imported ammunition under the Agreement of September, 1966 is Rs. 657.03. The cost of the indigenous ammunition is Rs. 547.76 in 1967-68.

1.92. The Committee enquired how and when the idea of check proof originated. The representative of the Department of Defence Production stated that the check proof was a subsequent additional check that we have introduced since 1966. When ammunition is in the process of storage, after a certain period, we have to pick up a few random samples and subject them to many tests in order to ensure that there has been no deterioration. This system, as I said earlier, was introduced by us in respect of storage ammunition only with effect from 1966. He added—"This idea was introduced by our inspectorate in respect of all the ammunition and not particularly for this, namely, that periodically we must have this checkproof and ensure that what we are holding is absolutely perfect. The checkproof is in two parts. One is storage checkproof. Every four or five years' life we want to see whether it is still behaving. When we introduce it into service, we do not know its life. By checkproof in storage we learn about the life of the thing as also collect the data for design and development. The other checkproof is that we request the Government of the country from which we are importing the gun or ammunition to do inspection and proof on our behalf. They do it and send all the papers to us. When it comes to us we see whether it is still behaving in our conditions.

1.93. The Committee enquired why substantial orders were placed for imports of the value of Rs. 7.22 crores between September, 1966 and July, 1967 when certain defects had been noticed through checkproofs even in 1966. The representative of the Department of Defence Production stated that the contract for one lakh rounds was placed on 5th September, 1966 whereas the introduction of the system of checkproof was later than the date of the contract. The actual checkproof results came early in 1967. He added "at that time, the first time, when it happened, in respect of the indigenously manufactured ammunitions, there was some suspicion that the ordnance factories production was deficient. Therefore, it was decided to have that (checkproof).

The Ministry have in a subsequent note stated that the standard procedure for checkproof was introduced in February, 1967.

1.94. As far as the imported ammunition is concerned the Ministry have stated that "there was no suspicion till late in the day that it was deficient. It was only later—very much later—in 1967 that

a comparative evaluation was made of the indigenously manufactured ammunition and the imported ammunition. And we discovered that the imported ammunition was also deficient some what."

1.95. The Committee called for a note indicating when exactly the imported ammunition was subjected to checkproof and when its results became available. The Department of Defence Production have stated that the imported ammunition was received in several lots and as such checkproofs were carried out on those lots on different dates from 14th June, 1967 to 24th June, 1968. The results of the checkproofs became available from 27th February, 1968 to 6th December, 1968. Against the order of one lakh rounds, quantity 54,403 was delivered by the firm upto February, 1968. Subsequent deliveries were then stopped. The Committee enquired whether there was any scope for cancelling the orders before February, 1968. The witness stated that he would examine the question to see whether the action that they took in 1968 could have been taken earlier.

1.96. To a question as to when action was taken for cancellation of the components required for the indigenous manufacture of the ammunition, the Department have stated that a decision was taken in August, 1968 that DGOF should complete assembly of the ammunition to the extent the matching components were either available or were outstanding supply against firm orders already placed. The DGOF therefore asked the collaborator to supply the quantities required of certain items to complete manufacture of his existing ammunition on the production line and as regards the balance quantity the firm was specifically asked to await instructions. The representative of the DGOF added in evidence that "We only produced rounds where the costliest components were imported. There are certain cheaper components which are imported from abroad in a larger quantity. We produced about 45,000 rounds, we were allowed to proceed because the expenditure was there and a rocket failure which is the most serious defect was not there and, if not for actual combat purposes, they could have at least used them for training purposes. That is why we were allowed to proceed with it."

1.97. The Committee enquired about the nature of defects and action taken to get them rectified. The representative stated that while in the indigenous manufacture there was error in dispersion only, in the imported equipment both defects, rocket failure as well as faulty dispersion were noticed. The manufacturer's attention was immediately drawn to them and discussions were held. At first they did not accept them but when they were associated with the trials, they were convinced about the defects.

1.98. To a question if the defects could be attributed to the basic design characteristics, the representative replied that "when the checkproof came in 1966 our scientists also sat together and tried to analyse what was that. One of the views expressed by one of the experts was that, may be, it was due to some design defect."

1.99. The Committee enquired about the latest position of rectification of defects. The witness stated that after carrying out some adjustments, the rocket failure was avoided but the tail unit had to be replaced completely in order to ensure correct dispersion. After rectification, a series of trials were carried out and completed in 1969. Out of 54,000 rounds (against one lakh contracted for), 200 bombs were chosen at random and subjected to detailed checkproof. The results had been certified to be completely satisfactory. The firm had agreed to rectify all the imported rounds at their own cost. After the rectification was completed, further checkproof, would be carried out to ensure that the repairs that had been done were completely satisfactory.

1.100. In regard to ammunition manufactured in the ordnance factory, the witness stated that negotiations would have to be carried out with the manufacturers for rectification of the dispersion defect. To a question how long it would take to do it, he stated that after negotiations were completed the rectification would not take long since complete kits of rectification were brought by the manufacturers. The result had come in only in December, last.

1.101. The Committee enquired if there was any guarantee that the manufacturers would rectify the quantity indigenously produced. The representative stated "In regard to the ammunition which has been manufactured indigenously, the rectification is going to be carried out on that quantity also. All that we propose to discuss with the firm is to find out whether the additional cost of rectification will be borne by us or by the firm. The question of rectifying the ammunition is not in doubt. That also will be brought to the same standard as the imported one. . . . (This) is a matter to be negotiated with the firm. . . . We propose to take the stand that the liability is theirs and that they should bear the cost."

1.102. The Committee pointed out that pending the results of investigations, it had been decided that Type 'B' ammunition will only be used without rocket assistance. They enquired whether there was any disability involved in using the ammunition without rocket assistance. The witness stated it would mean wasteful expenditure if this ammunition which was 2½ times costlier than Type 'A' ammunition was used for practice purposes. Therefore the only alternative was to take up the matter with the manufacturer and to get the defects rectified.

1.103. The Committee enquired whether in view of the suspension of indigenous manufacture due to the defects, it would be possible to reduce the quantum of licence fee payable to the firm. The representative stated that "The licence fee that had been negotiated was not negotiated separately. It is combined licence fee for the manufacture of all the ammunition. . . . The question of asking for a reduction in the licence fee would have been all right if in the final proof it had been proved that the defects remain. Now, the firm has taken a lot of trouble during the last two years to rectify the defects. We also expect that the rectification will be done without additional cost. I do not think there will be any case for asking for reduction in the licence fee." The witness added "If they agree to replace the tail unit at their cost and give us rectified tail unit without additional cost I think that will be a satisfactory arrangement."

1.104. On his attention being drawn to Clause 16 of the agreement which stipulated that the licensor was liable to replace the equipment etc. if any defects were noticed within 3 years of the date of delivery in India, the witness stated that the dialogue with the manufacturers had been started within this period and the manufacturers had not denied their responsibility in this regard.

1.105. The Committee enquired about the financial implications of the suspension of production in Ordnance factories and suspension of the outstanding orders of the ammunition. The witness stated that "We placed a certain order for imports, the condition being 10 per cent to be paid to them for the whole order and 90 per cent to be paid after the quantities actually arrived in India. On the basis thereof we had paid them less than what we should have paid."

"Similarly, on the ordnance factory side, we placed an order for import of certain components—fuze, etc. The total order placed on them is much larger than the actual receipts. The total financial implications of these orders and receipts will be assessed after the final agreement is reached with the manufacturer."

1.106. In a further note on this subject, the Department have stated that "As regards the financial repercussion on account of complete ammunition, the matter is under negotiation both in respect of the quantity outstanding as well as the defective quality supplied, which the firm has now agreed to modify at their cost."

1.107. As regards the financial repercussion on account of components, the Department have stated that "At the stage when decision was taken to suspend further production of ammunition in Ordnance Factories, DGOF indicated that with the components already available, 4,000 rounds could be assembled and another

11,000 rounds could be assembled if part quantities of components out of the order pending on the collaborator are received which would leave a financial repercussion to the extent of approximately Rs. 25.85 lakhs including Rs. 7.39 lakhs for the connected fuze. However, to minimise the financial effect, an exercise has been undertaken on the basis of alternative quantities of ammunition that should be produced so as to minimise the amount of loss which might have to be written off relating to the imported stock of components already held by the factory. Only after a decision has been taken with reference to the Service requirements for the ammunition, the net financial effect would be clear."

1.108. The Committee called for a note indicating the upto date progress in rectification and the value of imported ammunition still to be rectified. The Department have stated that "the value of imported ammunition which is still to be rectified is Rs. 3.45 crores. The firm has agreed to modify the ammunition in India at their cost. They intimated the details of facilities which are required by them for carrying out the modifications. The firm have been told in a letter dated 4. 2. 1970 that the necessary facilities would be provided to them and they have been asked to intimate their programme of modification. The advice from the firm about their programme is awaited."

1.109. The Committee enquired how it was proposed to utilise the defective ammunition already produced and purchased and the value thereof. The Department of Defence Production have stated that it is proposed to utilise the defective ammunition already purchased produced after suitable modification against requirements of the Services.

1.110. The Committee are concerned to observe that ammunition worth Rs. 3.58 crores imported for the use of the services has turned out to be defective. It has been stated that the firm which supplied the ammunition has agreed to rectify the defects at their cost and that a programme for this purpose is being worked out. The Committee would like the arrangements to be speedily finalised and intimated to them.

1.111. The orders for the import of this ammunition valued at Rs. 7.22 crores were placed with the firm in September, 1966. The ammunition was "received in several lots on different dates" till, in February 1968, Government decided, after testing the ammunition, that further imports should be stopped (after a little over 54 per cent of the 'contracted' quantity of ammunition had been delivered). The 'check proof' on the ammunition are stated to have been carried out on different dates between June 1967 and June 1968, and their

results to have become available between February 1968 and December, 1968. The Committee would like Government to investigate why the results of the check-proof become available so belatedly, and whether this delay made timely action for stoppage of further import impossible. It should also be investigated whether there was delay in starting the check proof immediately after the first consignment of imported ammunition was received.

1.112. The Committee were also given to understand that the ammunition was tested before import and the inspection tests were carried out by the exports of a foreign country, when observers from our country were also present. It is not clear how the fact that the ammunition was defective in the matter of dispersal as well as range escaped notice during this inspection. The Committee would like this aspect of the matter also to be thoroughly investigated.

The Committee would like to be apprised of the findings of the investigation into all the foregoing points.

1.113. The Committee observe that indigenous manufacture of this ammunition was undertaken in June 1967 in collaboration with the foreign supplier. As the ammunition produced indigenously was also found to be defective, further production has been suspended. The financial repercussions of the suspension of production was estimated at one stage as Rs. 25.85 lakhs, though it has been stated that the final position in this regard is still to be worked out. Government have informed the Committee that negotiations are in progress with the collaborator for rectifying the defective ammunition. The Committee would like to point out in this connection that the collaboration agreement casts an obligation on the collaborator to supply material of the highest quality for purpose of production. It should therefore be impressed on the collaborator that any rectification will have to be at this cost, and that he would have to reimburse Government for the losses sustained as a result of stoppage of production, after the losses are finally assessed. The Committee would like these negotiations to be expeditiously finalised and to be apprised of their outcome.

1.114. One point relating to the indigenous production of the ammunition calls for investigation. The first lot of ammunition is stated to have been produced "in early 1967", and "subjected to proof in April, 1967" when "dispersion in range and accuracy beyond Range Table limits was observed". It is not clear why in the circumstances the bulk production of the ammunition was commenced in June 1967. The Committee would like this matter also to be covered in the course of investigations into this case which they have suggested earlier.

1.115. The Committee would also like Government to take note of certain other aspects of the case which emerge out of the information furnished:—

- (i) The production of a related ammunition was also taken up in the ordnance factories from April 1964. The production of this ammunition which, according to the representative of the Department of Defence Production "did not present much difficulty" has consistently been falling short of targets since 1964-65. The indigenous cost of tail-fins, one of the components of the related ammunition, has been Rs. 24.68 each as against the imported cost of Rs. 15.48 per unit. Steps should be taken to bring up the production to the desired targets and reduce the cost of manufacture of the tail-fins.
- (ii) It took more than two years to complete the civil works for the project which was sanctioned by Government in May, 1962. The civil works costing Rs. 1.95 lakhs were originally planned to be completed within 9 months i.e. by February, 1963 but were actually completed only in August, 1964. The Committee would like Government to take steps to ensure that similar delays do not occur in future.
- (iii) The commencement of production would also appear to have been delayed because certain items of plant and machinery were belatedly ordered. It was stated during evidence that the collaborator did not disclose the manufacturing designs at the time of negotiation and that therefore the need for these items of equipment could not be visualised. The Committee are not very happy that this occurred and would like Government to take adequate steps to protect their interests in negotiations of this kind with collaborators which they may undertake in future.

Uneconomical procurement of components

Audit Paragraph

1.116. To augment production in an Ordnance factory Government sanctioned in June 1964 Rs. 19.57 lakhs for establishing manufacture of a component A of a weapon in a public sector company under the Ministry of Defence. Later, it was decided in December, 1964 to make the company responsible for manufacture of another component B of the weapon also. After the company had complied with an educational order for 3,000 units of both the components, orders were placed in December, 1966 and May, 1968 for supply of 37,000 units of component A and 22,000 units of component B on the company at the negotiated rates of Rs. 53.85 and Rs. 60.60 per unit respectively. The break-up of the unit cost of supply of the com-

ponents by the company and of the unit cost of production in the Ordnance factory where there are also being manufactured are given below:

	Labour	Material	Over heads	Interest on capital profit and packing charges	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
			Component A		
Ordnance factory	8.99	14.28	30.24	..	53.51
Public sector company	7.43	12.20	22.91	11.31	53.85
			Component B		
Ordnance factory	6.27	5.65	21.30	..	33.22
Public sector company	9.08	9.65	28.48	13.39	60.60

It would be observed that—

- (i) while the company's cost of supply of component A is comparable with the cost of production in the Ordnance Factory, the former's cost of component B is nearly double of the cost of production in the Ordnance factory; and
- (ii) the company's labour as well as material cost of component B were higher by more than 44 per cent and overheads by 33 per cent as compared to those in the Ordnance factory.

1.117. The extra cost in procurement of 22,000 numbers of component B from the company is Rs. 6.02 lakhs. The Ministry have stated that the company's higher cost of component B was due to payment of higher rates of wages to labour, use of conventional machines, purchase of raw materials at higher rates and inclusion of Rs. 13.39 per unit for interest on capital, packing, forwarding, commercial charges and profit element.

[Paragraph No. 5,—Audit Report (Defence Services) 1969]

1.118. The Committee enquired about the basis on which the negotiated prices of Rs. 53.85 and Rs. 60.60 per unit for components 'A' and 'B' respectively, were arrived at. The Department of Defence Production have stated that these prices were settled in a meeting held between the officers of the Department of Defence Production|DGOF and the Managing Director of the Public Sector Company on 26th September, 1966. The Managing Director of the Company

had furnished detailed information together with the break-up of their estimated costs on both the items; which also included packing charges, overheads on account of interest on fixed capital and working capital, commercial charges etc. After a detailed examination and discussions of these costs, the rates as above were agreed to.

1.119. The Committee enquired whether the rates were final or they were open to further negotiations with reference to the actual production costs. The Department have stated that according to the record of discussions held in the office of DGOF on 26th September, 1966 the elements taken into account in the prices towards interest on fixed capital and working capital and cost of material were subject to verification in due course. Except to this extent, the prices as agreed to, were not open to further negotiation, even though Government's letter dated 19th November, 1966 conveying the order for the production of the items had stated that the prices were "provisional" and would be finalised by further negotiation. However, later on, the price of component 'B' was reduced from Rs. 60.60 per unit to Rs. 58.25 per unit in respect of the last order for 15,000 numbers placed on the company on 1st April, 1969. This reduced price was also, according to the supply order issued in this regard, "provisional" and subject to verification of correctness of the material prices, interest on working capital and to levy of interest on fixed capital being on the basis of normal capacity. The Company has since represented that its cost of production of these components has actually been higher than the selling prices as indicated above, in view of the paucity of orders for these components from the DGOF resulting in under-utilisation of the capacity created by the Company for the manufacture of these components. The Company has accordingly claimed compensation from Government and this matter is at present under examination.

1.120. To a question whether the entire requirement of component 'A' could not have been advantageously ordered on the Company and the capacity in the ordnance factory utilised for manufacture of component 'B', the Department have replied that this could not be done because matching capacities had been set up both the items in Ordnance Factories and also in the Company.

1.121. The Committee were informed by Audit that some of the material for component 'B' was supplied by the ordnance factory at an unit cost of Rs. 8.35 each though the actual cost was Rs. 5.65. The Committee, therefore, enquired about the reason for charging higher price from the Company and whether this was agreed to at the time of negotiating the rate of Rs. 60.60 for this component. The Ministry have stated in reply that the ordnance factory's cost of material for component 'B' as shown in the Audit para does not include the cost of "small" (seven components forming part of) amounting to Rs. 4.64 whereas the company's material as shown in the Audit Para was inclusive of the small components also which were obtained from DGOF. Supply of material to the

Company by the Ordnance Factory, if required, was envisaged at the time of placement of this particular order on the Company. However, in that even the cost of material supplied by the Ordnance Factory was to be deducted from the price. The Ordnance Factory did not charge higher rate than the actual cost in respect of the material for Component 'B' supplied to the Company. Apart from this, the overheads in the case of the Company are based on direct labour only.

1.122. To a question whether the Company supplied the components within the time originally stipulated in the supply order, and whether they were found upto the specifications laid down by the Defence authorities, the Department have replied that the Company had not been able to adhere to the original delivery schedule and periodic extensions of delivery were sought by it and granted but this did not by itself affect the production of the Ordnance Factories as there had been delay on the part of the Civil Private trade sources in the supply of the other matching components. The items were inspected and passed the prescribed inspection and proof tests.

1.123. The Committee desired to know the present stock position of the two components and whether any additional orders had actually been placed on the Company and if so, what the price to be paid therefore was. The Department have informed them that at present quantity of 12,000 component 'A' and 9,605 of component 'B' is in stock. After the placement of the order for Quantity 37,000 of Component 'A' and 12,000 of Component 'B' at the prices mentioned in the Audit Para, only two further orders for Quantity 10,000 and 15,000 Nos. respectively of Component 'B' were placed on the Company. The price fixed for the last order for Quantity 15,000 was Rs. 58.25 unit.

1.124. The Committee enquired about the reasons for the higher labour and material charges in the Ordnance Factory as compared to the public sector undertaking in respect of component 'A'. A reply is awaited on this point.

1.125. The Committee observe that Government incurred an extra expenditure of Rs. 6.02 lakhs on the manufacture of 23,000 number of component of a weapon in a public sector company, when an Ordnance Factory was producing the same item at lower cost. Further orders for production of 15,000 numbers of the same components had also been placed with the Company. It has been stated that "matching capacity" for production of this item and another component has been set up in the Company which it is necessary to utilise. The Committee would like Government to examine whether the capacity in the company could be put to more economic and alternative uses, so that production of the component could be maximised in the ordnance factory which is manufacturing it at a cheaper cost.

1.126. The Committee also observe that in respect of the other component of the same weapon the labour and material costs are higher in the ordnance factory than in the Company. The reasons for this should be investigated and steps taken to reduce these elements of costs.

Shortfall in production

Audit Paragraph

1.127. In January 1963 Government sanctioned setting up of capacity (30,000 numbers per annum in two shifts) for manufacture of an item (two types) in Ordnance factories (under licence from the manufacturers) at the estimated cost of Rs. 14.02 lakhs (inclusive of Rs. 11.79 lakhs in foreign exchange for import of plant, machinery, tools and gauges and payment of licence fee). It was anticipated that the project would be completed within one and a half years of the sanction and that manufacture would commence 12 months after receipt of technical data from the collaborators. A licence agreement with the manufacturers was entered into in July, 1963 and the technical documents (which were to be supplied by December, 1963) were received by March, 1964. Demands for 16 machines were placed in May and July, 1963. Nine of them were received by August, 1966. Seven were subsequently found not necessary. Production of the item actually commenced from September-October, 1965 but it was well below target as shown below:—

Year	Quantity produced	Orders outstanding at the end of the year
	(Numbers)	(Numbers)
1966-67	6,422	39,716
1967-68	8,807	53,839
1968-69 upto 31-12-68	18,130	35,709

1.128. Consequently, 46,691 numbers of the item were imported at a cost of Rs. 27.40 lakhs between September, 1965 and March, 1968 to meet demands of the Air Force.

1.129. The Ministry have attributed the shortfall in production to (i) need for obtaining components from different sources (Ordnance factories, imports, Air Force depots), (ii) difficulty in getting raw materials from trade and (iii) change in design in one of the types of the item in December, 1965 which necessitated fresh manufacture of a number of tools and equipments. The Ministry expect that 26,257 numbers of the item would be produced in the factories during the year 1968-69.

[Paragraph No. 6, Audit Report (Defence Services), 1969].

1.130. The Committee pointed out that according to the Audit paragraph the licence agreement was entered into with the manufacturers in July, 1963 and the technical documents were to be supplied by December, 1963. The Committee enquired when the technical documents were actually received. The representative of the Department of Defence Production stated that the last of the documents was received by July, 1966. The reason was that the collaborator claimed that they had sent all the documents and the blueprints but the Indian technicians did not find all the documents and the matter had to be pursued with the manufacturer. Asked whether there was any penalty clause in the agreement relating to delay on the part of the licensor, the witness stated that there was no penalty clause in the agreement. In reply to another question whether a penalty clause in the agreement was desirable as that would bind the collaborator to adhere to the time schedule, the witness admitted "that certainly would be desirable." Asked whether the delay in supply of the technical documents by the collaborator was deliberate, the witness stated that it was a reputable firm and it would be difficult to draw that inference.

1.131. The Committee enquired why recourse was not taken to the arbitration clause in the agreement which required the licensor to supply the technical documents within six months of the signing of the agreement. The witness stated that the Ministry did not proceed under that clause and the matter was taken up with the firm through the High Commissioner and the other officers posted in London. The firm had taken the plea that in the first instalment, they had sent all the documents that were needed but in the judgement of the Ministry the information furnished was not adequate.

The Committee enquired why orders were placed for 16 machines in May and July, 1963 even before the receipt of the technical drawings. The witness stated that "in any production programme there are two kinds of machines that are needed. One is the special purpose machine which is absolutely in accordance with the design of the store which is to be manufactured. Then there are some general purpose machines which on the basis of the nature of processes involved in the production of that store, anybody with a little commonsense and experience of production can visualise and can place orders. Now, the machines for which orders were placed were of the nature of the machines we require and orders were placed before the drawings were received." The witness further stated that the machines were being procured from indigenous sources through the Director General Supplies and Disposals and the collaborator did not supply them.

1.132. The witness stated that out of 16 machines, 9 were received in August, 1966 and were installed and the remaining 7 which were meant for another factory were not received. Subsequently the work-load on that factory diminished and they could manage the work with their existing machines and the orders for those additional 7 machines were cancelled. Asked whether there was any financial loss as a result of cancellation of the order for the seven machines, the witness replied in the negative.

1.133. The Committee asked for the reasons for the shortfall in production. The witness stated that a similar store was also being manufactured for the Navy and while calculating the total production, the production figures, relating to the other store manufactured for the Navy should also be taken into account.

1.134. In a note subsequently furnished to the Committee, the Department of Defence Production have given the following modified figures regarding actual production after taking into account the production of the other store for the Navy:

Year	Targetted production	Actual Issues	Quantity produced for Navy	Total of cols. 3 and 4
1965-66	10,000	6986	1899	8885
1966-67	24,000	6422	Nil	6422
1967-68	21,329	8807	5168	13,915
1968-69	26,257	21870	11689	33,559

1.135. The Committee enquired when production was started and whether it involved any foreign collaboration. The Department of Defence Production have stated in a note that production was started in 1964, and no foreign collaboration was involved. It was stated in evidence that the plant had a capacity of 30,000 which was reached in 1968-69 and was expected to be reached in 1969-70 also. But there was shortfall in the years 1966-67 and 1967-68.

1.136. Speaking about the bottlenecks which came in the way of production, the witness stated that there were difficulties in getting the correct material from trade namely two primer numbers. The material needed from trade was a particular type of synthetic washer which could not be processed due to non-availability of PTEF which was an imported material. Then there was a change-over of the design which involved change of designs and drawings. Moreover the supply of the propellant was not quite adequate for the full quantities to be produced. But the main reason was the late supply of technical documents by the collaborator.

1.137. In reply to a question whether the items were imported from the collaborating firm, the witness stated that because of the delay in production some quantity had to be imported from that firm. When asked whether any quantity had been imported after March, 1968, the witness replied in the negative.

1.138. When the Committee enquired as to what changes were made in the design of the item, the witness stated that the change involved a new cartridge case with a different system and a different primer which necessitated the manufacture of a number of tools and equipment.

1.139. When the Committee enquired whether the particular type of aircraft using this item was likely to be out of date soon, the witness stated that they were likely to remain in use for quite some time more. Moreover the machines which were manufacturing those items were general purpose machines which would be utilised for the manufacture of any other stores of that nature.

1.140. The Committee enquired whether it was a fact that a consignment of 2040 charges and certain other equipment needed for manufacture of the item and despatched in a wagon on 31-8-1968 had not been traced and the shortfall in production during 1968-69 was on that account. The Department of Defence Production have stated in a written note furnished to the Committee that it was a fact that the wagon containing 2040 charges was not traced for some time. It was finally traced and delivered to the consignee on 5-11-1968. According to the Ministry, the delay of about 2 months had little effect on production. It was further stated that Instructions had been issued to the concerned authorities to despatch such consignments duly escorted in future.

1.141. This is another instance where production of an item undertaken with foreign collaboration fell short of anticipated levels necessitating imports to the tune of Rs. 27.40 lakhs. The case illustrates the need for ensuring that, where foreign collaboration is sought, it is on such terms, which will give the collaborator a stake in ensuring that the stipulated production schedules are achieved. The Committee have made observations on this point elsewhere in this Report.

1.142. Through the shortfall in production was caused by a variety of factors, one major factor was that the collaborator who was to supply technical documentation by December, 1963 did not complete the supply till July, 1966. In the agreement executed with the collaborator there was no penalty clause to bind him to supply the technical documents within the stipulated period. The representative of the Department of Defence Production admitted

during evidence that the incorporation of such a clause in agreements of this nature would be desirable. The Committee trust that this point will be kept in view in any agreements made with foreign collaborators in future.

1.143. The Committee note that this item is being produced for an aircraft which has been in service for quite some time. The Committee trust that in any future programme for production of this item, Government will keep in view their plans in regard to phasing out of this aircraft so that production does not continue beyond a predetermined date.

1.144. The Committee observe that a wagon containing charges required for the manufacture of this item was misplaced for two months after which it was traced out and sent to the consignee. This raises the vital question of security of valuable defence consignments. The Committee trust that in future it will be strictly ensured that any consignment containing ammunition or any vital defence material is sent with proper escort.

Delay in establishment of production of a type of ammunition

Audit Paragraph:

1.145. In September, 1957 Government decided to set up facilities for production of a new type of ammunition, required by the Army, in Ordnance factories and thereby save Rs. 58 lakhs per year in foreign exchange on imports. Manufacturing particulars and also detailed process schedules of different components of the ammunition were furnished by a foreign government and sanction for provision of necessary facilities (civil works, machinery and tooling) at an estimated cost of Rs. 87.11 lakhs (including foreign exchange element of Rs. 49.47 lakhs) was accorded in June 1960. The civil works (Rs. 6.63 lakhs) were completed in July, 1966 and the machinery (Rs. 41.05 lakhs) were received between November 1961 and June 1966 and installed by September 1966.

1.146. Initially, it was expected that propellant for the fuze in the ammunition would, after development, be ready for regular manufacture and use by the time the facilities were set up. Propellant worth Rs. 9.29 lakhs manufactured by 1965 in an Ordnance factory have, however, not been found satisfactory in actual use. Its use has, therefore, been suspended and further trials are being conducted (September 1968). Regular production of this ammunition has, therefore, not yet commenced (September 1968). Consequently, the expected annual saving of Rs. 58 lakhs in foreign exchange has not yet materialised. In March, 1967 and November, 1967 this type of ammunition valued at Rs. 289 lakhs and cartridge cases and propellants valued at Rs. 16.40 lakhs respectively, have been ordered from abroad.

[Paragraph 7 of Audit Report (Defence Services), 1969].

1.147. The Committee desired to know why it took as many as six years to complete the civil works in this case. The representative of the Department of Defence Production have stated that the administrative approval for civil works was given on 1st September, 1962 on the basis of the estimates and drawings and the possible date of completion given by the MES was 31st January, 1964. In the beginning there were some difficulties in getting electrical equipment. There was also some delay in the inter-linking of the old and new sub-stations which could be done only during the shut-down period.

1.148. The Committee enquired why it took about 2 years to accord administrative sanction. The witness stated that preparation of drawings and estimates of cost followed by inter-ministerial consultations did take time.

1.149. When asked whether some of the delay could be avoided, the witness stated that "if determined efforts were made some delays could have been avoided; there is no doubt about it."

1.150. The Committee pointed out that though the project was envisaged as early as in 1957, production had yet to be established after a lapse of more than 12 years. The witness stated that "in this case they were depending on foreign sources and those sources were just not keen to pass on the designs and drawings. After 1965, there was absolute reluctance on their part to pass on any further information and indigenous effort had to be made to fill in the gap." Some ammunition was imported from the foreign source and used in time of emergency. However, their effort continuously was to get the designs and drawings and to make it within the country. In spite of the reluctance of the foreign supplier, with the little knowledge that they had gathered from the foreign source, they were able in November 1965, to assemble some rounds and tried them out. Unfortunately, there were two serious accidents on account of which they had to stop the use of the reformed cartridge cases and indigenous propellant.

1.151. The witness further stated that there was difficulty in getting the steel from indigenous sources. For sometime the Rourkela Steel Plant supplied the steel out of which the cartridge case was made but they experienced difficulty in rolling the high carbon steel and their machines went out of order. It was, therefore, decided to import steel from abroad but the import order had not materialised so far. The Rourkela Steel Plant would have to make a special effort to roll out this kind of steel at the risk of breaking their machines. They were, therefore, still examining the possibility of supplying steel of the required specifications.

1.152. The Committee enquired what the requirements of special steel were, to what extent these were being met by imports and what steps were being taken to develop indigenous production of

these steels. The Ministry have, in a note, stated that "The present annual requirements of the special steel sheet in question are approximately 254 M/T. No quantity has so far been imported but import action is in hand for 150 M/T. An indent for 150 M/T was placed on DGISM London. Since the material to the specification could not be had from UK, Continental sources, this indent was cancelled and a fresh indent has been raised on DGISM Washington. An offer for supply to an alternative specification has been received from DGISM Washington which is under consideration to ascertain suitability.

1.153. This type of steel was supplied by M/s. HSL, Rourkela previously in February 1966, HSL, however, expressed inability to supply against subsequent indents. M/s. Tatas also could not supply the material due to processing difficulties in their Sheet Mills. As a result of discussions that Secretary (DP) had with the Steel Secretary and General Manager, HSL, Rourkela, HSL, Rourkela has now offered to supply the steel to the main specifications, although not exactly to the quality requirements and finish on account of certain equipment limitations. Suitability of this offer is being checked up by the Technical authorities concerned.

1.154. As regards the propellant, the witness stated that a lot of effort was made to make the propellant indigenously but even the last trial had not succeeded hundred per cent. Efforts were continuing on the research and development side to produce the type of propellant required for this ammunition. The witness added that to begin with a decision was taken to import the fuze to start the production programme. As a result of the setbacks, it was decided to import steel propellants as well as the fuzes. After these were received, it would be possible to produce some rounds during the current year. The expectation was that next year it would be possible to produce about 20,000 rounds.

1.155. The Committee pointed out that according to the Audit paragraph, propellants worth Rs. 9.29 lakhs were manufactured by 1965 but these were found unsatisfactory and their use had been suspended. The Committee, therefore, desired to know why bulk production of propellants was undertaken pending completion of tests trials. The witness stated that originally the Research and Development Organisation had developed a propellant. A certain quantity was manufactured and use in initial production of this ammunition. It was tried out and considered suitable. That was why a further quantity was manufactured. But this problem where the gun itself was very badly damaged occurred later and, after a thorough investigation, it was found that the propellant required to be modified.

1.156. When the Committee enquired whether the test proof was carried out in a satisfactory manner and whether the defect in the propellant could not be detected earlier, the witness stated that "this was the first indigenous effort to make a propellant of this type. . . In the first test it was found all right and later on the problem of high pressures came to our notice and it had to be rectified. That process is still on . . . till the proof results are adequate and satisfactory, we will not produce in bulk. We will not repeat this wasteful production that was done earlier."

1.157. When asked why cartridge cases were imported, the witness explained that the punching and pressing machines were not giving satisfactory service. Some rectifications were made by the suppliers but some tools were broken during the process of rectification and as such it was decided to import cartridge cases to start the production. By the time the quotation was received, the prices had increased from 6 and odd dollars per cartridge case to 15 and odd dollars. Therefore, the matter was under consideration whether the cartridge cases should still be imported. Regarding the production of fuzes, the witness stated that no special capacity had been set up in the factory. These would be produced out of the existing capacity that was available.

1.158. The Committee enquired what the value of these machines was and what steps were being taken to rectify the defects. The Department have in a note stated that the value of these three Press Machines is Rs. 8,17,487 only. There have been frequent break-downs of tooling and tooling attachments of the 500-ton Taylors Challan Press procured from U.K. The representative of the supplier visited the factory in January 1967 and tried to carry out rectification to the Press. Initially, the Press was not functioning properly due to frequent breakage of rubber stripper pads. After replacement of the rubber stripper pads, it was observed that the punched plates were not stripping and the stripper plate was getting bent in piercing operation of the steel sheet. The matter was taken up with the Indian Agents who in turn referred the matter to their Principals. Subsequent investigations revealed that the tooling system of the Press was defective, though the Factory improvised certain modified tooling system and continued to operate the machine. But production was restricted owing to the tool and stripper breakages. Similarly, the 200 ton coining press also did not give satisfactory performance in that Cartridge cases after operation in the Press were not coming out completely cylindrical. Eccentricity was higher and gap between two ends was more than what was expected. Certain difficulties were also experienced with the 250-ton Press which is meant for elimination of ovality and ironing of the cases. Efforts are continuing to persuade the suppliers for the rectification of the defects and/or obtaining suitable proposals for solving the difficulties experienced with these machines.

1.159. The Committee called for a note indicating the steps taken by the R & D Organisation to establish indigenous production of the propellants and fuzes and the present position in establishing their manufacture. They have been informed as follows:—

“Explosive Research and Development Laboratory of the R & D Organisation was entrusted with a project to develop the propellant. 1000 kgs. experimental batch of propellant was manufactured and was subjected to exhaustive firing trials in January, 1969. Because of the encouraging results of the trials carried out on this experimental batch in respect of pressures and velocity, it was decided that manufacture of another ten-ton lot according to the new composition should be undertaken in the Ordnance Factories for further trials. So far 4 one-ton batches have been manufactured and further production is continuing and after the manufacture of the ten-ton lot is completed detailed technical trials will be undertaken.”

“As regards development and establishment of indigenous production of other propellants and fuzes, information is being collected.”

1.160. The Committee enquired when orders were placed for the machinery and what the reasons were for the delay of over six years in getting them. The Department have, in a note, stated that out of a total of 54 machines as many as 48 were imported and the rest were purchased in India. Indents for 52 machines were placed by 1960-61 and the indents for the remaining 2 machines were placed by 1963-64. 34 machines were received by 1962; 5 by 1963; 5 by 1964 and last 2 by July, 1966. Majority of the machines being of imported origin, some delay in the delivery of the machines was unavoidable.

1.161. The Committee further desired to know the value of components (other than the propellant) manufactured and kept in stock. The information is awaited.

1.162. In the Committee's view, this case spotlights the weaknesses in our defence production programme arising out of the gaps in indigenous know-how. This project was started as far back as 1957. It envisaged the indigenous production of a new type of ammunition required by the Army out of which an annual saving in foreign exchange of Rs. 58 lakhs per annum was expected to accrue. After thirteen years, the project has still not got off the ground and the imports continue, the last batch of imports valued at Rs. 3.05 crores have been made in 1967.

1.163. The efforts to produce the ammunition have so far failed, because foreign sources from which help had been expected initially showed “absolute reluctance” to pass on the designs and the drawings.

Attempts were thereafter made to produce on our own two out of three vital components of the ammunition, i.e., the propellant, the cartridge case and the fuze. Propellants worth Rs. 9.29 lakhs were manufactured in an ammunition factory in 1965 but when they were tried out there were "two serious accidents." The cartridge case presented difficulty because special steel needed for their production was not available to specifications from the steel producers in the country. The machines imported for the production of these cases at a cost of Rs. 8.17 lakhs had frequent break-downs and produced cases which were "not...completely cylindrical."

1.164. The Committee have already emphasised in paragraph 1.20 of their Ninety-Ninth Report (Fourth Lok Sabha) the need to step up research and development effort in the field of defence production. This case illustrates how urgent this need is. The Committee have been given to understand that the Research and Development Organisation has succeeded in producing a propellant which has given "encouraging results" in trials. The Committee have no doubt that the propellant will after further trials that are proposed to be carried out, be developed expeditiously to facilitate speedy production of the ammunition.

1.165. The Committee would like to mention certain other points arising out of this case:—

- (i) The firm which supplied the equipment for manufacture of cartridge cases should be speedily prevailed upon to rectify the defects noticed in the equipment.
- (ii) Civil works in Defence Production are at present taking an inordinately long time. In the instant case the works were administratively approved in 1962, planned to be completed in 1964, but actually finished only in 1966. Other instances of this type are mentioned elsewhere in this report. In order that this may not become a bottleneck, adequate steps should be taken to ensure expeditious completion of civil works for future projects.
- (iii) The factory produced the propellants in this case unnecessarily on a large scale (Rs. 9.29 lakhs). This was wasteful, considering that the propellant had not been proved by then. It should be ensured that, in future, items which are to be proved in technical trials are not produced in quantities in excess of those reasonably required for trial purposes.
- (iv) The country is still dependent on imports for its critical requirements of special steels. The scope for establishing indigenous production of acceptable quality should be examined as a matter of priority by the Ministry of

Defence in consultation with the D.G.T.D. Any research support required for this purpose should be obtained from the C.S.I.R. or the Defence Research Laboratories.

Delay in utilisation of machines imported for manufacture of a Nissan vehicle component

Audit Paragraph

1.166. To set up indigenous manufacture of crank-shaft (a component of engine assembly of Nissan trucks) nine machines costing Rs. 19.88 lakhs (foreign exchange component of Rs. 13.29 lakhs) were received in an Ordnance factory during February—October, 1965. Construction of buildings to house these machines was completed in February 1966 and the machines were installed between April and September 1966.

1.167. The forgings required for manufacture of the crank-shaft were to be obtained from trade. The Director General, Ordnance Factories, could locate a source for supply of these forgings only in October 1965. But the firm, on whom an order for supply of 5,079 forgings at Rs. 156 each was placed in June 1966 on the basis of a quotation did not accept the order on the ground that certain conditions in the order were not acceptable to it and, therefore, did not supply any. Fresh orders for import of 500 forgings at a cost of Rs. 47,857 were, therefore, placed on a foreign firm by August, 1967 i.e., 14 months later, and these were received in October 1968. Due to the delay in procurement of the forgings, five of the machines (Rs. 18.73 lakhs with a foreign exchange component of Rs. 12.50 lakhs) are lying idle (December 1968). (The other four machines are being put to alternate use). A fresh order has also been placed on another firm in June 1968 for (indigenous) supply of 5,000 forgings at Rs. 350 each (against the imported cost of Rs. 152) plus Rs. 2 lakhs as tooling cost, and the supplies are expected from January 1969.

1.168. In the meantime, the crankshafts continue to be imported. Orders for 6,300 crankshafts costing Rs. 12.28 lakhs were placed abroad (on the foreign collaborator) between May 1967 and October 1968.

(Paragraph No. 8, Audit Report (Defence Services), 1969).

1.169. In their note dated the 25th February, 1970, the Department of Defence Production have informed the Committee that the import of machines for manufacture of crankshafts was ordered in October/November, 1963 and at that time it was expected that the crankshafts would be manufactured in Ordnance factories by June, 1968. The machines were received between February to October, 1965. The buildings in which these machines along with some

other machines had to be installed were ready for occupation by 24th November, 1965 but the buildings needed some modification. After modification, the buildings were taken over in February, 1966 and 7 machines were installed in April, 1966, 1 in May, 1966 and the last one in September, 1966.

1.170. In reply to a question, why indigenous manufacture of crankshafts was not planned in time in view of the fact that manufacture of Nissan trucks and progressive indigenous manufacture of vehicle components as being undertaken under foreign collaboration, the Department of Defence Production have explained the position as under:

“We have a Licence Agreement with Messrs Nissan Motors for the progressive indigenous manufacture of Nissan Vehicles. However, due to the increased requirements of the Army, as against the original capacity set up for the production of 100 Nissan 1-Ton vehicles per month, the DGOF had to produce a large number of Nissan 1-Ton vehicles (the production during the years 1964-65 to 1966-67 exceeded 300 vehicles per months). The immediate stress, therefore, lay on assembly rather than on increasing of the indigenous content. We have, however, since achieved the indigenous content of 6 per cent as on January, 1970. In addition, planning on a firm basis for increasing indigenous content was not practicable, as the production was spread over eight factories, on the basis of fluctuating spare capacity.”

1.171. Explaining why forging could not be procured from indigenous sources necessitating their subsequent import after a gap of 14 months, the Department of Defence Production have stated that the DGOF had placed the first order for forgings on Messrs Sudsens in June, 1966. The supply order had to be restricted to 5079 Nos. because at that time the number of Nissan 1-Ton vehicles on order with the DGOF did not permit a larger number and the associate Finance was not agreeable to go on the basis of anticipated demands. The supply order was handed over to the Director of the firm on 4th July, 1966 who during the discussions had agreed to accept the reduced quantity of 5079 as against the quotation of 8000. Later, however, the firm went back on their word and demanded a price increase of Rs. 8/- per piece to absorb the lesser turn over. The DGOF held protracted negotiations with the firm but the firm did not furnish the drawings despite repeated reminders till finally in May 1967 the firm wrote to the DGOF that they were not in a position to guarantee a definite date of delivery because they were compelled to suspend operation of their largest hammer (which alone had the capacity to manufacture the forgings) owing to an objection filed in the court by Dum Dum Municipality on the grounds of noise and vibration. The DGOF could neither proceed legally

against the firm because the firm had not formally accepted the supply order nor could he bind them down to their quotation because the supply order did not conform to the quotation.

1.172. In reply to a question why there was a delay of 14 months in importing the forgings the Department of Defence Production have stated that the DGOF had on 4th March 1966 put up a proposal for the import of 465 forgings to his associate Finance but before this proposal was accepted, quotations from indigenous sources were received as a result of which the DGOF placed a supply order on Messrs Sudsens at the same time dropping the proposal for the import. The DGOF could not revive his proposal for import because the firm were expected to make the supply. On 22nd May, 1967 DGOF initiated a case for the import of 500 Nos. of forgings from Messrs Nissan Motors.

1.173. The Committee enquired why there was a large disparity between the indigenous cost of forgings (Rs. 350) and the imported cost (Rs. 152). The Department of Defence Production have given the following reasons:

- “(i) Messrs Nissan Motors have carried out their cost analysis which reveals that their prices were unrealistically low at the time of agreement as they had then no proper working data and that they had suffered heavy losses on this account. They have since raised their prices by about 35 per cent according to which the imported cost of forgings comes to about 205.
- (ii) The indigenous forging industry is still in its infancy and the production is on a smaller scale as opposed to the modern and highly mechanised industry in Japan engaged in mass production both for home consumption and export.
- (iii) It would appear Messrs..... whose rates was comparatively more favourable could not have supplied standard quality forgings at the rate of Rs 156/- as per their quotation without having suffered heavy losses. This might perhaps be a reason why they did not actually supply or even accept the order formally.”

1.174. Explaining the present position regardig indigenous supply of forgings, the note stated that according to the latest expectations Messrs Bharat Forge would be supplying 150 forgings per month from the middle of 1970 and would be reaching a supply of 500 per month in a few months from then. The first samples supplied by the firm were defective but the next batch of samples was satisfactory.

1.175. The Committee note that the Defence Department continues to import forgings for making crankshafts for Nissan vehicles, though facilities for the indigenous manufacture of these crankshafts have been set up. Indigenous manufacture was expected to commence in Ordnance factories by June 1968, but this expectation has not materialised, due to the inability of the Defence Department to locate reliable sources of supply for castings.

1.176. The Committee have in paragraph.....of their 104th Report (Fourth Lok Sabha) drawn attention to the existence of large unutilised capacity in the castings and forgings industry in the country. The Defence Department should, therefore, endeavour to tap this capacity, so that imports could be done away with. For this purpose they should work out a programme of action in consultation with the Director General, Technical Development. Efforts should also be made to bring down the cost of indigenous forgings which are at present much costlier than imported ones.

The Committee observe that as much as 61 per cent of the components of Nissan trucks are still imported. The Committee would in this connection, like to draw attention to their observations in paragraph 1.39 of their Ninety Ninth Report (Fourth Lok Sabha). A programme for accelerating the pace of import substitution should be quickly drawn up and implemented.

Delay in utilisation or under-utilisation of machines in Ordnance factories

1.177. In the case given below machines procured by the Director General, Ordnance Factories, to meet Defence production requirements in Ordnance factories have remained under utilised:—

Particulars of machinery	Value	Reasons for under utilisation
	When procured	
Two tube driving machines	Rs. 2.53 lakhs August 1953	The machines were procured with the object of manufacturing a special type of tube required for machine tools. They have, however, been considerably under-utilised. Due to paucity of orders from the Ordnance factories during the three years 1965-66 to 1967-68 the annual average production did not exceed 23 days' output. Consequent on the shortfall in production of the tubes, raw materials worth Rs. 1.87 lakhs imported between 1953-54 and 1957-58 are also lying unutilised.

[c.f. Para 9(II)(ii) Audit Report (Defence Services), 1969].

1.178. The Committee enquired on what considerations the machines in this case were procured and what the extent of their utilisation was in 1968-69 as well as during the current year. The Ministry have informed the Committee that the procurement of these machines was planned with the entire original planning of the Machine Tool Prototype Factory in collaboration with M/s. Oerlikons. These were received in the factory alongwith other Oerlikons machines as part of MPF Project.

Extent of utilisation in 68-69 and the current year is as below:

1968-69	6 per cent.
1969-70	23 per cent.

1.179. The Committee regret to find that two tube drawing machines purchased in August, 1953 at a cost of Rs. 2.83 lakhs were considerably under-utilised due to paucity of orders from the ordnance factories, the utilisation being 6 per cent last year and 23 per cent in the current year. Further, raw materials worth Rs. 1.87 lakhs imported between 1953-54 and 1957-58 are still lying unutilised. Evidently, the procurement of these machines was not based on any realistic assessment of requirements. Government should examine whether these could, with suitable modifications, be utilised for other alternative jobs or else whether at least one of the machines should be disposed of.

Extra expenditure in purchase of zinc ingots

Audit Paragraph

1.180. In August, 1966, the requirements of zinc ingots of five Ordnance factories for the period ending June, 1968 were estimated to be 1,531 tonnes. The Ministry of Mines and Metals released this quantity from the stock of the Minerals and Metals Trading Corporation which on 3rd January, 1967 offered it for sale to the Ordnance Factories at the provisional price of Rs. 3,050 per tonne. The final price was promised to be communicated soon and the formalities of the sale were to be completed by 3rd February, 1967. As the price indicated by the Corporation was higher than that charged by it earlier and the time given to complete sale formalities was inadequate, the Director General, Ordnance Factories, approached the Ministry of Defence on 25th January, 1967 to request the Ministry of Mines and Metals to fix the final price payable and for extension of the period of validity of the offer till 15th March, 1967. The request for extending the period of validity of the offer sent by the Ministry of Defence on 4th February, 1967 was forwarded by the Ministry of Mines and Metals to the Minerals and Metals Trading Corporation on 16th February, 1967. The Director General, Ordnance Factories, also instructed the factories on 7th February, 1967 to place their orders on Minerals and Metals Trading Corporation on the basis of the provisional price quoted. Except one factory which placed its

order on 22nd March 1967, the other four factories placed their orders on the Minerals and Metals Trading Corporation between 15th and 25th February, 1967.

1.181. In the meantime, with a view to clear accumulated stocks the Minerals and Metals Trading Corporation issued public notices on 1st and 2nd February, 1967 offering this material at the (reduced) price of Rs. 2,700 per tonne to actual users against surrender of import quota licences. The Director General, Ordnance Factories, also requested the Minerals and Metals Trading Corporation on 17th April, 1967 to amend its earlier price accordingly. The Minerals and Metals Trading Corporation, however, intimated on 6th May, 1967 that as all the formalities connected with their earlier sale offer to the Ordnance factories had not been completed within the validity period, i.e., 3rd February, 1967, its offer of sale to the Ordnance factories had been treated as cancelled and the Corporation's stocks were committed for sale to others.

1.182. Consequent on the failure of the Minerals and Metals Trading Corporation to sell the stores to the Ordnance factories, the Director General, Ordnance Factories, purchased through the Director General, Supplies and Disposals, in December 1967—January, 1968, 2,370 tonnes of zinc ingots (including further requirements) from trade at prices varying from Rs. 3,250 to Rs. 3,700 per tonne. On the basis of the price of Rs. 2,700 per tonne offered by the Minerals and Metals Trading Corporation in its public notices, the extra cost in purchase of 1,531 tonnes of zinc ingots initially required by the Ordnance factories was Rs. 12.26 lakhs.

[Paragraph 10, Audit Report (Defence Services), 1969].

1.183. During evidence, the Committee pointed out that in the sale release order dated the 3rd January, 1967 issued by the Minerals and Metals Trading Corporation, one month's time had been given to the Ordnance factories to complete the formalities of the sale transaction. They enquired why the Director General, Ordnance Factories approached the Ministry of Defence only on 25th January, 1967 for getting extension of the validity period by the Ministry of Mines and Metals. The representative of the Department of Defence Production stated that MMTC's letter dated 3rd January, 1967 was received on 10th January, 1967 and it indicated the validity date for the sale as 3rd February, 1967. It also stipulated hundred per cent payment when delivery was taken locally and in case of out stations, payment was to be made upto 100 per cent of the value of material against presentation of documents, i.e., R. R. invoice etc. through the bank. The prices shown in the sale notes were provisional. On 11th January, 1967 one of the factories requested the Minerals and Metals Trading Corporation to keep the material earmarked for them and referred the matter to the Director General, Ordnance Factories as no prior advice of allocation had been received by them. Similar requests were sent to the Director General,

Ordnance Factories by other factories on 14th, 17th and 25th January, 1967. The question of reduction of prices and extension of the delivery period was taken up with the Ministry of Mines and Metals on 4th February, 1967 and the latter sent instructions to the Minerals and Metals Trading Corporation on 16th February, 1967. "By that time perhaps we were too late."

1.184. In reply to a question as to why the Director General, Ordnance Factories wrote to the Defence Ministry instead of taking up the matter with the Minerals and Metals Trading Corporation, the witness explained that the allotment of zinc which normally involved foreign exchange allotment was made by the Ministry. Moreover, the original request for the allotment of zinc emanated from the Defence Ministry to the Ministry of Mines and Metals and the latter had requested the Minerals and Metals Trading Corporation to keep that quantity for the Ministry of Defence. On that basis, the Director General, Ordnance Factories, instead of approaching MMTC direct, referred the matter to Ministry of Defence.

1.185. When asked, whether in view of the urgency of the matter, DGOF could not have contacted MMTC direct, the witness stated that "DGOF is not concerned only with the import of zinc. On a single day he has to face about 30 factories and if he starts telephoning in each case he can do only that work. The same is the position in the headquarters. Now, if you see chronologically the story of this case from day to day of what action was taken, it will be seen that nobody was sleeping over the matter and nobody was giving less priority to this matter." The witness added: "I do concede the point that if somebody had taken up the telephone at that time, things would have moved much faster. That is correct. But I would request you to judge the situation in the totality of the circumstances in which the organisation of the DGOF is placed."

1.186. Explaining the situation in which MMTC were placed at that time, the representative of the Corporation informed the Committee that as a result of hostilities with Pakistan the Scarce Industrial Material (Control) Order, 1965 was promulgated. The Order was repealed in June, 1966 and immediately thereafter with the devaluation of Rupee, Government of India liberalised the imports. Until September, 1965 MMTC were catering to the requirements of the small scale sector for non-ferrous materials. With the liberalisation of import policy in June, 1966, MMTC virtually were put out of the import-trade. They were faced with the problem of disposal of non-ferrous metals worth over Rs. 13 crores, which they were then holding in stock. With the issue of import licences immediately after the liberalisation of import policy, the actual users imported within a period of three to four months substantial quantities of non-ferrous metals with the result that there was no offtake of the stocks which the MMTC had in hand since September, 1965.

They had already incurred heavy godown expenses and interest on blockade funds by December, 1966. They were, therefore, faced with the problem of selling the material at the then ruling market prices.

1.187. Secondly, the MMTC had in December, 1966 in hand various orders in favour of the Ordnance factories for metals which had to be supplied or to be lifted by them. There were certain allocations for metals in favour of Ordnance factories released in October, November, 1965. In December, 1966 these were, therefore, pending with MMTC for over one year. In fact on 16th December, 1966, the then General Manager of MMTC drew the attention of the Deputy Planning Officer in the Department of Defence Production to the delay extending in some cases upto one year in lifting copper and zinc. This letter was followed by another letter from the Chairman, MMTC to the then Secretary Defence Production on 29th December, 1966. Even at that time quite substantial quantities of non-ferrous metals had yet to be lifted by the various Ordnance factories and the MMTC was faced with the real problem of disposing of its stocks and recover the investment.

1.188. The MMTC got release orders from the Ministry of Mines and Metals in favour of various Ordnance factories, *vide* their letter dated 26th December, 1966. The MMTC was giving one month's time to its customers to lift metals so allotted. The MMTC not only issued sale notes in favour of various Ordnance factories promptly on 3-1-1967 but followed it up with a general covering letter addressed to the General Managers of the Ordnance factories concerned requesting them to ensure that all the formalities connected with the sale note may be completed within the validity date of the sale note i.e. 2.2.1967. At that time MMTC were thinking of revising the price downward to get rid of the stocks. Therefore, the price indicated in the sale note was mentioned "provisional". The representative of the MMTC added that if at a later date, the DGOF had approached MMTC, the MMTC would probably have conceded the same reduction as it had announced in the Press.

1.189. The Committee enquired on what basis the provisional price was fixed by the MMTC at Rs. 3050 per tonne in January, 1967. In a note on this point, the MMTC have explained the position as follows:

"Under the Scarce" Industrial Materials (Control) Order, 1965 metals could be sold to the holders of permits issued by the Controller at a price fixed in accordance with clause 7 of the Control Order, which provided *inter alia* that 'No person other than a producer shall sell or offer to sell any scarce industrial material at a

price which exceeds the amount represented by an addition of $3\frac{1}{2}$ per cent to its landed cost'. Accordingly, sale price had to be fixed for each shipment by adding a margin of $3\frac{1}{2}$ per cent over the landed cost for that particular shipment as defined in the Control Order.

"The Scarce Industrial Material (Control) Order 1965 was rescinded on 7th June, 1966. Since the Corporation imported metals from various sources at different prices, the fixation of selling price on the basis of the price of each shipment lot plus a margin of $3\frac{1}{2}$ over the landed cost for the MMTC resulted in different simultaneous selling prices depending upon the lot from which delivery was made to actual users. After the repeal of the Control Order, the Corporation decided that all future sales will be effected on a 'pool price' determined for each category of non-ferrous metals on the following basis:—

- (i) Such 'pool prices' will be fixed quarterly in respect of stocks remaining unsold at the beginning of each quarter and after taking into account the anticipated arrival during the quarter. The first quarter for the purpose of determining 'pool price' will be deemed to have ended on 30th September, 1966.
- (ii) This 'pool price' was to be the weighted average of the landed cost of the metal available for sale during a particular quarter. To this weighted average landed cost was to be added MMTC's margin of $3\frac{1}{2}$ per cent to arrive at the uniform pool price applicable during that quarter for all sales made from MMTC's godowns at Bombay, Calcutta and Madras.

"The decision for effecting sales at quarterly pool prices was taken in July, 1966, but the pool price could not be finalised immediately as decision regarding the quantum of the various elements of cost build-up could be finalised only in October, 1966. Accordingly, the final pool price for zinc was fixed in early November, 1966. This pool price was Rs. 3,069 per metric ton for electrolytic zinc. All sales made during the interim period were regularised subsequently after the fixation of and on the basis of the final pool price of Rs. 3,069 per tonne.

"The pool price for the quarter January-March, 1967 was to be fixed on the basis of stocks carried over either unsold or sold but not paid for and lifted by the allottees as on the 1st January, 1967 and the subsequent shipments that were anticipated to arrive and become available for sale during

that quarter. Since the information regarding the unlifted/uncommitted (by sale) stocks as on 1.1.67. was to be obtained from the Regional Managers of the Corporation at the port towns of Calcutta, Bombay and Madras and since the sales were to continue uninterrupted, all sales during early January, 1967 were made on the basis of a 'provisional' selling price to be replaced later on by the actual selling price for the quarter January-March, 1967. The provisional price fixed was Rs. 3,050; subsequently the final pool price was fixed at Rs. 3,028.70 per metric ton."

1.190. The Committee further enquired on what basis the price was subsequently reduced to Rs. 2700 per tonne. The witness stated that a high powered team examined the question and then only the MMTC decided to offer it at Rs. 2700 per tonne. It had to be borne in mind that while purchasing zinc at Rs. 2700 per tonne, the actual users were surrendering their import licences which meant saving in foreign exchange. It was, therefore, not the same thing as offering the metal at Rs. 2700 per tone ex-godown.

1.191. In a further note on this subject, the MMTC have stated that "the blockade of funds of the Corporation on its stocks of non-ferrous metals was about Rs. 9 crores by the end of January, 1967 and further shipments for a value of another Rupees five crores were expected to arrive shortly. In the context of the Government policy of granting import licences to actual users directly, the MMTC was to be completely out of metals trade. The need of the hour was, therefore, to ensure prompt liquidation of the stocks to release the blocked funds. With this in view, therefore, a decision was taken to offer the stocks of metals including zinc to all import licence holders against surrender of their import licences. It was decided that the selling price should be on the basis of actual costs to the Corporation by even foregoing its margin of 3½ per cent. This was expected to create interest among potential consumers to lift their requirements from MMTC's stocks immediately. It was under these circumstances that the actual cost prices of various shipments were recalculated, at the end of January, 1967 as also the price of future anticipated shipment arrivals and a weighted average price of Rs. 2700 per metric ton was arrived at for zinc."

1.192. The Committee enquired whether the concession offered to the actual users was conveyed to the Ministry of Defence. The witness stated: "I do not see any paper in the file to that effect." He added that it was advertised in all the newspapers on the 2nd February, 1967. The sale note was to expire on 3rd February, 1967 and by that date the MMTC were not approached by the Ordnance factories.

1.193. When the Committee enquired whether the Ishapore factory had written to the MMTC on 11.1.1967 that they needed the material, the witness stated that the Ishapore Factory did not lift the stock of 240 tons of zinc in spite of personal contacts.

1.194. The representative of the MMTC added that requests for extension of time were received from two units at Katni and Chandigarh. The former requested for extension of time upto 15.3.1967 and the latter upto 28.2.1967. Extension was given to the Chandigarh unit upto 28th February, 1967 but the Katni unit was given extension upto 15th February only. Ambernath factory intimated in a letter dated the 20th January 1967 that they did not need 940 tons of the metal allocated to them.

1.195. The representative of the Department of Defence Production explained that the ordnance factories had no knowledge that they were getting allocation from the MMTC. They had placed their requirements with the DGOF who was acting on their behalf. In fact the Metal & Steel Factory, Ishapur had requested the MMTC to keep the material earmarked for them and in the meantime they had referred the matter to DGOF as no prior advice for allocation of 240 tons had been received by them. The representative of the Department of Defence Production added "On behalf of the DGOF, we had requested the Ministry of Mines and Metals to reserve this quantity for us from the MMTC stock. When MMTC sent the sale note to various factories, they took it by surprise. Some of them approached the MMTC to postpone the date, and approached the DGOF for advice as to what is to be done."

1.196. In a subsequent note the Ministry have stated that the Ambernath factory declined the allocation "due to a misapprehension". The factory did place their order on the MMTC for 940 MT on 25th February, 1967.

1.197. The representative of the Department of Defence Production further added that after receiving financial concurrence on 3rd February, 1967 the DGOF asked the Ordnance Factories to place orders immediately on the MMTC for the quantity of Zinc ingots covered by their sale note of 3rd January, 1967. In pursuance of this letter, four factories placed orders on the MMTC between 15th and 25th February, 1967. Only one factory delayed it till 22nd March, 1967. As extension had been given to the Katni unit upto 15th February, 1967 they placed their order on that date through a telegram but it was not known when the telegram was received by the MMTC.

1.198. In a subsequent note on this point, the MMTC have stated that "the supply order by ordnance factory, Katni placed under their communication dated 15th February, 1967 was actually received in MMTC only on 23rd February 1967 and was received by

the concerned officer on 24th February, 1967. MMTC could not, therefore, initiate any action on this supply order till 24th of February, 1967 and the date 15th February, 1967 is not relevant so far as MMTC is concerned."

1.199. The witness further stated that the Ministry of Mines and Metals had advised in their letter dated 3rd February, 1967 that the Ministry of Defence could avail of the offer of reduced price of Zinc as announced in the public notice dated 1st February, 1967. When the DGOF approached the Ministry of Defence on 9th February, 1967 with a request to finalise the price, keeping in view the lower prices quoted in the public notice, he was advised accordingly on 7th April, 1967. The DGOF then approached the MMTC on 17th April, 1967 but the latter informed DGOF on 6th May, 1967 that the sale notices would be treated as cancelled as the stocks stood committed for sale to others.

1.200. Explaining the circumstances in which the MMTC decided to offer Zinc ingots allocated for ordnance factories to other eligible units, the MMTC have in a note stated that "on a review of the stock position at the end of January, 1967 it was noticed that as against the total sale notes to the extent of 3319 tonnes (including 1531 tonnes issued on 3rd January, 1967 in favour of the five ordnance factories), inspection had been carried out by the Ordnance factories in respect of a quantity of 1200 tonnes only. This inspection was for material offered against sale note No. ZN 187.66 dated 27th October, 1966 issued in favour of Ordnance factory, Ambernath at MMTC's then existing pool price of Rs. 3,069 per M/T. Even after the completion of the inspection, the inspection notes from the ordnance factory were received only on 22nd February, 1967 and 27th March, 1967, i.e., 4 to 6 weeks after the date of actual inspection as indicated below:—

<i>Quantity</i>	<i>Date of inspection</i>	<i>Date of receipt of inspection note</i>
850	3.1.1967	22.2.1967
350	27.2.1967	27.2.1967

"The actual deliveries against the sale note issued in October, 1966, were continued to be made till about beginning of July, 1967, i.e., upto 8-9 months after the issue of sale notes and MMTC had to wait till that period for realisation of its blocked funds. It may be mentioned here that in spite of the fact that sale note issued by MMTC in October, 1966 was at a firm price of Rs. 3,069 per M/T, the Corporation charged only the revised reduced price of Rs. 2,700 per M/T for supplies against this sale note. In fact, MMTC always extended every possible assistance

in the needs of the ordnance factories and the above fact would be clearly indicative of MMTC's intentions in this regard, in the matter of extended delivery period and charging of even reduced price prevailing at the time of delivery."

"However, keeping in view the consideration that MMTC was to be out of the metals trade in view of the liberal licensing policy of the Government, it could not as a trading organisation afford to keep its funds blocked for prolonged period which was inevitable if the material was to be kept reserved for Ordnance factories which had not responded to the sale notes issued in their favour. Ordnance Factory, Ambernath had, in fact, returned the sale note for cancellation as they did not then need the metal. A decision was, therefore, taken that wherever the inspection of the material had been carried out by the ordnance factories upto the end of February 1967 the material will be kept reserved for them and the remaining material may be sold to other eligible units."

1.201. The Department of Defence Production have in their note on the subject explained the reasons for their inability to lift the stocks of Zinc offered by the MMTC in 1965-66 as follows:—

"On 27th March, 1966, the inspector requested MMTC to intimate the date when the materials would be submitted for inspection. The materials were, however, tendered by MMTC for inspection on 6th February, 1967, i.e., after about a year from the date of placement of the order and after more than ten months from the date of request of the Inspector. The Inspector was deputed on 13th February, 1967 when no material was made available to him for inspection, but he was asked to come on 17th February, 1967. The materials were inspected on 21st February, 1967 and released for despatch on 21st February, 1967 and 5th March, 1967 228.50 M T of Zinc was despatched by MMTC in April, 1967. The balance quantities of 9.12 M T of Zinc had to be cancelled from the order due to non supply for a long time.

"The urgency of requirement was stressed on MMTC by letters and D.O. dated 19th January, 1966, 25th January, 1966 and 26th February, 1966. Acceptability of the material was confirmed to MMTC by CIM on 5th March, 1966 after tests of samples. MMTC were however, asked to segregate the material lot-wise for visual inspection and stamping of acceptance mark, as the same was found in mixed-up condition. Acceptance of MMTC's payment terms was conveyed to them in M of D letter No. PC.II.

No. 12/24/65/D (Prod.) dated 16th April, 1966. After issue of several reminders, it was intimated by MMTC on 10th October, 1966 that segregation had been completed. The Inspecting officer visited MMTC on 14th October, 1966 for visual inspection and stamping, but found that the major portion of the Ingots were without any markings or with various markings not reflected in the Manufacturer's Test Certificate. Further samples were, therefore, drawn by him and after spectographic analysis, released the material on 7th December, 1966 for despatch to the Factory. The material was despatched by MMTC in January, 1967.

"It was intimated by the DGTD that according to Government decision equivalent quantities of Scarce materials against pending orders on Small Industries Corporations were to be obtained by the O.Fs. from MMTC. Although the pending orders on S.I.Cs. were to the extent of 850 M'T of Zinc MMTC's Sale Notes were issued for much higher quantities. Fresh reviews of requirements were, therefore, carried out to avail of the full quantities, in view of the scarcity of the materials. Since MMTC claimed considerably higher prices (Rs. 3,105.5 per M'T of Zinc), the question of high price was referred to M of D on 20th December, 1966, who took up the matter with the Ministry of Mines & Metals on 14th November, 1967. The final prices were ultimately reduced by MMTC from Rs. 3,105.5 to Rs. 2,706.5 per M'T of Zinc by their amendment dated 12th September, 1967 and of 27th October, 1967, i.e., after 9'10 months. 1200 M'T of Zinc were rendered by MMTC for inspection on 30th December, 1966. 850 M'T of Zinc were released by the Inspector on 10th February, 1967 after obtaining certain particulars regarding weight of materials and name of the Booking Station (which were furnished by MMTC by a letter dated 21st January, 1967) which were required for issue of Inspection Notes and MC Notes. 723 M'T of Zinc were despatched by MMTC only on 31st March, 1967. 1176.43 M'T of Zinc only were finally supplied by MMTC. They did not offer any quantity of material for inspection against the order for 588.8483 M'T of Zinc."

1.202. The Committee were informed by Audit that in a meeting of the Committee of Economic Secretaries held on 20th February, 1967, the Secretary, Department of Defence Production had stated that it was not necessary for the Corporation to maintain reserve stocks for Defence and it was decided at the meeting that the stocks could be disposed of. On his attention being drawn to the aforesaid discussions, the representative of the Department of Defence

Production stated that it was a general policy discussion. In this particular case, there was a temporary shortage of zinc and a specific request was made to the Ministry of Mines and Metals to supply the metal and that request was not linked with the maintenance of reserve. The witness further stated that as a long term measure, the Department of Defence Production did not expect any other organisation to hold stocks for them and that was the view which was advocated by the Department of Defence Production at that meeting. But that did not come in conflict with the earlier specific request for the release of a specific quota of zinc for which there was terrible shortage at that time. The witness undertook to enquire as to how, the shortages in this case occurred despite their stockpiling of scarce metals.

1.203. From the Minutes of the aforesaid meeting subsequently made available to them the Committee observe that the following problems were discussed:—

- (i) Whether there is a need to maintain an emergency reserve of copper and zinc any longer and if so, who should hold it;
- (ii) How should the stocks of copper and Zinc built up by the MMTC be disposed of and at what price;
- (iii) Whether pending disposal of the stocks with the MMTC further issue of actual user's licence should be suspended;
- (iv) What should be the policy with respect to pricing of non-ferrous metals produced indigenously by different units or imported.

1.204. The decisions arrived at in the meeting are summarised below:—

“Secretary, Defence Production, stated that the Ministry of Defence had a policy of their own regarding maintenance of stockpiles of strategic materials and, therefore, he did not consider it necessary for any other organisation like MMTC to maintain a reserve for purposes of Defence. The Ministry of Mines and Metals were also of the view that no reserve need be kept with the MMTC. It was accordingly agreed and decided that the reserves of copper and zinc built up by MMTC should be disposed of and further import of these metals by that Corporation for purposes of the emergency reserve should be stopped.

“The representatives of MMTC stated that they had no difficulty in disposing of their stocks of zinc but they sought the assistance of Government for disposal of their stocks of copper.

"It was felt that as it would take some time for issuing the allotments and more time for the users to lift the stocks it would not be practicable to dispose of the stock by 28th February, 1967 as suggested by the Corporation. It was decided that the cut off date for lifting the stock should be extended upto 30th April, 1967.

"The representatives of the Corporation represented that their funds had been locked up in the stocks of copper and as they were extremely short of funds it was difficult for them to wait till the end of April for the disposal of their stocks and realisation of their value. It was agreed that the Corporation's financial difficulty could be met by advances to be given by Government Departments to the extent of Rs. 3 crores or so against the proposed allocations to them.

"As regards price, Secretary (Expenditure) observed that even the reduced price advertised by the Corporation was somewhat higher than the current world prices. It was decided that JS(I&C) should examine the detailed build up of the prices quoted by the Corporation and suggest fair prices payable therefor.

"It was also agreed that it would not be practicable to have uniform prices for non-ferrous metals being procured from various sources and that no attempt need be made in that direction."

1.205. The Committee were further informed by Audit that two of the five ordnance factories viz., Ishapur and Jabalpur were asked by the MMTC Regional Office, Calcutta on 23rd February 1967 to arrange inspection of the material stated to be lying ready in the suppliers' godown, but when the Defence inspecting officer went to the godown, no material was produced for inspection. On his attention being drawn to this, the representative of the MMTC promised to look into the matter. He, however, stated that by 20th February, 1967 the MMTC had, excepting stocks allocated for Defence, practically committed all the stocks. The Chandigarh unit was supposed to have lifted its quota by 28th February and the Katni unit by 15th February, but they failed. When they made requests later on, the stocks had all been disposed of or committed.

1.206. In a note on this subject subsequently furnished to the Committee, the MMTC have stated that "From reports received from the Regional Office of MMTC at Calcutta it is seen that the Inspector of Metal and Steel Factory, Ishapur, called on Regional Office for inspection of material only on 15th March, 1967, i.e., after a lapse of about 3 weeks. The material could not be produced for inspection at that time as it had already been covered by sale to

other eligible units as there had been no response from the Ordnance Factory. The Ordnance Factory, Ishapur finally cancelled their supply order *vide* their letter dated 30th August, 1967 specifically stipulating that the cancellation was "without any financial repercussion on either side."

As regards Jabalpur factory, the MMTC have stated that "the Regional Office, Calcutta is trying to locate and link up the old papers."

1.207. The Committee enquired whether some quantity out of the MMTC stock was sold later on to other Government Departments like Railways, P & T etc. The witness promised to furnish the information in writing.

1.208. The Committee subsequently called for the names of all the units to whom zinc was sold by the MMTC between (i) 2nd and 15th February, 1967 (ii) 16th and 28th February, 1967 and (iii) 1st and 31st March, 1967. In their note on the subject, the MMTC have stated that after the issue of public notice on 1st February, 1967 the sale of zinc was made only (a) to actual users against surrender of import licence, (b) under export promotion scheme, (c) against allocations made by Government (Ministry of Mines and Metals) which were mainly in favour of Government Departments like Post Office and Railways.

1.209. The MMTC have furnished the names of all the units to whom zinc was issued ex-Bombay, Calcutta and Madras during the above stated periods at the concessional rate. The Committee observe therefrom that sale notes were issued by the Corporation for the following quantities of zinc between 2nd February, and 31st March, 1967:—

Period	ex-Bombay	ex-Calcutta	ex-Madras	Total
				(In tonnes)
2-2-67 to 15-2-67	492.950	552.240	Nil	1045.190
16-2-67 to 28-2-67	1305.709	960.660	1188.030	3454.399
1-3-67 to 31-3-67	597.800	503.540	70.610	1251.950
TOTAL	2396.459	2096.440	1258.640	5751.539

1.210. The issues in favour of other Government Departments/ Public Undertakings after 15th February, 1967 were as follows:—

		Date of issue	Quantity (In tonnes)
1. P & T Department	(a) Ex-Bombay	27.2.67	150.000
	(b) Ex-Madras	27.2.67	550.000
	(c) Ex-Bombay	15.3.67	400.000
	(d) Ex-Calcutta	15.3.67	400.000
2. General Manager, S. E. Railway, Calcutta		22.2.67	289.000
3. Government Porcelain Factory, Bangalore		20.2.67 } 2.3.67 }	79.570 } 18.000 }
4. M/s. Indian Copper Corporation Ltd., Ghatsila		21.2.67	80.000
5. National Coal Development Corporation		16.3.67	2.000
6. Hindustan Aeronautics Ltd., Bangalore		16.3.67	3.110
7. Central Electro-Chemical Research Institute, Karaikudi		17.3.67	0.500

1.211. The Committee pointed out that according to the statement made by the representative of the MMTC, the prices of zinc were going down gradually and they had to compete with the lower price in the open market. The Committee enquired why in that case the DGOF had to purchase zinc at higher rates through the DGS&D in April, 1967. The Department of Supply have stated that in case of one firm, the contract price for supply of 300 tonnes of zinc was fixed @ Rs. 3200/- per tonne by Government in accordance with a circular issued in June, 1968 regulating the price at that level in view of established indigenous production of zinc by Hindustan Zinc Ltd. and a private concern. In regard to another A.T for 2070 tonnes, the firm had offered two prices—

(a) Rs. 3700 per tonne fixed;

(b) Average market rate as reported in the Eastern Metal Review during the months prior to the month in which the store was contractually offered for inspection, less Rs. 200 per tonne. The firm's offer at (b) was accepted and the final prices paid varied from Rs. 3435 to Rs. 3449 per tonne.

1.212. The Committee regret to observe that though the MMTC had substantial stocks of zinc which they later sold to actual users at reduced prices; they did not meet the indents of the Ordnance factories for 1531 tonnes of zinc. Consequently the Defence authorities were obliged to obtain their requirements through the open market at higher rates which resulted in an extra expenditure of Rs. 12.26 lakhs.

1.213. The contention of the MMTC that they could not accommodate the Defence requirements as there had been delays of over a year on the part of the Defence authorities in lifting stocks against previous orders, does not bear close scrutiny. From the information in this regard furnished to them, the Committee observe that the Corporation were as much responsible as the Defence authorities for this situation. In respect of one sale note dated 20 th November, 1965 for 6156 tonnes of zinc, the material was tendered by the Corporation for inspection by the Defence authorities after about a year from the date the order was placed. In respect of another sale transaction concluded on the same day for 200 tonnes of zinc, the Corporation took six months to segregate the material for inspection. In regard to two other sale transactions agreed to in October, 1966 for 1200 tonnes and 589 tonnes respectively, the stocks could not be lifted pending settlement of the price which took about ten months. After this issue was settled, there was further delay on the part of the Corporation in furnishing particulars required for issue of inspection notes. In fact, supplies were eventually made only against the sale note for 1200 tonnes and no material was tendered for inspection against the other sale note for 589 tonnes.

1.214. Another point is that the MMTC quoted a provisional price of Rs. 3050 per tonne to the Defence authorities (in the instant case) giving them a month's time to finalise the transaction. Yet when they decided later to sell the stocks at a concessional rate of Rs. 2,700 per tonne, neither the question of reducing the price quoted to the Defence authorities nor that of giving an adequate extension of the delivery period, was considered by the Corporation. The least that the Corporation could have done in the matter was to have contacted the liaison officer of the DGOF stationed in Delhi to settle these issues. This was all the more necessary as at the meeting of the Committee of Economic Secretaries held on 20th February, 1967, which the representative of the MMTC also attended, it had been decided that the date for lifting the accumulated stock with the MMTC should be extended upto 30th April, 1967. In the circumstances the MMTC could have easily accommodated the Defence authorities both in the matter of price as well as extension of dates for finalising the transactions.

1.215. Government as a policy is now canalising more and more imports of vital raw material through the public sector undertakings like the STC and MMTC. It is necessary that for meeting the vital needs of Defence and other Government priority projects, proper coordination is maintained between the consuming Government departments and the importing public sector undertakings. Government should prescribe how the requirements of defence, public sector undertakings and Government departments are to be met from imports and the price at which these should be made available to them.

1.216. It would appear that the Defence authorities were on their part also lax in pursuing the matter even though they were experiencing "terrible" shortage of this critical metal at that time. The Committee find that two of the ordnance factories (Katni and Chandigarh), to whom some extension of delivery date was granted, failed to lift the supplies by the extended dates. A third factory (Ishapur) delayed the inspection till 15th March, 1967 by which time the stocks had been covered by sale to other eligible units. Another factory (Jabalpur), could not obtain the supplies for reasons which are yet to be explained to the Committee. Yet another factory (Ambarnath) initially declined the allocation made by the MMTC "due to a misapprehension". The Committee would like the Ministry of Defence to examine why the ordnance factories failed to take timely action on DGOF's letter dated 7th February, 1967 asking them to place orders immediately on the MMTC for the quantity of zinc ingots covered by their sale note of 3rd January, 1967. The Committee would also like it to be examined how shortages developed in respect of this critical item which is normally stockpiled by the Defence authorities.

1.217. The Committee trust that for the future the MMTC as a public corporation, would show a greater sense of accommodation in meeting defence requirements of critical items. It should also be impressed upon the ordnance factories that they should act in a businesslike manner while provisioning for critical items, so that a case of this kind does not recur.

Purchase of sub-standard materials/equipment

Audit Paragraph

1.218. (a) *Soap laundry.*—Against two contracts placed by the Director General, Supplies and Disposals, with a private firm in May 1966 and November 1966, 14 lakh bars of soap (laundry) costing Rs. 13.18 lakhs were received in an ordnance depot during October 1966 to September 1967 after inspection by the Defence Inspectorate. Some of the units to whom the soap bars were issued in October 1966—December 1967 found them inferior in quality and unfit for use. Detailed laboratory tests carried out in September 1967 disclosed that the quality of the soap supplied by the firm was sub-standard and its value was estimated to be not even 50 per cent of the contract value. The Director of Research and Development apprised the Director General, Supplies and Disposals, accordingly in January 1968. Acceptance of sub-standard soap has thus resulted in undue financial advantage to the firm exceeding Rs. 6.59 lakhs.

1.219. The stock of 1.74 lakh bars of the soap worth Rs. 1.64 lakhs held in the depot has been frozen. The Special Police Establishment has registered a case in October 1968 against the inspection officials and supplier and the outcome is awaited (January 1969).

1.220. (b) Soap soft.—51,000 Kgs. of soft soap (costing Rs. 1.01 lakhs) were purchased locally by the Ordnance depot from the same firm in August, 1967. The soap was to conform to the samples already accepted by a Defence laboratory in May, 1967 and was to be supplied to the depot after inspection and acceptance by the Defence Inspectorate. The entire supply received in the depot was found by a Board of Officers on 9th September, 1967 to be below specification; some of the containers were also leaking. Samples of the soap were, therefore, retested in a Defence laboratory on 24th November, 1967 and the supplies were accepted after a price reduction of 5 per cent as recommended by the Director of Research and Development. Subsequently in June, 1968 it was found that 14,000 Kgs. of the soap lying unissued in the depot had deteriorated further. Of that, 9,000 Kgs. were very sub-standard and the depot authorities were advised to get that replaced by the firm and for the balance 5,000 Kgs. recover from the firm 25 per cent of the price. The firm has not, however, agreed to the proposal and the Director General, Supplies and Disposals, has been requested (November, 1968) to recover Rs. 26,467 from the firm.

[Paragraph 11(a) & (b) of Audit Report (Defence Services), 1969].

1.221. The representative of the Department of Defence Production informed the Committee during evidence that the first contract in this case for supply of 4 lakh soap bars was concluded by the DGS&D on 13th May, 1966 and the second for 10 lakh soap bars on 16th November, 1966.

1.222. To a question whether bulk supply samples were drawn and the goods duly scaled, the Department have stated in a written reply that the soap was offered for inspection by the firm under 38 challans. After drawing bulk samples for each and every challan, the Sampling Officer sealed the lots in bond rooms made available by the firm. Samples were also sent for necessary test to DRL (M), Kanpur. The soap was released only after receipt of satisfactory test results. Thereafter, Inspection Notes were issued. The soap after acceptance was handed over to the firm for despatch to Ordnance Depot, Shakurbasti.

1.223. The Committee enquired whether during the course of supply under the two A'Ts any defects were reported by the testing laboratories either in respect of bulk supply samples or the trial samples. The Ministry have stated that bulk samples from five lots were reported by DRL (M), Kanpur as unsatisfactory and as such these lots were rejected. Control samples were drawn 19 times against 19 lots. None of them were reported unsatisfactory by DRL (M), Kanpur.

1.224. The Committee enquired whether the inspectors who inspected the stores were responsible for the loss. The representative of the Department of Defence Production stated that it was difficult to say that categorically. There were two inspections firstly, at the time of acceptance of the goods and secondly, at the time of the despatches when a random check was conducted. Both the inspections showed that the stocks were all right. After the stocks were delivered to the depot and issues were made to the units, it was discovered by the units that the material was sub-standard. The time lag between the two inspections was 1-1/2 years. He added that the contract was f.o.r and kept under bond in the supplier's godown. The inspectors had inspected the stocks and marked all the packages and they had seen at the time of despatch that all the seals etc. were intact. His hunch was that during the process of despatch from the suppliers' premises to the Depot some planks were removed and the stocks were replaced without damaging the outward seals. As a preventive measure, it was proposed to use kraft paper lining inside the case so that it would not be possible to replace the goods without damaging the paper lining.

1.225. The representative of the SPE was, however, of the view that the possibility of such a thing happening was rather remote since the supplier could not take it for granted that once the goods reached their destination the fact that the supplies were sub-standard would not be detected. He added, "We have not come across any case in which the supplies might have been tampered with during transit."

1.226. When asked whether it was a normal practice to keep the stock in the supplier's godown, the witness stated that it was normally done but a decision had now been taken that unless a firm had good reputation of integrity and honesty they would not be given the facility of f.o.r. delivery.

1.227. The Committee enquired whether the boxes could have been tampered with while lying in the supplier's premises. The witness stated that since these were held under a sealed bond, the supplier could not get at them unless there was collusion between him and the inspecting officers concerned. Another occasion for tampering would be when the supplies were packed after inspection. If the inspectorate staff had not been sufficiently vigilant at that stage, the supplier could have substituted the goods.

1.228. The Committee enquired when exactly complaints of supply of sub-standard soap were received from the units. The representative of the Department stated that the Reports started coming in May/June, 1967. When over 20 such reports were received, it was realised that something had gone seriously wrong. It was then (September, 1967) that "The Director, Inspection (General Stores) collected fresh samples from the Depot which was nearby and had

them tested in 4 of his laboratories. When the laboratory report came that it is 50 per cent sub-standard, it became very serious. We immediately reported to DGS&D in January, 1968." In a note on this subject the Department have stated that 17 complaints were received from various units between 15th July, 1967 and 16th May, 1968 by the Director of Research Laboratory (Materials) |Chief Inspectorate of Materials. To a further question why in that case issues were made to the units upto December, 1967, the Department have stated that "the first defect report was received by Ordinance Depot, Shakurbasti only in September, 1967, since defect reports meant for consignor depots are to be routed through proper channel. Further, freezing of stock is not automatically done immediately on the receipt of defect reports but is done after receipt of necessary instructions from the technical authorities after completion of the necessary tests and investigations by them. In the present case instructions for freezing stores from the technical authorities were received by the Depot on 6th December, 1967."

1.229. The Committee enquired why the matter was reported to the SPE only in October, 1968. The representative of the Department stated that it was after they were convinced on the basis of test results that formal action was taken to report the matter to the SPE. The representative of the SPE added that towards the end of 1967, one of the their units which was entrusted with the task of collecting information came to know that sub-standard soap had been supplied by the firm. While this was being verified, a complaint was also received from the Ministry of Defence in September, 1968 about this matter. The case was registered for preliminary investigation on 24th October, 1968. Their report was sent to the Ministry of Defence and to the Central Vigilance Commission on the 11th August, 1969. The latter's advice tendered on 19th September, 1969 indicated regular departmental action against two officers and black-listing of the firm.

1.230. The Committee enquired whether the investigations indicated the possibility of fraud in the initial stages. The representative of the SPE stated that their findings had necessarily to be based on stock which had been frozen and which were found to bear the inspection marks of the two officers against whom action had been recommended. Stocks which had already been issued could not be correlated, in the absence of any markings with the stocks which the particular officer in the Inspectorate might have inspected.

1.231. From the findings of the SPE enquiry made available to them, the Committee observe that after complaints were received from user units, the consignee depot was asked to send check samples twice for test to the laboratory at Kanpur. The satisfactory report of the two check samples sent by the inspecting staff to DRL (M)

Kanpur "Created doubts in the mind of the Director, Research and Development that the consignee was in league with the suspect firm and had drawn specially selected samples to conceal the sub-standard quality of the soap." He therefore, ordered check samples to be drawn from the stock lying at the Depot. 6 samples from 6 packages were then drawn on 10th November, 1967. Sample pieces from these were sent to I.G.S. Bombay and DRL(M) Kanpur. At both the places they were found to be "significantly below standard". "From the nature and magnitude of the defects found, it was clear that the firm had deliberately cheated the Government by supplying sub-standard stores whose value was not even 50 per cent of the contract value" The allegations against the suspect officers that they accepted sub-standard stores and that they did not get the AT particulars recorded on the packages were substantiated. The allegation against the firm that they supplied sub-standard stores was also "proved beyond doubt."

In reply to a further question, the Committee are informed that so far an amount of Rs. 32,291 has been recovered by the DGS&D from the firm.

1.232. The Committee enquired whether any complaints had previously been received against the firm and whether business dealings with it were still being carried on. The Department have informed them that the firm were supplying stores to Defence since 1962 and there had been no complaints regarding their supply except for scap. Business dealings had been suspended with the firm w.e.f. 28th July, 1969 on the basis of unsatisfactory performance reported by DI(GS) Headquarters.

1.233. The Committee enquired about the action taken against the delinquent officials. The Department have informed them that they were issued charge-sheets on 5-1-1970 and 7-1-1970 respectively. Both of them wanted to examine certain documents and were directed to report to SPE authorities for the same. They have been asked to submit their defence statement which are expected shortly.

1.234. The Committee enquired whether complaints of supply of sub-standard soap to the Depot by any other firm had been received by the Defence authorities. The Department have stated that complaints from various units regarding supply of sub-standard soap by three other firms were also received. The defects reported by the units were substantiated but they were not present in the corresponding supply control samples. The units were asked to get the defective soap bars still held in stock replaced by the firms concerned.

1.235. The Committee enquired about the present position of consumption of the soap which was issued to the units as well as the stocks which were frozen in the Depot. The Ministry have informed them that quantity 1,75,335 bars is held frozen in Ordnance Depot, Shakurbasti. This includes 4455 bars returned by the units. A further quantity of 4,902 bars is awaiting return to Ordnance Depot,

Shakurbasti by other units. Instructions have been issued for disposal of the frozen stock. The balance quantity already issued to the units must have been consumed by them since no other defect reports have been received so far.

1.236. The Committee observe that a firm, on which orders were placed for soap-bars costing Rs. 13.18 lakhs, supplied material which was found on tests to be "significantly below standard." Investigations into the case by the Special Police Establishment revealed that "the firm had deliberately cheated Government by supplying sub-standard stores whose value was not even 50 per cent of the contract value" and that the officials who inspected the stores "accepted sub-standard stores from the firm". Disciplinary proceedings against the officials are stated to have been initiated and final action against the firm is awaiting the finalisation of the case in arbitration. The Committee would like to be apprised of the further developments in this regard.

1.237. The Committee would also like the loopholes like substitution of goods while under bond in the suppliers godowns or under despatch, drawing of specially selected samples to conceal sub-standard quality etc. which came to light during the investigation of this case, should be plugged by laying down of fool proof procedures.

1.238. The Committee enquired why orders were placed in this case with the same firm when complaints had started coming in from May, 1967 which had cast doubts as to its bonafides. The representative of the Ministry stated: "Till the time this contract was placed with the firm, it had not been blacklisted. No definite conclusions had been drawn against the firm in respect of the previous orders. Of course, you are right in saying that some evidence had come in by that time. But the authorities dealing with the purchase were different in that case and in this case. It may be that the tie-up was not there. If the same person had been dealing with the firm, certainly, he could have been more careful in seeing that the things were all right."

1.239. Asked if this did not indicate lack of coordination between the authorities concerned, the witness replied "The only thing I can say from my little experience is that so many purchase orders are given by so many different agencies in the Ministry of Defence. To have that pucca coordination is not always possible. Then the previous case had not fully matured to come to a conclusion. In the second place, the reasons of urgency were there and the things were required immediately and they went ahead with this. Certainly they should have been more vigilant."

1.240. In reply to a question why the bulk supplies for defence requirements were not procured from reputed firms who would not supply sub-standard material because of fear of being black-listed,

the witness stated that bulk of the purchases were made through the Central Purchase Organisation (Director General, Supplies and Disposals) who verified the antecedents of the suppliers before accepting the tender. But the purchases, according to the rules had to be made from the lowest tenderer and sometimes this procedure enabled the firms which were not quite upto the mark to get orders. The firm in the present case was on the approved list of firms maintained by the Director General Supplies and Disposals.

1.241. The Committee enquired on what basis reduction of only 5 per cent in the price was recommended. The representative of the Ministry of Defence stated that the deficiency was considered to be minor. Since the soap had already been accepted and was urgently required for quick consumption, it was recommended and approved by the inspection organisation at the higher level, for acceptance with 5 per cent reduction.

1.242. The Committee pointed out that ultimately it was found that the goods were not worth even 50 per cent of the contract price. The witness explained that in the manufacture of soft soap the liquids were mixed together and there was a process of heating through a coil. If the heating was not uniform, mixing of the fatty acids and the alkali did not take place properly. The soft soap supplied in this case suffered from that defect. Because the mixing had not taken place properly, there was further deterioration on account of the storage.

1.243. To a question why the first test itself could not establish that further deterioration would result if the soap was stored for any length of time, the witness stated: I am waiting to get a categorical answer from them (the experts), what is the process by which we can determine whether the saponification has taken place adequately or not and whether there is any risk of further deterioration in storage. I would fully agree...that if it could be determined by a test then certainly the person responsible for testing was at fault."

1.244. To a question as to what steps the Ministry proposed to take to see that such things did not happen in future, the witness stated that "in future for soft soap much greater care would be exercised and orders would be placed only on reputable firms who have a long standing in the market. The criterion of lowest tender will not be applied. Before buying soft soap the processes used by the supplier would also have to be inspected."

1.245. When asked whether the firm had replaced 9,000 Kgs. of sub-standard soap out of the total of 14,000 Kgs., the witness stated that the firm was told to replace what was absolutely useless and

to pay compensation for what was deficient. But they did not replace the material. The matter was investigated by the Special Police Establishment and their recommendations were being implemented. The Special Police Establishment reported that samples were taken by the inspecting official to be sent for laboratory analysis "without taking precautions to homogenise the contents of the pack" and that he drew samples without "labelling the containers indicating the particular packing unit of the lot from which each particular sample was drawn." Charge-sheets had been given to the officer who was responsible for inspection at the initial stage. DGS&D had also suspended business with the firm. Similar action was being taken by the Master General of Ordnance who also made direct purchases sometimes. The Ministry of Law were also consulted. They had advised that the Ministry had right to claim damages from the firm (Rs. 19257).

1.246. Asked if the firm could be prosecuted for fraud, the representative of the Special Police Establishment stated that the legal advice was that prosecution was not feasible. Whenever there was a fraud, in 99 per cent of the cases it was perpetrated in collusion with officers in the Ministry and in the inspectorate. For proving criminal conspiracy, it was necessary to prove *mens-rea* and also that the inspecting officers; and the supplier firm were acting in concert. If the firm were acquitted, further proceedings against it would get vitiated.

1.247. The Committee enquired whether the amount had since been recovered from the firm. The witness stated that the firm had refused to pay the amount. Now the only course was to enforce the contractual obligation through the court. On its being pointed out that the limitation period would expire in August, 1970, the witness assured the Committee that the suit would be filed within the period of limitation.

1.248. The Committee called for a copy of the report of the SPE in this case. The Committee find therefrom that the Principal Scientific Officer, DRL(M) Kanpur made the following observations after carrying out the tests on control as well as check samples:

"It will be evident.....that whereas the supply samples were both of acceptable quality, the corresponding control and check samples which are almost alike in nature differ considerably from those of the supply samples indicating heterogeneity in the supply. The high ether soluble content is likely to develop rancidity and consequent deterioration of the store in prolonged storage and in the normal event the consignment is not acceptable on the basis of the control|check samples. The store is a

critical item and the Director of Ordnance Services as per his telegram.....dated 6-11-1967 has expedited the clearance of the consignment, the store being urgently required."

"In view of the above, the matter was referred to the DRD(G) for his final consideration and advice and for his guidance two check samples each representing the control and check samples were also sent separately for his visual inspection. The Principal Scientific Officer also recommended that the store may be accepted with a price reduction of 5 per cent as a deterrent and alternatively the firm should be asked to replace the entire store at their own expense."

As the bulk supply samples were reported satisfactory but the control and check samples indicated heterogeneity, the DRD(G) decided to investigate as to how the heterogeneity escaped notice of the inspection staff. The officer who was detailed to draw further samples from the containers which were sampled at the bulk stage "could not find any drum bearing the indication of having been sampled at the bulk stage". On examination by DRL(M) Kanpur, they failed to conform to the requirements. It was again pointed out that due to incomplete saponification of the oil stock, the supplies were likely to deteriorate in storage. "The consignment was earlier recommended for acceptance under a 5 per cent price reduction subject to early consumption of the material. However in view of the further discrepancies now observed in respect of the phase separation, in some of the samples, it is felt that the part consignment having this defect (viz. phase separation) should be rejected."

1.249. The Committee observe that the firm which supplied sub-standard soap bars also supplied soft soap costing Rs. 1.01 lakhs was found sub-standard. The sub-standard soap was accepted with a price reduction of 5 per cent, but, after further storage, it was found that part of the supply had deteriorated further. Investigations thereafter conducted by the Special Police Establishment revealed that the officer, who inspected the stores before supply failed to draw samples properly or label the containers from which the samples were drawn. The Committee have been informed that action has been initiated against the inspecting officer and that notice has been served against the firm for recovery of the sum of Rs. 19,257, for which a suit will be filed. The Committee would like to be informed of further developments.

Extra expenditure due to delay in release of foreign exchange
Audit Paragraph

1.250. Based on the advice of the Council of Scientific and Industrial Research that ferro-tungsten required by ordnance factories

would be available indigenously from three firms (to which a process developed by the National Metallurgical Laboratory for indigenous production of ferro-tungsten had been leased by the Council), the Director General, Ordnance Factories, placed in February, 1965 an indent on the Director General, Supplies and Disposals, for 14 tonnes of the material without making provision for foreign exchange. Tender enquiries were issued by the Director General, Supplies and Disposals, in March, 1965 when five quotations were received. Only one of those five firms (which was one of the three referred to above) quoted for supply from indigenous source while the four other firms asked for foreign exchange assistance. Later, in June, 1965 the former firm also sought foreign exchange of Rs. 2.30 lakhs for import of raw material. That made its quotation less attractive than those of two other firms whose quotations were open for acceptance till 21st July, 1965. These two firms required foreign exchange of Rs. 1.82 lakhs and Rs. 1.75 lakhs respectively; the second firm which had quoted Rs. 18,700 per tonne later agreed to keep its offer open till 30th August, 1965. However, only on 10th August, 1965 the case for release of foreign exchange was initiated by the Director General, Ordnance Factories, through departmental channels. The Ministry of Finance approved release of necessary foreign exchange on 4th October, 1965 and the sanction therefor was received by the Director General, Ordnance Factories, on 20th October, 1965. As the validity of the offer had already expired by that time, the order could not be placed on that firm. Fresh tender enquiries were made in September, 1966 and 5.7 tonnes were purchased in October, 1966 from another firm at the higher price of Rs. 41,850 per tonne (with a higher foreign exchange component of Rs. 2.28 lakhs). The balance 8.3 tonnes were purchased in August, 1967 without any expenditure in foreign exchange but at the still higher price of Rs. 49,500 per tonne.

1.251. The total extra expenditure on procurement of the material was about Rs. 3 lakhs (including extra foreign exchange of Rs. 0.53 lakh) which could have been avoided had the Director General, Ordnance Factories, obtained sanction for release of foreign exchange (for Rs. 1.75 lakhs) before 30th August, 1965.

[Paragraph No. 14, Audit Report (Defence Services), 1969]

1.252. The Committee called for copies of correspondence exchanged between the CSIR and the DGOF regarding availability of ferro-tungsten from indigenous sources. The Committee observe therefrom that the SCIR did not advise the DGOF at any stage that the three firms suggested by the Council would not require any foreign exchange for purpose of supply of ferro-tungsten. On the other hand, the DGOF was informed that the National Metallurgical Laboratory could make ferro-tungsten but had no foreign exchange to spare for the import of tungsten ore concentrate required for the purpose of production. The DGOF was, therefore advised to con-

tact the three firms who had been licensed to produce ferro-alloys based on NML "know-how". He was also informed that these firms were arranging to import raw material including tungsten concentrate through the State Trading Corporation for the production of various types of ferro-alloys for their (Defence) requirements.

1.253. The Committee enquired whether the tender enquiry issued by the DGS&D included the three firms indicated by CSIR to the DGOF. The DGS&D have informed them that the tender enquiry was issued to 64 firms including the three firms indicated by CSIR. The Committee enquired in what manner the DGS&D tried to help firm 'A' (which had quoted for supply from indigenous sources) to get the raw material stated by them to be available with another firm 'B'. The DGS&D have stated that on receipt of firm 'A's letter dated 18th May, 1965, they requested firm 'B' on 31st May, 1965 to release the requisite quantity of material to firm 'A'. A copy thereof was also endorsed to the then Deputy Director, Civil Armaments at Calcutta (by name), requesting him to contact the firm and to persuade them to release the required quantity of raw material to firm 'A'. Firm 'B', however, regretted their inability to supply the material. The Director of Supplies and Disposals, Calcutta was thereafter requested to contact firm 'B' and to persuade them to release the required quantity to Firm 'A'. The Director of Supplies and Disposals, Calcutta, fixed up an appointment with the firm to discuss the matter personally with their representative who did not however turn up, obviously because the firm were not in a position to supply the material in the near future.

1.254. The Committee enquired whether the DGS&D tried to locate any other source for the raw material. The DGS&D have replied that "at the time this demand was received, it was not known to the DGS&D as to whether the raw material was indigenously available elsewhere. However, later on it came to DGS&D's notice that this material was being produced in Deghana Mines in Rajasthan. Accordingly, this source was tapped in some other case to procure the material, but subsequently it was found that the material was not useful for the manufacture of ferro-tungsten, conforming to IS Specification, due to presence of high percentage of Sulphur and Tin. So far as the DGS&D are aware, except in Deghana Mines, this material is not produced indigenously anywhere in the country."

1.255. In reply to a question when they asked the tenderer to indicate his foreign exchange requirement, the DGS&D have stated that the Director of Supplies and Disposals, Calcutta was requested on 30th June, 1965 to contact firm 'A' personally with a view to finding out the exact quantity of raw material they would require for the manufacture of 14 M/T of Ferro-tungsten with its C.I.F. value.

The Director of Supplies and Disposals, Calcutta, sent a telex on 12th July, 1965 intimating that a quantity of 23 M|T of wolframite-concentrate 62 per cent would be required by the firm, for the manufacture of 14 M.T of Ferro-tungsten, the C.I.F. value of which varied from Rs. 9,000 to Rs. 10,000 per M|T.

1.256. The Committee enquired when exactly it became clear to the DGS&D that foreign exchange would be necessary to finalise the tender and when they asked the DGOF to arrange for the same. In a note on these points, the DGS&D have informed the Committee that as foreign exchange was not provided for in the indent, DGS&D had been originally considering the offer of firm 'A', which was without any commitment of foreign exchange. After firm 'B' informed the DGS&D (on 17th June, 1965) that raw material was not available indigenously with them, it became clear to the DGS&D that the foreign exchange expenditure was inescapable for finalising the contract. However, the question as to how much foreign exchange would be needed still remained unsolved till DGS&D came to know on 12th July, 1965 from the Director of Supplies and Disposals, Calcutta that the foreign exchange in the import of raw material required by firm 'A' would be much more than the foreign exchange involved in the import of finished material i.e. Ferro-tungsten. The first reference by the DGS&D to the DGOF, Calcutta for the release of foreign exchange was made on 13th July, 1965, although the Deputy Chief Liaison Officer, Defence Services Liaison Cell, sent a telex message to the DGOF on 5th May, 1965 for foreign exchange provision to the extent of Rs. 1.80 lakhs, after having a talk with the Assistant Director concerned.

1.257. The Committee enquired whether the DGS&D informed the DGOF about the period of validity of the offers received. The DGS&D have stated that while reminding the DGOF on 19th August, 1965 about the provision of foreign exchange, the latter was informed that the offers were expiring on 21st August, 1965 and that, although the firms had been requested to keep their offer open for some time more, sanction for foreign exchange was required by 4th September, 1965, failing which the indent was liable to be returned. Again on 26th September, 1965, the DGOF was reminded about the foreign exchange sanction and he was requested to ensure that the reply should be sent by 10th October, 1965 positively. He was told that responsibility on account of delay in reply beyond the target date resulting in payment of higher prices would rest on him. In this letter it was mentioned that offers were open for acceptance till 21st October, 1965. Before writing to the DGOF on 26th September, 1965, all the tendering firms had been requested, on 21st September, 1965 to keep their offers open till 21st October, 1965. Although no official confirmation from the firms about the validity of their offers till 21st October, 1965 was available on 26th September, 1965 when DGS&D had written to the DGOF, yet the fact that

the offers were open for acceptance was mentioned on the presumption that the firms would agree to extend their offers on the same terms and conditions.

1.258. To a further question whether they kept a watch on the trend of prices of the material, the DGS&D have stated that Ferro Tungsten is a strategic material. The raw material required for the manufacture of Ferro Tungsten is wolframite concentrate, the price of which is liable to day to day fluctuation, as reflected in the Metal Bulletin issued by Metal Information Bureau, London. It had been recorded in the purchase proposal dated 3rd October, 1966 that the firm's CIF prices would be dependent on top tungsten ore price as published in London Metal Bulletin current on the date on which the makers accepted the order. A corresponding clause was also incorporated in the A.T.

1.259. The Committee enquired about the requirement of the Services for special Steels to what extent these were being met by imports and what concrete steps Government had taken to establish indigenous production of these steels. The Ministry have informed them that special Steels requiring Ferro Tungsten are Hot Die Steels and High Speed Steels. Hot Die Steels have not so far been imported. As regards High Speed Steels only a small part of requirement have been imported.

Details of imports of High Speed Steels during the last three years are given below:—

- 1967—Nil.
- 1968—3.60 M T (Approximately).
- 1969—0.40 M T (Approximately).

1.260. Indigenous capacity for these special Steels already exists in the country. Ordnance Factories requirements are partly met from their own manufacture and the balance from other indigenous producers. Apart from the Ordnance Factories, these steels are mainly produced by Hindustan Steel Ltd.'s Alloy Steels Plant, Durgapur. To a small extent, these steels are also produced by other three main Alloy Steels Producers viz., Mysore Iron and Steel Limited, Mahindra Ugin Steel Co. and Gest Keen Williams Ltd.

1.261. As regards requirements for Ferro Tungsten, Ministry of Steel has confirmed that arrangements have already been made by the Government to allow import of Ferro Tungsten to Alloy Steel Plant, Durgapur, for production of these types of steels. Apart from allowing the import of Ferro Tungsten to the Alloy Steel Producers, the three producers of Ferro Tungsten in the country who have a total capacity of producing 950 tonnes of Ferro Tungsten per annum, have also been issued licences to import Ferro Tungsten Ore concentrates for production of Ferro Tungsten.

1.262. The Committee observe that the DGOF in this case placed an indent with the DGS&D in February, 1965 for supply of 14 tonnes of ferro-tungsten without making any provision for foreign exchange. The DGOF had been advised earlier by the C.S.I.R. that three firms in the country had been licensed by them to produce ferro alloys but that this was with imported raw materials. The D.G.O.F. should have therefore obtained prior foreign exchange clearance before raising the indent on the D.G.S.&D. The omission to do this and the time spent later in getting the foreign exchange release resulted in a situation where the original tenders lapsed. When fresh tenders were called and orders placed, Government had to pay Rs. 3 lakhs extra.

1.263. The Committee would like the Ministry of Defence to examine why the D.G.O.F. did not obtain prior foreign exchange release for this transaction in spite of the information received from the C.S.I.R. that the firms licensed by them for production of ferro-tungsten were dependent on supplies of raw materials from overseas.

1.264. The Committee would also like Government to devise adequate procedures to eliminate delays in release of foreign exchange required for meeting defence needs.

Expenditure on procurement of Shaktiman vehicle springs|leave

Audit Paragraph

1.265. Between January 1964 and October 1964 the Director General, Ordnance Factories, placed four supply orders (Rs. 57.94 lakhs) on a firm for supply of springs|leaves of different types required as spares for Shaktiman vehicles. The supplies were to commence within six weeks of the placing of the orders, with a minimum supply of 300 springs or 10,000 leaves per month, and were to be completed by September 1965. The firm did not make any supply under one of the supply orders and did not adhere to the delivery schedule for the other three for which extensions of time were granted up to October 1966. In the meantime, in July-August 1965 the Director General, Supplies and Disposals, concluded rate contracts with four firms (including the earlier mentioned firm) for supply of the springs|leaves for the Shaktiman vehicles but at cheaper rates.

1.266. Had the quantities due from the firm but which were not supplied on due dates been cancelled from July 1965 onwards and further purchases made under the rate contracts concluded by the Director General, Supplies and Disposals, there would have been a saving of Rs. 1.50 lakhs in respect of supplies received after that date.

[Paragraph No. 15, Audit Report (Defence Services), 1969.]

1.267. The Committee understand that in respect of one supply order, in regard to which it has been stated in the Audit paragraph that no supplies were made, the firm actually made part supply of

one third of the quantity ordered but only after the extended date of supply.

1.268. The Committee called for details of the four supply orders, the schedule of delivery and the dates of actual supplies. The Department of Defence Production have accordingly furnished the following information:

Date of supply	Quantity ordered	Time schedule for making the supplies	Date of actual supplies made	Remarks
15/22 Jan. 64	Springs 750 sets	300 sets or more per month commencing* from 6 weeks from the date of order or earlier.	100 sets by Jan. 65 50 sets by Jan. 66 250 sets Total	Balance 500 sets cancelled.
5/22. Jan. 64	Loose leaves 60760 Nos.	10,000 leaves or more per month commencing after 6 weeks from the date of acceptance of order viz. 31-3-64.	20-10-1966	Qty. 55033 supplied Qty. 5722 cancelled.
6 June 64	Loose leaves 61360.	10,000 leaves or more per month commencing after 6 weeks from the date of acceptance of order viz. 12-6-64.	21-10-66	Qty. 57214 Supplied Qty. 4146 cancelled.
27 Oct. 64	Loose leaves 122738 Nos.	10,000 leaves or more per month commencing after 6 weeks from the date of acceptance of order viz. 6-11-64.	20. 10. 66	Qty. 105890 supplied Qty. 16848 cancelled.

1.269. The Committee enquired about the reasons for which extensions were given. The Ministry of Defence have explained the position as follows:—

- “(i) Short-closing of the orders would have involved financial repercussions to the extent of about Rs. 18 lakhs because the imported raw material including ‘semis’ had already arrived in the firms premises. Moreover, stores already manufactured out of steel imported at a cost of heavy foreign exchange would have gone waste in the event of short closing the orders.
- (ii) The firm had made representations to the DGOF that the delay in supplies was due to the delay in the receipt of

*Supplied against another order for 2653 sets (which was cancelled in full) and accounted for against the order of 750 sets.

Import Licence from Iron and Steel Controller for the imported spring flats required by the firm; the DGF considered this reason as genuine.

- (iii) When in June, 1966 the D.G.O.F. was informed about the existence of DGS&D rate contracts, the firm had already supplied about 70 per cent of the ordered quantities and had also tendered for inspection a further quantity of loose leaves. The DGOF had therefore no alternative to allowing the inspection to be completed which took sometime. The DGOF therefore short closed the order for complete springs and granted *ex-post-facto* extension of delivery period for loose leaves after completing of inspection. For the balance, which had been tendered for inspection, the orders were short-closed."

1.270. To a question if any liquidated damages were recovered from the firm for the delay in supply, the Department have replied that no such damages were recovered.

1.271. The Committee were given to understand by Audit that copies of the rate contracts placed by DGS&D were not received by the DGOF. The Committee, therefore, enquired how it came about that copies of the rate contracts concluded at cheaper rates by the DGS&D in July-August, 1965 with four firms (including the one on which orders had been placed earlier by the DGOF) were not received by the DGOF. The Department of Defence Production have stated that according to DGOF the copies of rate contracts were forwarded to the DGOF but the latter had indicated that copies of the rate contracts were not received by him.

1.272. The Department of Supply have in their note on this point explained the position as under:

"According to the list of the direct demanding officers available on the relevant case, copies of the rate contract entered into by the DGS&D in July-August, 1965 for Springs| Leaves, were duly sent to the DGOF as well as to the individual ordnance Factories. It is not possible to watch the acknowledgement of the receipt of copies of rate contracts by the direct demanding officers as, with the exception of copies meant for the controllers of Stores of Indian Railways, copies to other direct demanding officers are to be sent by ordinary post under certificate of posting."

1.273. The Committee enquired about the steps since taken to avoid recurrence of cases of this nature in future. The Department of Supply have informed them that it has been decided (December, 1969) to prepare a list of stores on rate|running contracts concluded| extended during each month in lieu of half-yearly lists of stores on

rate|running contracts (current as on 1st April and October of each year), to eliminate delay in its circulation and to provide more timely opportunity to direct demanding officers to place orders on firms for purchase of various kinds of stores handled by the Central Purchase Organisation. Copies of these monthly publications are also forwarded to the various indenting departments|direct demanding officers.

1.274. The Committee further enquired why the outstanding orders were not cancelled in December, 1965 by the DGOF and whether any enquiry had been held to fix responsibility for the lapse. The Department of Defence Production have stated that the DGOF was not aware of the rate contracts concluded by DGS&D. In any case, as against the legal complications involved in short-closing the orders, it was doubtful if the DGOF could have taken an appreciable price advantage consistent with quality even if the existence of DGS & D rate contracts was known to him earlier because:

- (i) the DGS&D rate contract with one firm for certain types of springs and loose leaves was at the same rate at which the DGOF had procured supplies from this firm;
- (ii) the rate contract for complete springs catered for different rates with different firms.

1.275. As for holding an enquiry into the matter, the Department of Defence Production have stated that further consultations with the DGOF reveal that the question of holding of an enquiry in the matter to fix responsibility did not actually arise as the extensions were granted to the firm in consideration of the delay in the issue of import licence for spring flats.

1.276. The Committee observe that the DGOF placed orders on a firm between January and October, 1964 for supply of springs|leaves for Shaktiman trucks. The firm could not adhere to the delivery schedule due to delay in receipt of import licence from the Iron & Steel Controller for spring flats and had, therefore, to be granted extension of delivery period upto October, 1966. In the meanwhile, the DGS&D concluded rate contracts with four firms including the one on which orders had been placed by the DGOF for supply of the springs|leaves at cheaper rates. The relevant lists were, however, not received by the DGOF who came to know about these only in June, 1966, by which time the firm had completed 70 per cent of the supplies. Non-cancellation of the outstanding orders thus resulted in an avoidable loss of Rs. 1.50 lakhs in this case.

1.277. As it has been stated that cancellation of the contracts would have had financial repercussions, the Committee do not wish to pursue this case further. However the case clearly indicates that there

was lack of co-ordination between the DGS&D and the DGOF. The DGS&D has since decided to publish lists of the rate contracts concluded by the Organisation every month (instead of half yearly) so that all indenting organisations, which make such purchases, are made aware of the terms of the DGS&D contracts. The Committee trust that this would eliminate recurrence of cases of this type in future.

Deficiencies in stock

Audit Paragraph

1.278. (a) *Semi-finished garments in an Ordnance factory*—While reconciling the ground and ledger balances in January, 1968 in an Ordnance clothing factory, shortages of unfinished garments worth Rs. 4.50 lakhs in the cutting and tailoring shops came to the notice of the factory authorities. These shortages were neither reported to the higher administrative authorities nor investigated further. The annual stock verification as on 31st March, 1968 also disclosed differences between the ground and larger balances but, on the ground that the stock-taking on 31st March, 1968 had got vitiated and the stock-taking data were not reliable, those differences were not shown in the annual statements sent to the Accounts Officer for exhibition of the value of unfinished garments in the annual accounts. The connected stock-taking sheets called for by Audit for check in July 1968 were also not made available by the factory management.

1.279. After the matter was taken up by Audit and the Accounts authorities, a special stock-taking was carried out on 1st September, 1968 by a team sent by the Additional Director General, Ordnance Factories. This disclosed shortage of Rs. 2.62 lakhs worth of clothing material in the cutting and tailoring shops of the factory. The Additional Director General, Ordnance Factories has now ordered investigation into this case by a Board of Inquiry (December, 1968).

1.280. (b) *Canvas in an Ordnance factory*—In August 1966 the officer in-charge of stores section of an Ordnance factory brought to the notice of the General Manager deficiency of about 30,000 metres of canvas (cotton). Annual stock verification on five earlier consecutive years had not brought out any deficiency in the material. A preliminary investigation by two officers of the factory in September 1966 confirmed the deficiency, which was attributed to a possible short receipt of the material from trade at the time of purchase in January, 1962. This conclusion was not accepted by the Director General, Ordnance Factories, who directed that the matter should be further enquired into. A Board convened by the General Manager in November 1966 to investigate the matter ruled out possibilities

of pilferage of the material, or of issue of the material to production sections without proper documentation. Due to paucity of covered accommodation the stock of the material was found lying scattered in the open along railway siding. The Board confirmed the earlier tentative conclusion that the deficiency was due to short supply at the time of purchase.

In April 1967 the Director General, Ordnance Factories, ordered a second Board of Inquiry. This Board, while rejecting the earlier conclusion that in the past the material had been received short, held that the deficiency was attributable to issue, without proper documentation, of the material to sections in July-August, 1963. The Director General, Ordnance Factories, has ordered a further investigation into the matter.

The total deficiency in stock has been assessed to be 29,928 metres; its value is Rs. 1.88 lakhs.

1.281. (c) *Spares in an Air Force repair Depot.*—A special physical verification of stock in an Air Force repair depot conducted in February 1966 disclosed deficiencies in 2,188 items valuing Rs. 18.37 lakhs and surpluses in 935 items valuing Rs. 11.48 lakhs. Even before this stock-taking was conducted, 271 items valued at Rs. 2.47 lakhs had been voluntarily brought into account by the stock-holders; of those, items worth Rs. 0.12 lakh were later set-off against the deficiencies.

1.282. The normal annual verification of stock for 1966-67 carried out subsequently also revealed surplus in 1,318 items (Rs. 3.20 lakhs) and deficiencies in 1,495 items (Rs. 3.04 lakhs). In 259 items, where surpluses had been found in February, 1966, there were deficiencies in this stock verification.

1.283. A Court of Inquiry convened in May, 1967 to look into these discrepancies held that—

- (i) supervision, command and control over stock-holders were inadequate.
- (ii) storage and accounting of stores in the unit were unsatisfactory.
- (iii) the stores were held in multiple locations and sub-stores had been opened without proper authority.
- (iv) there was some evidence to show that stock-taking in the past was conducted in a somewhat perfunctory manner and
- (v) out of the deficiencies noticed during February 1966 deficiency valuing Rs. 11.85 lakhs may be treated as fictitious

loss be due to wrong categorisation, accounting errors, etc. (Further discrepancies to the extent of Rs. 0.36 lakh were reconciled later).

1.284. On the findings of the Court of Inquiry, the Air Officer Commanding-in-chief remarked that no individual could be held directly responsible for the state of affairs which was attributable to cumulative administrative lapses over a period of time. Disciplinary action has, however, been initiated against five officers who were held to be blamed for the administrative lapses in the depot. The Ministry have stated (January 1969) that remedial measures have been taken to avoid recurrence of similar irregularities.

[Paragraph No. 21, Audit Report (Defence Services), 1969]

(a) *Deficiencies in Semi-finished garments*

1.285. The Committee enquired why the stock-taking sheets were not made available to Audit and on what grounds the stock verification done on 31-3-1968 was treated as vitiated. In a note furnished to the Committee, the Department of Defence Production have stated that "Stock taking sheets are not normally furnished to the local Audit in Ordnance Factories since these are not auditable documents. In this specific case the factory management would have furnished stock-taking sheets to the local Audit as a special case, but as stock taking done on 31-3-1968 was vitiated and did not represent true state of semi's, stock taking sheets were not furnished as any information compiled on the basis of these sheets would have been incorrect and misleading."

"Stock taking done on 31-3-1968 was treated as vitiated as certain stock were located subsequently which had not been presented for stock taking on 31-3-1968."

In reply to a question as to how the loss was computed, the Department have stated that "it was done on the basis of position revealed in stock taking on 1-9-1968."

1.286. To a question whether any action was taken against the factory management for failure to order an immediate enquiry when discrepancies were revealed in January, 1968, the Department of Defence Production have stated that "no stock taking as such was conducted in January, 1968. The bench balance slips which seemed to form the basis for assumption that certain reconciliation was carried out in December, 1967 and January, 1968 did not even bear the signature of the foreman or shift officer. It could not therefore be said that the factory management had knowledge about the discrepancy in January, 1968. Hence the question of taking action against the factory management for not ordering immediate enquiry or reporting the matter to higher authorities by the management did not arise."

1.287. The Committee were informed by Audit that "the Board of Inquiry ordered by the DGOF (November-December, 1968) pointed out that;

- (i) the existence of the discrepancy in January, 1968 should have been an eye-opener for further probing.
- (ii) 2474 numbers of overall combination of olive green colour were produced for inspection in 1968-69 against orders for overalls in Khaki shades, though khaki cloth for the garments had been drawn in full. (This was not taken by the Board as deficiency because there was a combined order for overalls of both khaki and O.G. shades but it suggested that the matter might be investigated separately).
- (iii) The extent of permissible rejections was inadequate in comparison to the actual rejection. (The Board was, however, not able to ascertain how in earlier years no discrepancies had been revealed on this account).
- (iv) There was a lack of control on the management over the staff and tailors about proper accounting of cut components, the garments and the exchanges (before fabrication of garments they are checked in the Exchange Section for defects). No officer was held responsible. The Ministry stated that the matter is now being investigated by the C.B.I."

The Committee therefore enquired whether any investigation had been ordered about production of 2474 Nos. of overall combination of O.G. colour against an order for khaki overalls for which khaki cloth had been drawn. The Department have stated that no separate investigation was ordered as the Board of Inquiry already convened had examined this issue and did not consider 2474 overall combination in O.G. colour tendered for inspection against order for khaki overalls as deficiency as there was only one combined extract for both khaki and O.G. shades and the Inspector/Indentor was accepting the garments in either shade.

1.288. To a question if the findings of the C.B.I. in this case had been received, the Department have replied that further information on some points is awaited from the DGOF and an answer will allow soon.

1.289. The Committee note that the C.B.I. are investigating into the various lapses that occurred in an ordnance clothing factory where a special stock taking ordered by the DGOF in September, 1968 revealed a shortage of Rs. 2.62 lakhs worth of clothing material. The Committee trust that speedy action will be taken in the light of the findings of the C.B.I. to fix responsibility for the lapses noticed. The

procedures should also be suitably tightened up with a view to ensuring strict control on stocks and periodical stock taking and reporting of the stock position to higher officers.

(b) *Canvas deficiency*

1.290. The Committee enquired about the system of stock verification in the ordnance factories. The Department have in a note explained that stock verification is conducted by the stock staff posted in the factories as distinct from factory stores staff. They work directly under the control and supervision of the DGOF Headquarters. Periodical reports of progress of verification are sent by the Senior Stock Verifier to the DGOF Headquarters.

1.291. The Committee enquired on what basis the second Board came to the conclusion that the shortage was due to issue of materials without proper documentation. The Department of Defence Production have stated that "the Board examined all the documents (Material Inward Slips) on which supplies of the item in question were brought on charge for the period January, 1962 to 25th March, 1967 (the date on which the deficiency was found by the stock verifier). The Board also scrutinised all registers maintained regarding receipt of consignments inside the factory. The entries made in the aforesaid registers as well as the relevant documents showed that the consignments against the material inward slips had been correctly received in the factory.

"The Board called for all records/documents on which issues were made by the Stores Section and drawals made by the Demanding Section from the Stores Section. The Board also scrutinised the postings of Demand Notes in the Bin Cards and 18 Material Warrants received from A.O. and found discrepancies on the Warrants. The Board also observed that there was an appreciable variation between the quantity shown as having been drawn on the shop copy of the Warrant and that shown as issued by the Godown Keeper and posted in the Bin Card against Demand Notes.

"The Board inferred that the Godown Keeper must have issued the material from some of the consignments awaiting inspection and awaiting taking on charge. The Board also inferred that some confusion prevailed in the Carpenters Section, under which they placed the demands and drew the materials over and above the authorised quantity.

"The Board, therefore, came to the conclusion that lack of proper documentation was likely to have caused the discrepancy."

1.292. The Committee enquired about the remedial measures taken to avoid recurrence of such cases in future. The Department have stated that the following remedial measures were recommended for adoption:

- “(i) Provision of covered Stores accommodation for the Receipt Bond Section to accommodate inward consignments awaiting inspection to ensure avoidance of their getting mixed up with the stock held on charge or lying scattered at various points.
- (ii) Provision of adequate storage accommodation for each Godown Keeper to hold independent charge of the Godown under his charge.
- (iii) Maintenance of Receipt and Issue Books in respect of Textiles items like canvas etc. for recording the bale numbers and the quantity contained in each bale while receiving and issuing the material.
- (iv) Maintenance of a Register to record details of any material that may be issued in anticipation of Demand Notes due to extreme urgency and its weekly submission to the GM through the Stores Officer, if the transactions are not regularised promptly by the demanding sections.
- (v) Maintenance of a Register in each section for recording the details of materials drawn against Demand Notes.”

1.293. In regard to (i) and (ii) above, the Department have stated that adequate accommodation will be available after the shifting of the Truck Division to the new vehicle factory. The rest of the measures have been implemented.

1.294. The Committee enquired whether the matter was brought to the notice of the Department of Defence Production and whether they were satisfied about the adequacy and manner in which enquiries were being conducted in this case. The Department of Defence Production have stated that “Normally, investigations into the discrepancies detected in stock are made at the level of the GM/DGOF unless special circumstances call for a reference to the Ministry. However, this particular case was brought to the notice of the Ministry particularly because it happened to be the subject of a Draft Audit Para.

“As regards the adequacy and manner in which the enquiries have been conducted, it may be stated that the earlier Board of Inquiry appointed in November, 1966 was for the purpose of general investigation and reporting upon the discrepancies revealed in stock. It was found necessary

to conduct a more detailed enquiry into the various aspects of the discrepancy particularly with a view to ascertaining the individual/individuals responsible for lapses/irregularity, if any, and to suggest remedial measures. It was also considered necessary to include in the Board of Inquiry, a representative of the CDA/Fys. Accordingly, DGOF appointed a fresh Board of Inquiry with an officer of the rank of Manager as President and a representative of the CDA/Fys as Member. The terms of reference of this Board of Inquiry were comprehensive and covered all the relevant aspects."

"The fresh Board of Inquiry has since completed the investigations and their proceedings are under detailed examination by the DGOF. This Ministry can take a view in the matter only after DGOF completes his examination of the proceedings of the Board of Inquiry."

1.295. The Committee observe that after a deficiency of 29,928 metres of canvas valued Rs. 1.88 lakhs came to light in an Ordnance factory in August, 1966, three enquiries were held in the matter in September, 1966, November, 1966 and April, 1967. The Committee regret that the DGOF has even now not been able to finalise the case after a lapse of three years. The Committee note that the second Board of Inquiry came to the conclusion, after a scrutiny of all relevant documents, that the shortages were due to issue of material without proper documentation. However, further investigations were considered necessary by the DGOF (December, 1968), with a view to ascertaining the individual(s) responsible for the lapses/irregularity, if any and to suggest remedial measures. The Committee would like to be apprised of the action taken on the findings of the fresh Board of Inquiry. The Committee would also like to impress upon Government the need to ensure that enquiries in cases of this nature are conducted promptly and thoroughly. As time is of essence in such cases, it is imperative that the defaulting officials are brought to book with the least possible delay.

(c) *Deficiencies in spares*

1.296. The Committee enquired about the final figures of items found deficient and their value as per stock verification conducted in February, 1966. The Ministry of Defence have stated that the number of items found deficient in the stock verification conducted in February, 1966 was 3225 and their value has been assessed at Rs. 23.34 lakhs.

1.297. The Committee enquired whether annual stock verification was carried out in the depot in 1967-68 and 1968-69 and if so, what

surpluses/deficiencies were noticed. The Ministry have stated that annual stock verification was carried out in the depot during 1967-68 and 1968-69. The position was found to be as under:—

1967-68		19 8-69	
No. of items	Value Rs.	No. of items	Value Rs.
Surpluses 78	200.00	66	2844.90
Deficiencies 9	367.85	20	567.45

1.298. The Ministry have, in reply to a question, informed the Committee that the observations/recommendations of the court of Inquiry in this case were as follows:—

“Observations by the Court of Inquiry

- (i) The Court noted that the present organisation of stores leads to better control by the Senior Enquiry Officer. The Sub-stores have been closed and most of the equipment have moved into the main equipment section.
- (ii) The Court has noted that efforts have been made in binning and relocating the stores as per instructions of Headquarters Maintenance Command Organisation. Sustained efforts are necessary to achieve the desired standard.
- (iii) The Court has scrutinised the accounting records whereby discrepancies in fixed stock taking and annual stock-taking of 1966-67 in respect of items have been reconciled. From the sample checks, re-conciliations conducted by investigating officers appear to be quite in order.

Recommendations of the Court of Inquiry

- (i) Adequate storage facilities and manpower be provided to the Unit on priority.
- (ii) A system be adopted to make the stock holder fully accountable for their stocks.
- (iii) Reconciliation of the stock-taking discrepancies now in progress be brought to a finality expeditiously.
- (iv) The range of equipment held in the Unit be reduced to the extent of the annual task requirements.”

The Ministry have stated that remedial measures have been taken in pursuance of the aforesaid observations/recommendations of the Court of Inquiry.

1.299. The Committee regret to observe that due to commulative administrative lapses over a period of time, deficiencies/surpluses involving several lakhs of rupees were noticed in February, 1966, in a number of items of spares stocked in an Air Force Repair Depot. The Court of Inquiry ordered to go into the case found inter alia that 'supervision, command and control over stock holders were inadequate' and the storage and accounting of stores in the unit to be unsatisfactory.

1.300. Since deficiencies over Rs. 23 lakhs could not have occurred suddenly in the course of one year it could be concluded that the earlier annual stock takings which had brought out deficiencies of a few hundreds only must have been perfunctory. This is also borne out by the findings of the Court of Inquiry. In view of this steps would have to be taken for ensuring proper stock taking in future.

1.301. The Committee observe that remedial measures have since been taken in pursuance of the observations/recommendations of the Court of Inquiry. They hope that proper watch would be kept on the working of the Depot in future so that such lapses do not recur.

Embezzlement in an Inspectorate

Audit Paragraph

1.302. In an Inspectorate Rs. 21,099 were embezzled during September, 1963 to November, 1964—Rs. 17,222 from public funds and Rs. 3,877 from regimental and other private funds—mainly by non-accounting and late posting of cash receipts and by making incorrect, or fictitious payment entries in the cash book. The embezzlement came to light as a result of an anonymous complaint received by the Inspectorate in October, 1964 and a subsequent internal check of the accounts carried out in November, 1964.

1.303. An administrative officer and the cashier alleged to be responsible for the embezzlement are suspended on 30th November, 1964. Both of them volunteered in December, 1964 to recoup, on a month's notice, the cash deficiencies. No recoupment was, however, made and no departmental action was also instituted against them and in June, 1965 the case was handed over to the Central Bureau of Investigation. The cashier was later allowed to retire on 31st May, 1966, while the administrative officer died on 31st December, 1967. The subsistence allowance paid to them till then was Rs 21,700.

1.304. The Ministry have intimated (January, 1969) that on the basis of Special Police Establishment's report and the advice given by the Central Vigilance Commission departmental proceedings have been initiated against the retired cashier on two charges (two

other charges becoming time-barred by then) and that pension has not been sanctioned to him so far. Family pension has, however, been sanctioned to the family of the administrative officer.

[Paragraph No. 29, Audit Report (Defence Services), 1969].

1.305. Explaining that there was no avoidable delay in handing over the case to the Central Bureau of Investigation, the Ministry of Defence have stated in a note furnished to the Committee that the Life Insurance Corporation informed Chief Inspectorate of General Stores telephonically on 21-9-1964 that LIC premia in respect of their staff for the months of June, July and August were not deposited. On Investigation it was found that premia had not been deposited on due dates and that the same were deposited on 16th and 17th October, 1964. Meanwhile, an anonymous complaint was received in Directorate General Inspection (Headquarters) regarding misappropriation of money and non-payment of premia. This was forwarded to Chief Inspector, CIGS, Kanpur on 24-10-1964 for report. The Chief Inspector having detected the non-payment of LIC premia and also having received the anonymous complaint from the DGI Headquarters requested the Local Audit Officer to carry out 100 per cent check of accounts. The audit agreed to carry out the check of accounts on receipt of permission from Controller of Defence Accounts on 8-11-1964 and actually the auditing of cash accounts was undertaken with effect from 3rd December, 1964. The audit had agreed to carry out cent per cent check for a period of one year and to extend the scope of audit to three years dependent upon the result of audit for one year. Meanwhile, the then Administrative Officer and then then Cashier in CIGS Kanpur volunteered on 24-12-1964 jointly to compensate the financial deficiencies occurring in the account on a month's notice. They were asked to do so by 5th July, 1965 without prejudice to legal or departmental action that might ultimately be decided upon. The individuals asked for extension of time-limit and were informed on 7-8-1965 to deposit the amount. No such money was deposited by the individuals who on receipt of instructions that they should deposit the money without prejudice to legal or departmental action, asked for setting aside this clause. This could not be agreed to. The Central Vigilance Commission to whom the case had been referred for comments on 12-1-1965 on conditional offer of delinquent officials to compensate the loss enquired on 15-2-1965 as to whether the case could be referred to SPE in the absence of audit report. In accordance with CVC directive, every case in which a gazetted officer was involved was required to be submitted to CVC for advice as to the manner in which it was to be dealt with. Although the Audit report was still awaited, Commission's advice was sought in January, 1965. CVC asked whether defalcations had been reported to local Police. It was explained to them that the audit report based on cent per cent check had not been received from Controller of Defence Accounts,

Central Command. In the absence of the audit report, lodging of formal report to the Local Police was considered not in order. Moreover, lodging of report with the police would have resulted in impounding of all documents which were necessary for carrying out cent per cent check in progress to determine the actual loss. Meanwhile, report for cent per cent audit of accounts for September, 1963 to November, 1964 was received on 15-2-1965. The amount involved was intimated as Rs. 17,000/- and Rs. 600.65 in Public and Regimental Funds Accounts respectively. The case was taken up with Ministry of Defence on 12-3-1965 for handing over the case to Special Police Establishment after obtaining comments of Central Vigilance Commission. CVC recommended on 25th May, 1965 that the case should be handed over to SPE for investigation. On 11th June, 1965 a statement of case was sent to the Ministry of Defence to enable the SPE to register the case. The case was handed over to SPE who registered the case in July, 1965.

1.306. The note has further pointed out that after registration of the case in July, 1965 SPE authorities asked on 31-1-1966 for monthly statement of accounts to determine the responsibility for mis-appropriation. During preparation of these statements by the staff of CIGS Kanpur certain discrepancies which had escaped the notice of audit came to light. It was decided in a meeting held at Kanpur in March, 1966, at which SPE authorities and Local Audit Officer were present, to have the accounts recast and audited. Recast accounts were received in October, 1966. DGI Organisation asked the Ministry of Defence to have the recast accounts audited. This was not agreed to and it was decided that deficit worked out by the Administration should be verified. Controller of Defence Accounts, Central Command intimated in March, 1967 that the deficit worked out by the Administration could not be verified as the reply to audit reports sent in February, 1966 and June 1966 had not been received. S.P.E. were accordingly requested to proceed with investigation of case against delinquent officials—in the absence of verification of the deficiencies worked out by the Administration. The report of the SPE was received in December, 1967. It recommended departmental action against delinquent officials after obtaining advice from Central Vigilance Commission.

1.307. As stated in the Audit paragraph, the Administrative Officer had expired by that time on 31st December, 1967. Departmental proceedings against the Cashier who had been allowed to retire on 31st May, 1966 were initiated in July, 1968. The charge sheet served on the Cashier contained the following two charges as the other two had become time-barred:

“(i) He made alterations in figures and words of original entry in the Acquittance Book dated 21-9-1964 for payment of Rs. 1500/- to Shri.....to falsely show that Rs. 2500/- instead of Rs. 1500/- were paid to Shri

and also he made a wrong entry in Cash Book dated 21-9-1964 in this regard.

- (ii) He made fictitious entry in the Acquittance Book and Cash Book dated 12-9-1964 showing the payment of Rs. 500|- to Shri.....while no money was paid to the said Shri.....,on 12-9-1964 and thus caused pecuniary loss to the department to the tune of Rs. 500|-".

1.308. The note further states that reply from the delinquent official to the show cause notice proposing withholding of his entire pension has been received and the matter has been referred to the Union Public Service Commission on 7-1-1970 for their advice.

1.309. The Committee disapprove of the delay that took place in investigating this case. A complaint about misappropriation was received in October, 1964 and an audit of the accounts (by the Controller of Defence Accounts) was undertaken in December, 1964 which was completed in February, 1965. The case was, thereafter, referred to the Special Police Establishment in July 1965 and it took over two years (i.e., till December, 1967) to complete the investigation. In the meanwhile, one of the two officials involved in the misappropriation died and the other was allowed to retire.

1.310. The Committee are surprised that for investigating a relatively petty case, it took the Defence Authorities and the Special Police Establishment over two years.

1.311. It is evident that the case was dealt with at all levels in the most routine fashion. The Committee would like Government to evolve a procedure to ensure that investigations in cases of this type are completed within a prescribed period, say six months or so. Any delay would only make ascertainment of facts and establishment of guilt difficult.

1.312. The Committee note that Government have proceeded against the retired official for his involvement in this case. They would like the proceedings to be expeditiously finalised.

II ARMY

Excessive assessment and unnecessary procurement of stores from abroad

Audit Paragraph

2.1. Although an indigenous source had already been located and the Director General, Supplies and Disposals, had in June, 1965 also placed a contract for Rs. 6.27 lakhs on that source for 3,000 numbers of a spare part of a certain type of vehicle with the Army, in December, 1965 Army Headquarters placed an indent on the Director General, India Supply Mission, London, for *inter alia* 2,062 numbers of that spare part to meet the life time requirement of the vehicles. Realising the error Army Headquarters requested the Director General, India Supply Mission, London, in January, 1966 to cancel the indent for the item; a formal amendment to the indent was also sent in March, 1966 deleting the item. The Supply Mission, however, failed to take note of the deletion of the item and in September, 1966 concluded a contract for it at a cost of Rs. 2.72 lakhs.

2.2. The error in concluding the contract for the spare part was again pointed out by the Army Headquarters to the Director General, India Supply Mission, in January, 1967, but no action was apparently taken by him to cancel the contract. The spares ordered were received in a depot in India during October-November, 1967 and Rs. 0.51 lakh were incurred on packing and freight.

2.3. In the absence of actual wastage data, the requirement of this spare part had been originally assessed according to certain maintenance scales laid down by the Director, Electrical and Mechanical Engineer Corps. A subsequent re-assessment in September, 1967 on the basis of actual wastage experience disclosed that the whole lot of the spares procured from abroad and also the bulk (2,603 numbers) of that procured indigenously would be surplus to actual requirements for the next 8 years. The approximate cost of the surplus is over Rs. 8 lakhs.

The Ministry stated in November, 1968 that efforts are being made for alternate use of the surplus spares.

[Paragraph No. 12—Audit Report (Defence Services), 1969.]

2.4. In a written note dated the 26th February, 1970 the Ministry of Defence have stated that the tanks for which these spares were procured had been in service since October, 1957. Dry type Air

Cleaner fitted on those tanks were found to be ineffective and resulted in premature failure of a number of the engines. In 1959, the development of a new type of Air Cleaner was reported from France. A sample of the Air Cleaner was obtained and after detailed trials, it was decided to use it on the engines. The item indented for was a Filter Element, a component of the Air Cleaner used on the tanks.

2.5. It has been further stated that the indent for 2,062 numbers of the element was forwarded on the 29th December, 1965 to the D.G.I.S.M., London for "procurement action". In that indent, the delivery period prescribed was that 512 numbers should be supplied by the 31st December, 1966 and 1550 numbers should be supplied by the 31st December, 1967.

2.6. The order placed by DGS&D on 9th June, 1965 on an Indian Firm was in the nature of a "development order" as that firm had offered to develop that particular element. But even as late as October, 1965, the firm had not been able to develop the item fully according to the specifications and as such in November, 1965, the Defence Technical Authorities at Ahmednagar indicated that deviation with a reduced filtering efficiency of 97.6 per cent was given as a special case for the first lot of 500 elements only to meet the urgent requirements. These 500 numbers with deviation were delivered on 28th January, 1966. Against the background of the indigenous development of the element indicated in the preceding para, the all time buy review of spares was carried out by the concerned vehicle Depot and the indents prepared. The fact that there was an indent for a similar item on the DGS&D for procurement action was known. Since the firm had not succeeded in producing a correct sample of the Element, it was considered prudent to import the item, particularly as it was a vital one and its non-availability would have resulted in failure of the engines of the tanks which had been experienced in the past. No risk could have been taken for such an equipment of operational importance as tanks by relying solely on the likely indigenous source. Information was, however, received from the firm in January, 1966 that a special filter paper required for manufacture of the air cleaner element was arriving ex-import which would facilitate completion of the order for Filter Element. Information was also received that Central Mechanical Engineering Institute, Durgapur had completed their test on the comparative performance of the Filter Element ex-import and the Fritz's element, and the indications were in the direction of the firm having successfully produced a correct sample. Action was, therefore, taken on 28th January, 1966 to float cancellation from the indent ex-import without delay.

2.7. During evidence, the representative of the Ministry of Defence stated that "since we were conscious that it will be possible to get a sample in India to hundred per cent satisfaction, we only

made what is known as a tender enquiry. We did not authorise the D.G., I.S.M. to place an indent as such but to maintain a tender enquiry."

2.8. When asked why D.G., I.S.M. did not take note of the cancellation advised by Army Headquarters in January, 1966, the representative of the Ministry of Defence stated that their explanation was that during late 1966 and early 1967, hundreds of items of spares were being indented for and cancelled. The officer concerned had his hands full negotiating various cancellations of the items already contracted with the suppliers and he was successful in securing cancellations worth £ 19,000, without any financial repercussions. The omission of this item was not noticed by him. The officer dealing with this has since resigned. As the staff was under great pressure in sifting, collating orders and amending and cancelling hundreds of items of spares at that time, it is regretted that, in spite of the best efforts, it does not seem to retrieve the loss incurred.

2.9. When the Committee enquired whether the letter sent by Army Headquarters for cancelling the indent was misplaced by the D.G., I.S.M., the representative of the Department of Supply stated that "this is a most unfortunate episode. The fact is that on the first letter and then on the formal cancellation that followed, somehow, no action was taken by the I.S.M. The explanation given is that between June, 1965 and July, 1967 indents for 8,661 articles of spares alone were received in the Mission out of which over 3,000 items were subsequently cancelled, reduced or increased. Each amendment of that indent gave rise to a lot of correspondence between the supplier, the indenter and the Supply Mission."

2.10. When the Committee enquired whether such a large number of cancellations of orders did not indicate a basic flaw in estimating the requirements, the representative of the Ministry of Defence explained that "In the case of specific item we made a tender enquiry just to safeguard. For the rest we were able to establish indigenisation subsequently. As a result of those cancellations, I think, we did save a lot of foreign exchange."

2.11. When asked whether indigenisation could not be achieved before placing the orders, the witness stated that "indigenisation is a continuous process. The Director General, Technical Development and other technical authorities keep trying to locate local sources and giving trial and pilot orders. But in the case of defence equipment it would be very risky to suspend action for procurement from abroad without being absolutely sure that a satisfactory local alternative was available. Since even the processing of indents takes time, we have to have the document work started; otherwise, we would lose that much time."

2.12. When the Committee enquired as to why the assessment of requirement was made on the basis of the scales laid down by E.M.E. without collecting actual wastage data for that item, the witness explained that "this particular item is one element in the filter for tanks. The original filter which we had and which was used for some time had not satisfied the purpose for which it was meant. There were failures, so, we were trying to locate an alternative. One alternative was found in France and some quantities of these were flown out. I think, it was inducted for actual use in small quantities in 1963. Then all-time review was made in 1964. At that time we felt that just one year's wastage based on the experience of only a few machines was not adequate; so, they had to go on the DEME's recommendations for the scales of provisioning. Also, this is a critical item. In the 1962 conflict in Ladakh these filters had to be changed every 25 hours. This was the experience and since it is a very vital equipment in any such conflict, the EME probably took all this into account when they made the new scales.

2.13. Explaining the basis on which the requirements were assessed, the representative of the Army Headquarters stated that "the basis on which this provision was made was the Initial Stocking Guide (ISG). This document is prepared by us to enable initial provisioning of spares. When an item is first introduced in service, we have no experience regarding its behaviour and performance; therefore, this document is purely a technical assessment based on the experience with similar items, expected wastage, degree of vitality, whether the item is very important for operational requirements and other considerations. The ISG, the initial stocking guide normally remains operative for a period of four years till wastage experience is built up. Subsequently, provisioning is done on the basis of actual consumption. It is quite natural, therefore, that while preparing the initial stocking guide for these particular air cleaners, there was a tendency to make sure that the air cleaner element which is an expendable store is adequately scaled since the non-availability of it will seriously affect the operation of the tank which, you know, is a very important equipment in operation. We also take into consideration the fact that if there is any under or over provisioning based on the ISG it automatically get adjusted during subsequent provisioning which is done on actual wastage rate."

2.14. When asked whether the re-assessment in September, 1967, on the basis of actual wastage data had disclosed that the quantities purchased and imported would be surplus to requirements for the next 8 years, the witness stated that "the elements were received in September, 1967. Wastage experience of ours is therefore very limited. For subsequent years wastage will be much more than what is reflected in the past 2 years."

2.15. The Committee asked for data about the number of contracts placed by I.S.M. with various suppliers between 1967 and 1968 for supply of spares for the tanks the number of items (with value) in respect of which cancellations were sought by the Army Headquarters subsequent to the placement of orders and the number of items (with value) in respect of which cancellation could not be effected and the number of cancelled items which were subsequently procured from indigenous sources. Information on the foregoing points is awaited.

2.16. On the question of disciplinary action, the Committee were informed that the Executive Officer in the India Supply Mission, London who was directly concerned with the matter had resigned in September, 1967. Efforts were made to find out if anybody else was responsible. The conclusion of not one but two successive Directors General was that it was an unfortunate mistake and it had occurred because of the pressure of work.

2.17. The Committee were also informed that India Supply Mission did make efforts with the French Army whether they would take those items and use them but unfortunately they did not succeed.

2.18. The Committee note that orders were placed by the India Supply Mission between 1965 and 1967 for about 8,660 items of spares for the vehicles, on the basis of indents received from Army Headquarters. However, the Army Headquarters subsequently sought cancellation or variation of as many as 3,000 of the items indented for. Though the India Supply Mission would appear to have been successful in a few cases in cancelling the orders placed, a complete picture is not available, as the Ministry of Defence have not been able to indicate how many items of spares were indented for, how many were sought to be deleted from the contracts and how many were actually deleted. Data on these points should be collected and the circumstances which led to such large scale cancellations variations examined, with a view to ascertaining whether the provisioning was excessive and failed to take note of the fact that indigenous production of some of the items had been established. The Committee would also like to be informed about the position of utilisation of spares in respect of which efforts to cancel supplies were not successful.

Overprovisioning of rubber boots

Audit Paragraph

2.19. A review of rubber boots in stock on 1st April, 1968, after taking into account the requirements for the next 33 months (upto December 1970), disclosed that 30,440 pairs (including 20,240 pairs ordered in 1966 and 1967) of boots worth Rs. 5.14 lakhs were surplus. The shelf life of these boots in ideal storage conditions is only three to four years. Efforts are now (December, 1968) being

made to cancel the supply of outstanding order for 2,408 pairs of boots valued at Rs. 0.50 lakhs. The large procurement of the boots which have a short life was partly due to not taking into account certain stocks at the time of assessing the requirements in 1967.

2.20. The Ministry have stated (February, 1969) that out of the surplus 14,312 pairs (valued at Rs. 2.14 lakhs) are either earmarked or issued against firm demands from the Director General Ordnance Factories, Central Reserve Police etc. and that it is expected that the boots would be utilised within their shelf life.

[Paragraph No. 17—Audit Report (Defence Services), 1969.]

2.21. Regarding the efforts made in December, 1968 for cancellation of the outstanding order for 2,408 pairs of boots valued at Rs. 0.50 lakh, the Ministry of Defence have apprised the Committee of the following position:—

“An A/T dated 21st December, 1967 was concluded by the DGS&D for the supply of 5,370 pairs of Boots Rubber Knee. According to the A/T, the delivery had to be made between 1st February, 1968 and 31st August, 1968 in equal monthly instalments.”

“On the basis of the review carried out as on 1st April, 1968, 4,610 pairs of Boots Rubber Knee of sizes 6 and 7 were revealed surplus to requirements. Accordingly, in their letter dated 19th July, 1968, Army Headquarters requested the DGS&D to cancel this quantity viz. 4610 pairs from the contract dated 21st December, 1967 without financial repercussions. The question of cancellation of the said quantity was taken up by the DGS&D with the firm on 31st July, 1968 even within the validity period of the contract. The firm was asked by the DGS&D whether they were agreeable to the cancellation of 4,610 pairs of Boots Rubber Knee without financial repercussions. The firm did not agree to the cancellation of any quantity. The DGS&D accordingly advised the Defence Inspection authorities at Calcutta on 21st August, 1968 not to accept any stores after the expiry of the delivery period in the contract viz., 31st August, 1968 and to give the latest supply position of the contract. The final inspection position of the stores against the said contract was intimated by the Defence Inspection authorities to the DGS&D on 19th December, 1968. Accordingly the DGS&D referred the question of the cancellation of the outstanding quantities to the Ministry of Law on 10th

January, 1969 for advice as to whether the balance quantity could be cancelled at the firm's risk and cost. The Ministry of Law advised the DGS&D as under:—

'Stores were put up for inspection within Date of Performance. Inspected and released with franking clause. The stores have been accepted by the consignee. Under these circumstances the contract is deemed to have been kept alive. Notice of performance is therefore necessary.'

"In accordance with the above legal advice the DGS&D *vide* their letter dated 23rd January, 1969 issued an extension-cum-notice to the firm to supply the outstanding quantity, of the stores against the contract by 10th March, 1969. The firm were informed that in the event of their failure to supply the outstanding quantity by 10th March, 1969, the contract would be cancelled at their risk and expense without further notice to them in this behalf."

"As the firm failed to complete the supplies by the stipulated date *viz.* 10th March, 1969, the outstanding quantities *viz.* 2,408 pairs as on 10th March, 1969 were cancelled at the firm's risk and cost by the DGS&D *vide* their amendment letter dated 26th April, 1969."

2.22. In their note the Ministry of Defence have stated that out of the anticipated surplus of 30,440 pairs as mentioned in the audit paragraph, 17,748 pairs had been issued upto 9th February, 1970 as under:

Director General Ordnance Factories—3311.

Air Headquarters—3320.

Border Security Force—5380.

Central Reserve Police—4292.

Navy—1045.

Director General Border Roads—400.

The note further stated that "as a result of the review carried out of Boots Rubber Knee as on 1st April, 1969, no surplus was revealed but on the other hand there was a deficit of 3,311 pairs. No indent for this quantity was projected on the DGS&D for procurement action."

2.23. About the stock in hand, the Ministry have stated that their shelf-life was three to four years as on 31st January, 1969 and that the stocks were likely to be consumed within their shelf-life.

2.24. The Committee are at a loss to comprehend how, when a review carried out in April, 1968 disclosed that there would be a surplus of 30,440 pairs of rubber boots, after providing for 33 months'

requirements, it has now been stated that there would not be a surplus but a deficit. The fact that the Army Headquarters attempted to cancel, but unsuccessfully, pending orders for boots would also indicate that there had been over-provisioning of this item. The Committee would like the matter to be investigated further. The Committee also hope that the existing stocks of boots will be consumed before their shelf-life is over and fresh orders will be placed for the procurement of rubber boots only after ascertaining the requirements correctly.

Delay in repair of tractors

Audit Paragraph

2.25. Mention was made in paragraph 57 of Audit Report 1960 about manufacture of certain types of tractors in Ordnance factories in collaboration with a foreign firm. Their performance was commented upon by the Public Accounts Committee in paragraph 6 of their 11th Report (Part I) (1962-63). These tractors are now being manufactured in a public sector undertaking under the Ministry of Defence.

2.26. On 1st July, 1968, 102 of the tractors costing Rs. 69 lakhs approximately were awaiting repairs in a store depot for periods up to 5 years. The number of hours to which the tractors had been put to use before they were sent to the depot for repairs are shown below:—

Period for which tractors were awaiting repairs	Number and the period of utilisation of the tractors						Total
	100 hours or less	101-250 hours	251-500 hours	501-1000 hours	1001-2500 hours	Over 2500 hours	
4 to 5 years	—	2	—	7	—	—	9
3 to 4 years	2	—	6	3	2	—	13
2 to 3 years	1	4	3	11	10	—	29
1 to 2 years	—	1	8	12	10	3	34
1 year or less	—	—	1	5	10	1	17
	3	7	18	38	32	4	102

2.27 The delay in repairs to the tractors has been attributed by the Ministry to non-availability of the required spares for which indents had been placed from March 1961 onwards.

Information about the tractors in other depots is awaited (January 1969).

[Paragraph No. 18, Audit Report (Defence Services, 1969)]

2.28. In a note furnished to the Committee, the position of Komatsu tractors which were awaiting repairs on 15th February, 1970 has been indicated as under:

Period for which tractors are awaiting repairs (Makes : D120-4, D120-6, D80-5, D80-6, D80-8, D40-5) Number

1 year or less	6
Between 1 and 2 years	32
Between 2 and 3 years	33
Between 3 and 4 years	28
Between 4 and 5 years and above	41
Total	140

It has also been mentioned that the total holding of Komatsu tractors was 496 and that the number awaiting repairs would work out to 28 per cent of the holding.

2.29. During evidence the Committee enquired which Public Sector Undertaking was manufacturing these tractors and what was their programme of manufacture. The representative of the Department of Defence Production stated that these tractors were supplied by the Director General Ordnance Factories who had originally taken up the line of production. Subsequently their manufacture was transferred to Bharat Earth Movers Ltd. At present Bharat Earth Movers Ltd. (BEML) was looking after the manufacture of these tractors. BEML had collaboration with Komatsu Manufacturing Company of Japan for the manufacture of three types of tractors, namely, D 120 which is the heaviest model; D 80 which is medium sized and D 50 which is the smallest model.

2.30. Regarding the programme of manufacture, the representative of the Department of Defence Production stated that "the programme of BEML for manufacture of these tractors comprises mainly of D 80-8, which is now being followed up by D 80-12. The spare parts of D 80-8 have been indented and a large portion of the imported spares have already been supplied to the Engineer-in-Chief. The ultimate standardisation in BEML will be on the D 80-12 tractor which will be manufactured wholly indigenously, except for certain items which cannot be economically manufactured in India, for which we have to depend on imports from outside, but not necessarily Japan."

231. In reply to a question as to how the performance of these tractors in the Defence Department compared with other makes of tractors, the representative of the Ministry of Defence stated: "There are quite a bit of teething troubles at present and we may say in the recent past the performance of these tractors has not been satisfactory. Of course, there are problems but we have not on the Army side at least discovered at present any grave manufacturing defects. The defects which we have found in their performance are largely due to the non-availability of spares to keep the tractor repaired in the field by means of maintenance and also for overhaul without their being sent back."

232. When asked as to how the performance of these tractors compared with the performance of other makes of tractors, the representative of the Ministry of Defence stated: "I have got some figures of the performance of the Komatsu type with the others. In the Army our total holding of tractors are 1364. Against this 322 tractors are off the road for over-haul. If we take the break-up of these figures out of 1364, 496 are Komatsu tractors and the rest 868 are other makes. The other makes also are, if I may say so, of older vintage but if you compare the percentages of tractors which are off the road for over-haul we find that 20 per cent of the tractors other than Komatsu are awaiting over-haul but in the case of Komatsu 30 per cent are waiting over-haul. That shows the proportionate sick rate of the Komatsu is higher. In this we have to make allowance for the fact that the tractors other than Komatsu are of much older vintage. This is comparative position of performance."

233. When asked whether the Komatsu tractors could work single shift or double shift, it was explained by the representative of the Ministry of Defence that "As far as work in the field is concerned, I would say that the performance of Komatsu and the other tractors is comparable. It is about the same. Both are capable of working double shift. It depends upon the requirement of the task." In reply to a specific question whether the defect in the tractors was on account of the material used, the representative of the Ministry of Defence stated that "in the Army we have not come across any specific defect due to material."

234. Asked whether the tractors had any guarantee period, the witness explained that "with Messrs Komatsu, we had no guarantee. But with the DGOF who is manufacturing in India, we did have a 6-month period of warranty. Unfortunately, that period does not go on the number of hours, but on the number of months i.e. 6 months. No tractor really failed in that period so that we could claim." Explaining the point further, the witness observed that "the manufacturer will own his liability only if we can prove that it is due to

faulty manufacture. My office and the Engineer-in-Chief have not been able to prove that it is because of manufacturing defects that the tractors have failed."

2.35. In a note furnished by the Ministry of Defence it has been stated that 84 indents in respect of 21,950 items of spare parts were placed on DGOF during the period 1961 to 1965. The supply position in regard to those spares was indicated as under:

<i>Position at the end of year</i>	<i>Percentage supply of Total items</i>
1965	4%
1966	55%
1967	75%
1968	85%
1969	94%

2.36. The note has further stated that 3 indents in respect of 779 items were cross mandated by DGOF on BEML and 16 new indents were placed on BEML during March, 1966 to June, 1969 in respect of 6801 items. The supply position of spares for the indents placed during 1966 to 1968 and during 1969 was indicated as under:

(a) *For indents placed during 1966 to 1968*

Upto December, 1968—35 per cent of items.

Upto December, 1969—78 per cent of items.

(b) *For indents placed during 1969*

Upto December, 1969—4 per cent of items.

2.37. The note further stated that practically the entire supply by Bharat Earth Movers Ltd. against the indents placed by the Army so far was covered by import. Out of the total estimated value of about Rs. 115.57 lakhs in respect of the indents for tractor spares, other than a few unpriced ones, placed by the Army on BEML, the value of imported spares was estimated to be about Rs. 114 lakhs. This was because (a) most of the Army's indents for tractor spares placed on BEML so far were in respect of spares for other models not currently included in BEML's line of production; and (b) the requirements were urgent.

2.38. During evidence the representative of the Ministry of Defence stated that supplies against these indents had been rather slow and halting and not over the full range. Some critical items had not been supplied e.g., pistons, piston rings, oil rings, valves, mains

bearings valve mechanism, revolving mechanism, bushings, collars, oil seals, fuel injection equipment, track rollers, fuel equipment etc. with the result that tractors could not be repaired.

2.39. In reply to a question why spares for the tractors were required in such large quantities the representative of the Ministry of Defence explained that "in all machinery, whether it is tractors or whether it is ships or aeroplanes, the spares are divided into two categories. One is maintenance spares and the other is the long-term spares for over-haul of other such uses. Now, whenever a machine is bought, the standard practice today is that we get the maintenance spares along with the machine. That itself shows that you can have some add minor break-downs of machine even in its early life. . . .Nowadays, whenever we place indents for any equipment, we place indents for the maintenance spares along with it. That is based on the past experience. It is necessary to do so, and all the manufacturers even recommend that."

2.40. In reply to another question whether no provision for maintenance spares was made since March, 1961, the representative of the Ministry of Defence explained that "when these tractors were bought in 1959, I think, the provision of maintenance spares was not done consciously. . . .At that time for one or two reasons they felt that these tractors would be used only after the earlier ones had outlasted their lives. Also, they had difficulties about the resources and foreign exchange. So, they did not indent."

2.41. The Committee enquired whether the D.G.O.F. had informed Government that this particular matter of so many tractors lying off the road had not been communicated to him. The representative of the Ministry of Defence stated that "to understand this whether we did or we did not, it needs to be explained that the DGOF is not responsible for servicing or maintaining these tractors. He has manufactured these tractors for supply to the Army and possibly to the Border Roads Organisation and other departments and also to private indentors. So far as the Army is concerned, it has got a maintenance and repairs organisation of its own; all that it needs from the DGOF is the supply of spares. If those spares were forthcoming, there would be no need for us to have tractors off the road in such large numbers at least or of having to go to the DGOF. If the DGOF has not got the spares then he is not going to be in any better position." In reply to a specific question whether this particular matter was brought to the notice of DGOF, the representative of the Ministry of Defence admitted that it was not done because the system did not require it. Explaining the system that was prevalent, the representative of the Ministry of Defence stated that "the DGOF has to be informed by the Army only about the supply of spares that are required from him, and for those, indents are placed;

when he fails to supply those spares, then there are reminders, personal visits and discussions etc. for arranging those supplies. Otherwise, the Army itself is self-contained for maintaining its own pool of tractors, which is a large one."

2.42. The Committee were further told during evidence that a group consisting of representatives of DGOF, Master General Ordnance and Director, EME had been constituted to sort out supplies of spares that had been received by DGOF and had got accumulated. The Committee enquired how this accumulation arose. In a note furnished to the Committee, the Ministry of Defence had stated that the decision to set up the Group was taken in January, 1970 to assist the DGOF in sorting out the spares in stock with him. The Group was expected to complete the work by the middle of July, 1970. Explaining the necessity for constituting the Group, the Ministry have stated that while transferring the assets and liabilities of Tractor Project from DGOF to BEML it was decided that all tractor spares presently available with the DGOF as well as those on order from JAPAN against specific indents of the customers (whether civil or Army) will continue to be accounted for and issued by the DGOF until the stocks were liquidated. Despite the efforts made by the DGOF to issue out the spares to various indentors immediately on receipt, the following factors contributed to accumulation of stocks and the need for sorting out:—

- (a) While placing the supply orders on M/s. Komatsu the DGOF had consolidated the requirements of various indentors and for sustaining his own production programme which on receipt had to be sorted out and segregated.
- (b) Shipments from M/s. Komatsu contained certain excess supplies against supply orders of the DGOF and wrong supplies against Komatsu's invoices.
- (c) Cancellation of demands on the DGOF by various indentors due to the delay in receipt of stores.
- (d) Shortage of floor space coupled with the non-availability of adequate technical staff in relation to the work-load the factory had to handle. It was further stated that the spares were received from time to time from 1963 till August 1969 in numerous shipments out of which a number of items got accumulated for one reason for the other.

2.43. In reply to a question why there was so much dependence on import of spares, the representative of the Ministry of Defence stated that "when we decided to manufacture tractors in India, it was known that we will manufacture certain items and for certain other items we will have to depend on Japan. Obviously, we cannot

manufacture 100 per cent of the spares because of other difficulties intervening; not because some of us were slack. Neither could the manufacturers supply them because their models were changing; they were not manufacturing spares alone; even then they manufactured extra spares perhaps to cover odd cases like this. So, we have come up against all kinds of problems. But with the increasing indigenisation of the manufacture. I am sure these problems will be minimised."

2.44. Explaining the position regarding indigenous manufacture of spare parts, the Department of Defence Production have stated in a written note that in the case of the three Crawler Tractor models currently included in MEML's production line, the Engine assembly of two models viz. D-80-A-12 and D-50-A-15 had already been indigenised and the engine assembly of D-120-A-18 was also expected to be indigenised in the course of about another year. This would ensure indigenous supply of all the Engine assembly parts for these models. Besides, the chassis and other components| parts of these three models were also being progressively indigenised. The note further stated that it was anticipated that by the end of 1971-72, BEML would be able to achieve 85 per cent indigenisation in respect of all the three tractor models currently included in their production line and the need for import of spares for these models thereafter would arise only in respect of a few "proprietary" or "bought-out" parts of non-Komatsu origin.

2.45. About the older models, it was stated that "the engine assembly of the D-80-8 has been indigenised. Besides, the Chassis and track-group, for which also a large number of spares are generally required, have also been indigenised in the case of the D-80-8 and D-120-6 models. In respect of Crawler Tractor models which are still older, these have now become obsolete. In view of this, and the limited requirements for spare parts for these models, it is not possible for BEML to undertake the production of spares for these models in its own factory on an economic basis and without detriment to indigenisation efforts for the current models. However, to the extent possible, and depending on the requirements indicated by the customers, efforts are being made by the Company to locate indigenous sources for such spare part requirement also. For this purpose, in addition to establish a Research Development Department, BEML has also set up an Indigenisation Committee which will solely concentrate on this work."

2.46. When asked whether such a large number of tractors going off the road did not affect the operational readiness of the Armed Forces, the representative of the Ministry of Defence explained that "apart from this pool of tractors with the Army proper, we have also got the pool of the Border Roads Organisation. They may

be functioning in peace time in making roads, but in war time that work does get suspended and that is available for the Army. That is the second cushion which is available to us."

2.47. When asked whether the tractors had to be brought back from the forward area even to carry out minor repairs like replacement of a spare part, the witness explained that "if spare do not arrive, when according to the Army regulations, these have to be back-loaded to the Depots. And if I may say so, once a vehicle is off the road, waiting for one or two spares, despite all the maintenance that is arranged on the spot and for the rest of its upkeep, some greater deterioration sets in and a machine which is lying for repairs may also suffer some more damage. Consequently, by the time they come back to depots, according to the regulations, they will have to check practically everything, which means an overhaul."

2.48. The Committee note that out of 496 Komatsu tractors held by the Army, 140 are awaiting repairs. 41 of these tractors have been off-road for more than four years. The Committee were told during evidence that maintenance spares for these tractors were not ordered from Japan in the beginning. Indents were placed from 1961 but supplies started only in 1965, when just 44 per cent of the total items indented for were received. Even by 1966 supplies had materialised to the extent of 55 per cent only. The Committee cannot visualise how any machinery, especially one required for use in forward area and for rugged work could be ordered without the necessary percentage of maintenance spares. The matter may be enquired into and Committee informed. The Committee would also like instructions to be issued for avoidance of such repetition.

2.49. The Committee can only draw one conclusion that there was neither adequate planning nor enough coordination between the Ministry of Defence and Director General Ordnance Factories in the matter of procurement of the spare parts from Japan. Right in the beginning when manufacture of Komatsu tractors was commenced in collaboration with the Japanese firm, some spare parts for each type of tractor should have been procured to meet emergent demands. This was necessary, particularly in respect of those critical items which were not planned for manufacture in India.

2.50. The Committee observe that the models of the tractors had been rapidly changing in Japan and that had been giving rise to difficulties in the procurement of spares. To get over this difficulty, efforts should have been made to achieve rapid indigenisation by import substitution to the maximum extent possible. But it would appear that enough efforts have not been made in this direction as even 85 per cent indigenisation is still a target to be achieved.

2.51. The Committee were told that the tractors did not suffer from any manufacturing defect and that the main reason for the tractors being off-road was that spares were not available. The Committee would like this point to be further investigated as it has been reported to the Committee that Komatsu tractors supplied to the Dandakarayana Project have some inherent manufacturing defects. A reference in this connection is invited to paragraph 1.71 of their 118th Report (Fourth Lok Sabha). Moreover, the Committee find that a large number of spares received between 1963 and 1969 have accumulated with the DGOF. The accumulation has reached such proportions that it became necessary to constitute a Group to segregate and sort out the spares. It is amazing that while tractors remained grounded with the Army for lack of spares in some cases upto five years. The G.G.O.F's. organisation should have been accumulating these spares without bothering to segregate them and to ascertain to what extent they would meet the Army's requirements. The Committee hope that the segregation will be expeditiously completed and the spares speedily sent to the EME Workshops in need of them.

2.52. The Committee note that in respect of the indents placed on BEML during the years 1966 to 1968 only 78 per cent of the spares were supplied till the end of 1969. Against indents placed on BEML in 1969, only 4 per cent of the items had been supplied upto December, 1969. The Committee would like measures to be taken to improve the supply position of spare parts.

Delay in disposal of certain categories of vehicles

Audit paragraph

2.53. A considerable number of certain categories of vehicles (value Rs. 6 crores) requiring major repairs have been held in various vehicle depots for over 16 years but they have neither been repaired nor disposed of. Bulk of those vehicles were declared obsolete only in January 1967-January 1968; their disposal after removal of security items is still to be effected (December 1968). An annual expenditure of about Rs. 2.00 lakhs was being incurred on the maintenance of these vehicles.

[Paragraph No. 19—Audit Report (Defence Services), 1973.]

2.54. During evidence, giving the background of the case, the representative of the Ministry of Defence stated that "there are two types of vehicles—one is the tracked carrier and the other is the armoured car (here too there are different types of armoured cars). In the case of tracked carriers, the position is that they were continued in service until 1965. Upto that time there was no question of giving them up. In 1965 the army Headquarters came to the view that these should be declared obsolete as they

were no longer mechanically reliable." The total stock of Tracked Carriers and Armoured Cars ranged between 3824 to 3738 during the years 1951 to 1968. The two types of vehicles were declared obsolete on 31.1.1968 and 11.1.1967 respectively.

2.55. The Committee have also been informed in a note that in 1952 a list of armoured vehicles in use by the Army was prepared. In October, 1953 the question of disposal of various vehicles was reviewed and it was decided not to dispose of any of the Tracked Carriers and Armoured Cars then in service due to non-availability of replacements. In June, 1957, Army Headquarters circulated a list of vehicles to all concerned for scrutiny/revision with a view to ascertaining whether any of these could be declared obsolete and thus disposed of. In view of the then prevailing financial stringency and the limited foreign exchange resources available for the Defence Services, it was considered that the Defence Services would not be getting any new equipment from abroad. It was, therefore, decided that any defence equipment which was likely to be of any use even after 5 or 10 years should not be disposed of. Accordingly, in 1958, it was decided that the question of declaring those vehicles as obsolete/obsolescent might be kept pending and taken up again after the Government decision on the Defence Committee Cabinet Paper on Armour Reorganisation, had been obtained. The Armour Re-organisation Plan was approved in 1960 but no replacements for the Carriers and Armoured Cars were available and hence these were continued in Service with the Army.

2.56. It has been further stated that the number of Tracked Carriers and armoured Cars with the units at the time of the reviews were:

Year	Tracked Carriers		Armoured Cars	
	Total Stock	With units	Total stock	With units
1953	3528	351	290	27
1958	3528	576	290	10
1960	3528	698	290	5

Regarding the progress made in disposal of vehicles, the Committee were informed that the total number of vehicles declared surplus for disposal upto 31st December, 1969 was 3552. Out of that, 2736 vehicles had been sold upto 31st December, 1969 and 816 were awaiting disposal on that date.

2.57. During evidence when the Committee enquired whether the vehicles were declared surplus after the receipt of the audit paragraph the witness stated that "I must give the Audit that credit. They did give us the requisite sense of urgency and I can say that the Audit has served a very very good purpose."

2.58. In reply to a question whether vehicles could be used in emergency and if not why these were kept unused, the Director of Weapons and Equipment informed the Committee that these vehicles were about 18 to 20 years old. No spare parts were available even from the countries from where these vehicles were procured. In 1964-65 it was felt that these vehicles were getting old. They got over-heated in a matter of five minutes and required sometime to get cooled for being reused. Therefore it was decided to declare them obsolete.

2.59. In reply to a question as to when the defects were noticed in the vehicles which could not be repaired, the Director of Weapons and Equipment stated that the defects were observed sometime in 1957. When the Committee enquired as to why the decision to declare the vehicles as obsolete was taken so late when the defects were noticed as early as 1957, the representative of the Ministry of Defence stated that after making some modifications, efforts were made to keep the vehicles going. In a note, the Ministry of Defence have stated that in order to remedy that defect, a modification was made in 1962. The modification involved the replacement of the existing distributor and the ignition coil with a different type of component. To begin with, it was decided to carry out the modification in 10 Carriers. It took considerable time to effect the modification due to non-availability of the required new components and the trials were completed by June, 1964. It was then felt that considering the general mechanical condition of those Carriers, it would be uneconomical to carry out the modification on all vehicles.

2.60. When the Committee enquired how much money had been realised for each vehicle in disposal and how it compared with its price, the representative of the Ministry explained that the realisation had been about two thousand rupees per vehicle. Both in the case of carriers and armoured cars, because of the security nature of the internal equipment, they were broken up into four parts before they were disposed of as scrap. That was the reason why the realisation was only Rs. 2,000 per vehicle.

2.61. In reply to a question whether these vehicles which were found to be defective in 1957 were used by the Army in the conflicts of 1962 and 1965, the representative of the Ministry of Defence stated that these were used in the two conflicts and the experience of 1965 had confirmed the Army Headquarters' apprehension about the utility of those vehicles.

2.62. When the Committee pointed out that Rs. 2 lakhs were being spent on the safe custody of those vehicles, the representative of Army Headquarters stated that it depended on the perimeter of the Depot. The security expenditure would not go down by merely 2,000 or 3,000 vehicles going out of the Depot when another 60,000 vehicles were parked there.

2.63. On the steps taken to achieve self-sufficiency in production of armoured vehicles, the Ministry of Defence have stated that the total requirements of the various types of Armoured vehicles for the Army had been consolidated in a comprehensive 10-year Plan for 1969—79. With reference to those requirements, production of tanks was being stepped up and it was expected to reach an adequate level by 1972-73. The Defence factories and the private trade were being geared to produce components and sub-assemblies upto the required level. The indigenous content of the Tank was now over 55 per cent. This was expected to increase to 80 to 85 per cent by 1974.

2.64. In regard to the other types of armoured vehicles, development of prototypes was in various stages; production planning had been taken in hand and the schedule of production was expected to be finalised during 1970.

2.65. The Committee note that a large number of Tracked Carriers and Armoured Cars remained in the vehicle depots for more than 16 years although there was no scope for their effective use. Against the total stock of 3,528 Tracked Carriers and 290 Armoured Cars with the Army over a period of seven years, those in actual use by the units were very small. The experience of their actual use during the emergencies that arose in 1962 and 1965 was also not very happy. Some modifications were carried out in 1962 to keep the vehicles going and trials were completed in 1964. But then it was found uneconomical to carry out these modifications on all those vehicles. In view of that position, there was no point in having retained those vehicles and action should have been initiated in 1964, if not earlier, for their disposal. It was admitted during evidence that it was only after the matter was raised by Audit that the question of their disposal was taken in hand.

2.66. The Committee suggest that periodical reviews of all vehicles/equipment should be carried out and those which are beyond economical repair should be declared surplus and disposed of. Continuance of unserviceable vehicles in stock is also apt to give rise to a false sense of security.

2.67. The Committee note that the production of tanks is being stepped up and that as against the present indigenous content of 55 per cent, its indigenous content is expected to increase to 80 or 85 per cent by 1974. The Committee hope that these targets would be

achieved and the country would be self-sufficient in tanks and also other types of armoured vehicles for which the schedule of production is expected to be finalised during the current year.

Extra expenditure due to detention of a vessel

Audit Paragraph

2.68. For transportation of Defence stores from an island to the mainland, a vessel was chartered from a shipping company in April, 1967 on a hire charge of Rs. 7,000 per day. While chartering the vessel it was anticipated (after consulting the shipping agents and taking into account the tonnage of stores to be handled) that subject to weather conditions, it would require only 15 days to load the cargo at that island. As against this, loading operation undertaken by the local civil administration during April-June, 1967 took 46 days to complete. Making an allowance of 19 days for bad weather and other causes, the net excess time taken for loading was 12 days resulting in extra expenditure of Rs. 1.04 lakhs towards hire and maintenance of the vessel. Defence equipment worth Rs. 75,000 was also lost in the sea during the actual loading of the vessel.

2.69. The civil administration which had taken over the stevedoring duties in April, 1967 from a private firm have stated that they were handicapped because of the loss of valuable stevedoring equipment in May, 1967 and also because of lack of cooperation from the local stevedoring labour.

[Paragraph No. 20--Audit Report (Defence Services), 1969.]

2.70. In a note the Ministry of Defence have informed the Committee that the Civil Administration was not consulted about the time likely to be taken for the loading operations as the Ministry had no prior information that the Civil Administration would be taking up the stevedoring work from 1st April, 1967.

2.71. The vessel was chartered for a period of 30 days from 19th April, 1967. The period of 30 days was worked out in consultation with the steamer agents and the local stevedores taking into account the kind of stores to be handled. It was anticipated that for loading at the island, 15 days would be required on the basis of the following calculations:

- (i) In the ship SS "Indian Shipper" normally three of the hatches could work at a time and with extra effort 5 hatches could function.
- (ii) Due to the fact that the vessel was to be anchored 500 yds inside ocean, 4 vehicles and 3 plants could be lifted per hatch per day i.e. a total of 12 vehicles and 9 plants could

be loaded in a day. In addition, packages were to be loaded as convenient. Thus to complete the loading of entire cargo 13 days were required. Making allowance of 10 per cent, 15 days were assessed. The cargo consisted of 146 Nos. of vehicles, 119 Nos. of plants and machineries and 7355 packages. The assessment was made in consultation with the steamer agents and the local stevedores including Messrs.....who at that time were the authorised stevedores at the island and who had information of the stevedoring facilities available there.

2.72. It has been further stated that as soon as it became known that the stevedoring work was proposed to be undertaken by the Civil Administration, it was apprehended that on account of the lack of experience, the lack of equipment and lack of trained personnel to undertake a large volume of stevedoring work, the loading of the vessel with the various engineering equipments may be considerably delayed. The Civil Administration was repeatedly asked to allow Messrs.....to do the stevedoring work so far as the Defence stores in question were concerned. The Civil Administration, however, declined to allow Messrs.....to do the stevedoring work and stated that all necessary arrangements had been made by them to undertake the stevedoring work departmentally.

2.73. It has been further stated in the note that the Embarkation Headquarters, Calcutta, sent a signal on 4th May, 1967 to the Civil Administration, requesting them to reinforce the stevedoring party. Another signal was sent on 17th May, 1967. At Government level, the Ministry of Home Affairs were also requested on 20th May, 1967, to advise the Civil Administration to expedite the loading.

2.74. However, "There appears nothing on record to show that the Civil Administration were informed that the loading work must be completed within 15 days subject to fair weather." The local Army Authorities were, however, in continuous liaison with the Civil Administration with a view to expedite the early completion of the loading. In the Signal dated 4th May, 1967; while making a request for reinforcing Stevedoring party for early completion of loading work, it was pointed out that the loading of cargo should be completed by 14-5-1967, when the passenger ship was scheduled to arrive for de-induction of personnel.

2.75. On the question whether transportation of stores could not be planned at a time when weather conditions would have been more favourable, the Ministry of Defence have stated in their note that the work of the Engineer Task Force in the island was scheduled to be completed by the end of April, 1967. Thereafter, there was no further work for the Engineers in hand, and the men and equipment had accordingly to be withdrawn. Stationing of the Task Force and allied stores and equipment in the island without

any specific assignment was neither economical nor desirable from military point of view. It was also considered that the weather conditions would be satisfactory till the de-induction of cargo was completed. The monsoon, however, arrived in the island on 14th May, 1967 as against 24th May and 21st May during the years 1965 and 1966 respectively. However, had the de-induction been completed within the time anticipated, the weather conditions would have remained satisfactory till the said completion in spite of the early monsoon.

2.76. Regarding the additional expenditure incurred towards hire charges of the vessel, the Ministry of Defence have stated in their note that the Civil Administration were not informed that the additional expenditure on account of delay in loading would have to be borne by them. It is further stated that the Civil Administration had submitted their bill for Rs. 52,273.85 P on account of stevedoring charges for loading of Defence stores. The question as to who should bear the charges for the time taken in excess of 15 days viz. 12 days was till to be settled with the Civil Administration.

2.77. The Ministry have further stated that the loss of Defence equipment during the loading operations amounted to Rs. 69,000 (Approx). One item alone, namely a 3-ton Coles Crane, was of the book value of Rs. 68,697.85. An enquiry conducted by the Civil Administration as also the Court of Inquiry convened by the Military authorities had come to the conclusion that the loss was not due to any negligence but due to an act of God. The regularisation of the loss is under consideration by the Ministry of Defence.

2.78. The Committee consider it regrettable that the Defence Department did not consult the Civil Administration before chartering a vessel for loading operations at the island. The Civil Administration took over the stevedoring work at the island at about the time the loading operation commenced, but the Defence Department was not even aware of this fact. It is not clear why the Civil Administration could not complete the loading of the cargo within the time anticipated. The result of this was that the operations got prolonged entailing an extra expenditure of Rs. 1.04 lakhs. The Committee hope that cases of this type will not recur.

2.79. The question as to who should bear the charges for the excess time taken (12 days) may be settled expeditiously with the Civil Administration.

Overpayment to contractors due to overassessment of value of works

Audit Paragraph

2.80. (a) *Contract for constructing buildings*—In November, 1963 a Commander Works Engineer concluded a contract for construction of office buildings at a station at a cost of Rs. 5.49 lakhs.

The work was to be completed by May, 1964. In spite of grant of extensions of time till November, 1964, the contractor did not complete the work and, therefore, in January, 1965 the contract was cancelled at the contractor's risk and expense, for default; the remaining work was completed in February, 1966.

2.81. A joint measurement (of the work) by the department and the contractor in January, 1965 indicated the value of work done as Rs. 3.31 lakhs. However, the defaulting contractor had been advanced Rs. 0.62 lakh in excess of that amount. This amount and an additional sum of Rs. 0.45 lakh on account of other contractual dues await recovery (November, 1968). The contractor has disputed the claims of the Government and the matter has been referred to arbitration the outcome of which is awaited. The Government has also asked the Chief Engineer to examine the disciplinary aspect of the case (November, 1968).

2.82. (b) *Contract for provision of fencing*— contract for providing fencing at a station was concluded by a Garrison Engineer in November, 1965 for Rs. 0.61 lakh. The work was commenced in December, 1965 and was scheduled to be completed in April, 1966. By February, 1966 the contractor was advanced Rs. 0.41 lakh which was Rs. 0.26 lakh in excess of his actual entitlement. That had been done by inflating the cost of work done as well as cost of stores brought to site by the contractor.

2.83. In May, 1966 after completing work valued at only Rs. 0.18 lakh, the contractor defaulted and the contract was cancelled in May, 1967. The balance work was completed in October, 1967 through another contractor at an extra cost of Rs. 0.08 lakh. The total dues (including cost of departmental stores issued etc.) from the defaulting contractor have been assessed at Rs. 0.60 lakh. The contractor has not, however, agreed to recovery of the amount and the matter has been referred to arbitration, the outcome of which is awaited (October, 1968).

2.84. A Court of Inquiry held in April, 1967 found two officers and three subordinates responsible for the overpayment and lack of proper supervisory control; disciplinary action against them is in progress (October, 1968).

[Paragraph No. 25—Audit Report (Defence Services), 1969.]

2.85. In a note furnished to the Committee, the Ministry of Defence have stated that there was no lacuna in the existing procedure for assessing the value of work done and stores collected at site for making interim advance payments to the contractors. In the cases pointed out in the Audit paragraph, there had been over-assessment of amounts due and as such disciplinary action had been initiated.

2.86. According to the instructions contained in Army Headquarters letter No. 36364/E8 dated the 21st November, 1950, interim payment to the contractor could be made upto 90 per cent of the value of work done and 75 per cent of the value of the material lying at site.

(i) Contract for constructing buildings

2.87. The Ministry have also stated in their note that the arbitrator had awarded a sum of Rs. 50,800 to the department against their claim of Rs. 1,06,939.43 P. Out of that, Rs. 10,000 were held by the Department as security deposit paid by the contractor and the balance amount would be recovered after a decree had been obtained from a court.

2.88. It has also been stated that disciplinary action was not commenced soon after the over-payment came to notice as the Chief Engineer was of the view that as a dispute had arisen over the value of work done and the matter had been referred to an arbitrator, disciplinary action could be taken after the fact of over-payment was fully established. But when the matter came to the notice of Government in November, 1968, they did not agree with the Chief Engineer's view and advised the Engineer-in-Chief that a Board should be immediately held and disciplinary action initiated.

(ii) Contract for provisioning of fencing

2.89. The Ministry of Defence have stated that the Arbitrator had awarded a sum of Rs. 54,817.79 P as against Government's claim of Rs. 60,000. A sum of Rs. 18,630 had been deposited by the contractor as security deposit and the balance amount would be recovered from the contractor after a decree was obtained from the court.

2.90. The Committee note that a sum of Rs. 76,988 is recoverable from the contractors in these cases as a result of awards made in arbitration. The Committee would like to be apprised of the progress of recovery.

2.91. These sums have become recoverable due to the contractors having been overpaid for the work. Disciplinary action against the officers and staff is stated to have been initiated. The Committee would like them to be expeditiously finalised and results intimated.

Hiring of a godown owned by the Canteen Stores Department

Audit Paragraph

2.92. A godown (17,550 sft.) in Bombay belonging to the Canteen Stores Department was rented to a private party on 1st January, 1965 at Rs. 4,430 per month (the municipal taxes—Rs. 1,470 per

month—to be paid by the party direct). No formal lease agreement was entered into as the party did not accept incorporation of a clause in the lease prohibiting sub-letting of the premises. This clause is normally included in such agreements.

2.93. In May, 1965, the party sublet the godown without a formal agreement at a rate of Rs. 18,500 per month, which was stated to be for storing, warehousing and servicing charges including ground rent for 25 months to the State Government (an engineer of the State Government had, however, certified that the reasonable rent for the premises was only Rs. 5,200 per mensem) who required the accommodation urgently for storing stationery and text books. Two months' rent was also paid by the State Government as brokerage and the arrangement was terminable on one months notice. The Canteen Stores Department came to know of this sub-letting in September, 1965 and in February, 1966 this was also confirmed by the State Government who suggested that the department might lease them the godown directly. A notice terminating the tenancy was thereafter issued in March, 1966 to the party on the ground that by sub-letting the godown the agreed terms of lease had been violated; but this notice was of no significance in the absence of a formal agreement. A new notice cancelling the letting out of the godown and instructing the party to vacate the premises within 3 months was later issued in March, 1967.

2.94. In the meantime, from March, 1966 the Canteen Stores Department commenced billing the State Government directly for the rent of the godown at the rate of Rs. 18,500 per month. But the State Government did not pay any amount to the Canteen Stores Department on the ground that payment to the department would not discharge the State Government's liability to the private party. In August, 1967 the Canteen Stores Department offered to the State Government that they might be direct tenants for the godown at the rental of Rs. 4,430 per mensem if they could prevail upon the party to hand over the godown "on paper" back to the Canteen Stores Department. But there was no response from the State Government who vacated the premises on 31st May, 1968 and handed over possession to the private party. The Canteen Stores Department obtained the premises back in June, 1968. It was stated by the State Government in October, 1968 that at the time the godown was taken, they were not aware that the godown belonged to the Canteen Stores Department. They further stated that they could not avail themselves of the offer of the Canteen Stores Department of August, 1967 as they could not vacate the godown in the absence of alternative accommodation.

2.95. The private party by this arrangement derived a financial benefit of about Rs. 2.50 lakhs during the period May, 1965—May 1968.

[Paragraph No. 26, Audit Report (Defence Services), 1969].

2.96. In their note dated the 25th February, 1970, the Ministry of Defence have stated that the godown became vacant on 6-2-1964. A decision was taken on 22-2-1964 by the Board of Administration, Canteen Stores Depot (India) that offers for the lease of godown should be invited and it should be allotted to the highest bidder for an initial period of three years subject to the reliability and financial status of the party concerned.

2.97. Tenders were accordingly invited by advertisements in two leading newspapers viz. 'The Times of India' and 'The Indian Express', Bombay. The advertisements appeared in the two papers on 4-3-1964, 30-6-1964 and 11-10-1964.

2.98. During evidence, the Committee enquired as to when this godown was constructed and what was the purpose for which it was constructed. The representative of the Ministry of Defence stated that these godowns were constructed in the last war and these were used until 1947 by the old Canteen Stores Depot. In 1947 these were made over to the Canteen Stores Depot (India). In reply to a question whether there was any sign board to indicate that the property belonged to the Central Government, the witness stated that it covered an area of 25 acres and consisted of staff quarters and godowns and there were distant markings to show that the property belonged to CSD. But it could not be said whether Maharashtra Government were aware of this position.

2.99. When asked at what level the decision was taken to let out the godown to the party and whether it was the normal practice to exclude important clauses from lease agreements, the witness stated that the decision in this case to let out this godown was taken by the Chairman of the Board of Administration. The CSD followed a standard lease form but in this case there was a history how various things happened. The godown which fell vacant had to be leased out and was notified on three occasions. On the earlier two occasions the hiring could not be effected for one reason or the other. In one case the party who wanted to use it for storing was unable to get the necessary licence and another party backed out for some such reasons. On the third occasion, tenders were invited. Amongst the highest three tenderers was this party—and they had indicated to the CSD that they could not agree to this particular clause of sub-leasing because they said that they were going to use it for their associates. At this stage the decision was taken by the Chairman of the Board of Administration to accept this modification. It was not a usual thing to delete the clause but considering the two infructuous enquiries and also considering that if one stored the commodities of his Associate a decision was taken that, "we may accept provided the name of the Associate is given."

2.100. When asked why the premises could not be leased out to the second tenderer who had quoted less than the first one, the witness explained that the CSD had already suffered a loss because the godown had remained vacant for several months and moreover the bank enquiry revealed that his standing was satisfactory. This party had also offered to pay Rs. 500 per annum more than any other tenderer which he did. When it was pointed out that the party's offer that he would pay Rs. 500 more was a rather unusual condition, the witness stated that there were two offers one from this party and the other from a firm. The Chairman initially took the view that one godown each should be given to these parties. But when an offer was made to the firm, they declined the offer. It was then decided to lease out the godown to this party. This party accepted all the terms and conditions except clause 8 relating to sub-leasing and stated that they needed the place for their industries and a part would be leased to their Associate with whom they were working. In view of the infructuous inquiries made on three occasions, a decision was taken to lease the premises to the party. The party was asked to give complete details about the principal or associate to whom he wished to sub-lease a portion. When asked whether it could not be foreseen that the party might make profit by sub-leasing a portion, the witness stated that it could not be foreseen, as there was nothing on record to that effect.

2.101. In reply to a question whether the draft lease was sent to the party, the witness stated that the terms and conditions of the godown were communicated to the party on 10-12-1964. The Committee enquired as to why a notice terminating the tenancy was issued in March, 1966 when there was no formal agreement with the party and how it was stated that by sub-letting the godown the party had violated the terms of the lease. The witness explained that, even though the lease was not signed, yet, in law, there could be a valid contract by exchange of letters. Certain terms were conveyed to the party and it said that a particular term was not acceptable to them and the Canteen Stores Department accepted modification in the terms of the lease. When asked if any steps had been taken by the Ministry to avoid recurrence of such cases in future, the witness stated that "when we fix a rent for property we are going to take on lease, we obtain assessment of the rental value of that property from the local authorities concerned". That was done by the State Government in this case and the information from the State P.W.D. who were supposed to make the assessment, confirmed that the reasonable rent was round about Rs. 5000 or of that order. Then, the State Government which paid Rs. 18,000 to the party also had stated in their letters that they got an assessment made and they were advised that it was about Rs. 5000 or Rs. 5,200. Yet, "for their own reasons, if they go and make this deal with this man, how can any procedure or any prior thinking prevent such a thing...It is

clear to me that this rent of Rs. 18,000 paid by the Maharashtra Government was unconscionably high, and there is no reason for it except that they were under duress and for their own reasons they had to pay this. . . . I do not think that any modification of procedure as such is required to avoid any such instances in future."

2.102. In reply to a question, the witness stated that there was nothing on record on the basis of which the officials of the Canteen Stores Department could be held guilty either of a high irregularity or of lack of integrity or of manipulation. When asked as to why legal advice was not obtained at the initial stage when the transaction was entered into, the witness stated that if he himself were in that kind of position, he would not have reacted differently. The officer concerned had taken an administrative view of the matter and permitted a slight modification in the terms of the lease in order to safeguard the interest of Government.

2.103. The Committee pointed out that the draft lease sent to the party contained a clause which gave Government the absolute right to terminate the lease by giving 3 months' notice. The party had also not objected to this clause. They enquired why recourse was not taken to this absolute clause to terminate the lease giving three months' notice and why, while pursuing their case with the party, Government pursued their case on the clause relating to sub-letting which the party had not accepted. The witness stated that the tenant had contested the first notice based on sub-letting clause and on the advice given by the Law Ministry another notice was served asking the tenant to vacate the premises within 3 months. Explaining the position further, the Ministry of Defence in their note dated 25-2-1970 have stated that the officers of CSD(I) discussed the case on 17-2-1967 with the Joint Secretary and Legal Adviser, Ministry of Law, Bombay and the following points had emerged out of the meeting:

- (i) Shri. . . (Legal Adviser) was absolutely clear that we have no concern whatsoever with the Maharashtra Government and they are not in the least answerable to us—being tenants of the party, bound by certain terms of agreement of which we are not fully aware.
- (ii) In view of the above, we cannot serve any legal notice on the Government of Maharashtra as per decision of the Board of Administration. Moreover they being also a Government any litigation with them can only be in the Supreme Court.
- (iii) At the time of allotting the godown to M/s. . . . no regular lease deed was signed. Terms of agreement were only conveyed to them vide our letter No. 3/02/(33)/12500, dated 10th December, 1964. This firm however did not agree to

clause 8 of this letter about sub-letting so that strictly speaking the legal position is that, (the party) have not agreed to accept our terms regarding sub-letting. Consequently we cannot haul them on this account.

- (iv) The notice of termination therefore issued to (the party) is also not in order, as there is no violation of condition.
- (v) There being no regular lease deed signed in respect of this godown it cannot be said that the Godown has been "leased" to (the party) for a period up to 27th December, 1967. This will reduce the position to its being given to them on "leave and licence.". Therefore we can ask them to vacate as per clause 11 of our letter No. 3(Q-2(33))12500 dated 10th December, 1964 by giving them 3 months' notice and incidentally ask them to pay our dues. The copy of this notice will be endorsed to the Maharashtra Government so that they become aware that the original lessee has been asked to vacate and therefore be ready to vacate the premises."

2.104. As desired by the Law Cell, a notice was drafted by the SCD(I). The Law Cell raised further Queries on 25-2-1967 and 4-3-1967. The legal notice approved by the Law Cell was served on the party on 11-3-1967. The notice gave three months' notice to the party for termination of the permission given to the party for the occupation of the accommodation. A reference was again made to Law Cell on 27-6-1967. On 7-7-1967 the Law Cell advised that the (Punjab) Public Premises and Land (Eviction and Rent Recovery) Act, 1958 was *ultra vires* of the Constitution. They advised either administrative action [under the Public Premises (Eviction of Unauthorised Occupants) Act, 1955] or lengthy procedure of civil suit. Further references to Law Cell were made as to whether the direct tenancy could be given to the State Government on paper.

2.105. The matter was further discussed with Law Cell on 6-9-1967 who advised the CSD(I) to get the possession first and then hand over the possession. The CSD(I) accordingly wrote to the State Government on 14th September, 1967 reminding them of the CSD(I) letter of 16th August, 1967, and regretting that they have neither replied to the aforesaid letter nor made arrangements for the handing over of the godown to the SCD(I) and the taking over of the godown by the State Government from the CSD(I). The State Government were again reminded on 8th November, 1967 and 8th December, 1967. The State Government ultimately vacated the godown on 31st May, 1968 and vacant possession was thereafter handed over to the CSD(I).

2.106. When it was suggested by the Committee that the safety lay in not handing over possession of the premises unless the lease deed was signed, the witness stated that instructions could be issued to that effect.

2.107. The Committee are distressed to observe that the party profited at the expense of Government to the tune of Rs. 2.50 lakhs in this transaction. The godown was handed over to the party in January, 1965 at a rent of Rs. 4,430 p.m. on the understanding that it would be used by him or his business associates. The Department however failed to get a lease deed executed before handing over possession. The result of this was that when the party sub-let the godown to the Maharashtra Government on a rent of Rs. 18,500 p.m., shortly after taking it over, the Department found its hands tied and was unable to proceed effectively against the party. Action was sought to be taken against the party for violating the lease conditions by subletting the godown, when there was in fact no lease, and it was also evident from the exchange of correspondence with the party that he had not bound himself to any condition in the matter of sub-letting the property. It was only thereafter that the Department thought of invoking their absolute right to secure vacation of the property, but by that time they faced a legal impediment arising out of the invalidation by the Supreme Court of the Punjab Public Premises and Land (Eviction and Rent Recovery) Act, 1959.

2.108. The Committee consider that the question of taking steps against the party was not thought of by the Department till it was too late for them to take effective action. In any case, the Department were ill-advised to hand over possession without getting a lease deed signed. The Committee would like Government to investigate how this occurred and take appropriate action. It should also be ensured that in future Government property is not handed over to private parties as lessee without getting a proper lease deed executed.

III AIR FORCE

Delay in production of radio vehicles in an Air Force repair depot.

Audit Paragraph

3.1. Against the urgent requirement of 129 radio vehicles (fitted with transmitters/receivers) for Air Force units, manufacture of 48 vehicles was entrusted in July, 1961 to an Air Force repair depot. As efforts to get the balance 81 vehicles manufactured by trade proved unsuccessful, this work was also entrusted to the same depot in 1965 when the depot had completed manufacture of 48 vehicles.

3.2. Even though for the balance of 81 vehicles the repair depot has received 45 transmitters and 50 receiver costing Rs. 29.19 lakhs during February, 1965 to May, 1968 and 79 chassis costing Rs. 35.55 lakhs between August, 1965 and October, 1966, manufacture of those radio vehicles has not yet been started (December, 1968). It has been stated by the Ministry that commencement of manufacture is held up for want of metal sheets which were ordered in August, 1967 and are expected to be available only by 31st December, 1968. Additional manpower for that work was sanctioned only in September, 1967 but has not yet been positioned for want of metal sheets (December, 1968).

[Paragraph No. 13—Audit Report (Defence Services), 1969]

3.3. In a note furnished to the Committee, the Ministry of Defence have stated that the requirement of 129 vehicles mentioned in the Audit paragraph arose as a result of review carried out in January/February, 1962. This figure included the deficiency of 48 vehicles which had arisen as a result of review carried out earlier in March/April, 1961. 48 vehicles were originally planned to be supplied by July, 1963; this was later extended to August, 1965. Manufacture of bodies of 81 vehicles was originally planned to be completed by January/March, 1963 according to the indents placed on DGS&D. The fitting of transmitters and receivers on the vehicles was to be decided later on, after the manufacture of bodies.

3.4. During evidence, when the Committee enquired why the order for manufacture of all the 129 vehicles was not placed on the Air Force Repair Depot even in the first instance, the representative of the Ministry of Defence explained that unless the Depot's capabilities were proved, possibly much more delay would have resulted

in meeting the requirement. The Air Force knew the establishment of the Depot and it was not considered wise to place the order for all the 129 vehicles.

3.5. When the Committee enquired why the Commercial sector could not be supplied chassis to enable them to take up the work, the Ministry of Defence had stated that the chassis were expected to be released by the Army Headquarters but as these were not supplied, the D.G.S. & D. returned the indent for 81 vehicles in May, 1963 as one of the conditions was that the Air Force had to supply the chassis.

3.6. When the Committee enquired why the Commercial sources could not be tapped for getting the chassis, the witness stated that "we have standardisation of all our equipment. In this particular case, the standardisation was based on the Shaktiman, which is only produced by Government. It is not a normal item of trade supply."

3.7. The Committee were informed that the control over distribution of Shaktiman trucks was in the hands of the Army because they were the main users and they provided some vehicles to the Air Force and the Navy. In a written note the Ministry of Defence had further stated that several letters were addressed to Army Headquarters by Air Headquarters conveying the urgency of the requirement of the chassis. Finally, the matter was taken up at the Defence Secretary's level where a decision was taken for supply of chassis for the manufacture of radio vehicles. In July, 1964, the Army had agreed to provide chassis at the rate of 1 per month. After having got that assurance, the Air Force started taking steps for procurement of the other equipment viz. transmitters/receivers.

3.8. The Committee enquired why the metal sheets were ordered as late as 1967 while the chassis had been supplied by the Army in 1965. The witness explained that in the case of 48 vehicles all the necessary material was available from within the country. But in the case of 81 vehicles, two types of metal sheets could not be procured indigenously and these had to be imported from U.K. The Air Headquarters placed the indents for indigenous as well as imported sheets in August-September, 1967 after completing all formalities including the release of the foreign exchange. The imported items became available in August, 1969. The witness further stated that because of the Kutch conflict in 1964 and the Indo-Pakistan conflict in 1965 the programme of this depot was completely changed and other priorities got super-imposed. In fact the personnel who were engaged on manufacture of those vehicles themselves got posted out to other more emergent jobs. That is how the delay occurred in placing orders for the metal sheets. In a note the Ministry of Defence have stated that besides the metal sheets, there was no other factor which was holding up the work. The target date prescribed for completion of the job was 31st January, 1971. During evidence

the Committee were told that up to December, 1969, 26 vehicles had been manufactured and at the stabilised rate of production of 4 vehicles per month, it was expected that the remaining 55 vehicles would be ready by early 1971.

3.9. The Committee pointed out that orders for the signal equipment for the radio vehicles had been placed in October, 1964. They asked whether the delay in utilisation of the transmitters/receivers due to delay in the production of the vehicles would affect their life or efficiency. The Committee were informed that according to reports from the Air Force, the receivers could be used for the next 10 years. In reply to a question whether the performance of the radio equipment was covered by any warranty, the representative of the Ministry of Defence explained that "originally the warranty was unfortunately not available but we have a feeling that nothing serious wrong has happened. This equipment being manufactured by the Bharat Electronics Ltd., we expect that if there is any defect, there will be no trouble in getting it rectified."

3.10. In reply to a question whether the requirements of radio vehicles of Services, could now be met satisfactorily, the witness stated that "the supply of these items against requirements is fairly satisfactory."

3.11. The Committee enquired whether Government were satisfied with the manner in which an "urgent requirement" had been met, the witness admitted that "there has been a delay, we cannot deny it. I am only offering the explanation". When asked whether any radio vehicles were imported during the period from 1961 to 1967, the witness replied in the negative.

3.12. The Committee feel that this case does not speak well of the efficiency of provisioning for the Services.

3.13. As early as 1961-62 action was initiated on a demand for provisioning of 129 radio vehicles to Air Force units which was considered an "urgent requirement." As in December, 1969, 55 of these vehicles are still to be supplied to the units. On present indications it would appear that supply would be completed only "by early 1971".

3.14. This inordinate delay has been caused by lack of co-ordination at several stages. In the first place, it was decided that 81 of these vehicles should be obtained from the commercial sector and D.G.S. & D. was accordingly asked to take procurement action. But then the chassis required for the manufacture of these vehicles were not released, even though the Department was aware that it was not being made in the commercial sector. It was only in July, 1964 when the Defence Secretary was approached that these chassis were got released from the Army which was manufacturing them, but by

that time, the D.G.S.&D. had returned the indents stating that no supplier was forthcoming. In this manner, the Department lost over three years.

3.15. In the second place, after it was decided in 1965 that the manufacture of these 31 vehicles should be taken up in an Air Force Depot, the Department took no action for nearly two years to place an order for metal sheets which were required for the production of these vehicles. It was explained that due to the emergency that supervened other items of work had to be taken in hand, but the Committee are unable to understand how this justifies a delay of two years, in processing an urgent requirement of the Services. The result of this delay was that the Depot could not take up manufacture till August, 1969, when the sheets became available.

3.16. The Committee have drawn attention to another instance of this kind in paragraph 1.70 of their Ninety-Ninth Report (Fourth Lok Sabha) where a delay of nearly 10 years occurred in supplying certain boats to the Navy. The Committee are perturbed at this lack of coordination and suggest that Government should immediately streamline their procedures to guard against recurrence of cases of this type.

Procurement of Stores

Audit Paragraph

Two instances of purchases which entailed extra expenditure of Rs. 1.01 lakhs are detailed below:—

3.17. (a) *Ground equipment and tools.*—In June, 1966 Air Headquarters placed an indent on the India Supply Mission, London, for procurement of 102 items of ground equipment and tools for a certain unit and on 14th December, 1966 a contract for their supply was finalised by the India Supply Mission, London, with a private firm.

3.18. Since, however, the equipment and tools were required urgently, in November, 1966 Air Headquarters had requested the Air Adviser, Indian High Commission, London, to explore the possibility of obtaining these items from a foreign government. The matter was taken up by the Air Adviser on 20th December, 1966 when it was learnt that 57 of those items were available with the foreign government at prices much cheaper than those quoted by the private firm. As, however, the contract had already been finalised for all the items, the offer of the foreign government could be accepted for 38 items only for which another indent of August, 1966 was pending with the Supply Mission.

3.19. The extra expenditure in purchasing at higher prices from the private firm the 19 items out of the 57 which could have been obtained more cheaply from the foreign government was Rs. 0.65 lakh.

3.20. (b) *Spares*.—Based on a demand placed by Air Headquarters in September, 1965 for certain spares required for overhaul of aero-engines, in March, 1966 the India Supply Mission, London, entered into a contract with the manufacturer for their supply within 12 to 14 months. To meet immediate requirements, Air Headquarters requested the India Supply Mission in April, 1966 to procure 50 per cent of the quantities of some of these spares urgently from the manufacturer and despatch them by air.

3.21. On the ground that there was hardly any prospect of getting during the year those spares against the contract concluded in March, 1966 the Air Headquarters also simultaneously requested the Air Adviser, Indian High Commission, London to approach a foreign government for supply of those spares. On the advice of the Air Adviser in June, 1966 an urgent indent was placed for six items for their procurement—quantities of five of them being equal to, and of the sixth item being two-sevenths of the quantities contracted for in March, 1966. On the basis of the rates in the contract concluded with the manufacturer by the India Supply Mission, the estimated cost was indicated in that indent as £625. The stores were procured by the Air Adviser from a foreign government at the (higher) cost of £2,354 and were airlifted on 18th June, 1966. Supplies of these six items from the manufacturer were also airlifted between 19th June, 1966 and November, 1966—the bulk of the items having been airlifted in June, 1966.

3.22. Those spares which were demanded twice and airlifted have not been fully utilised even by March, 1968—the quantities of five items held in stock (March, 1968) were more than those demanded in June, 1966. The extra cost in procuring the spares from the foreign government is Rs. 0.36 lakh besides some expenditure on air freight.

3.23. The Ministry have stated that at the time of placing the demand on the Air Adviser in June, 1966 it was not considered advisable to cancel corresponding quantities already contracted for as it might have necessitated payment of cancellation charges and re-ordering them later would have entailed higher cost and that the circumstances in which the spares had not been consumed by March, 1968 are being investigated (November, 1968).

[Paragraph No. 16. Audit Report (Defence Services), 1969.]

(a) *Ground equipment and tools*

3.24. The Committee enquired whether when Air Headquarters wrote to Air Adviser, Indian High Commission, London in November, 1966, a copy of the letter was sent to Director General, India Supply Mission with instructions to liaise with the Air Adviser in procuring the stores.

3.25. Explaining the system that was followed for procurement of stores from U.K., the representative of the Ministry of Defence stated that the bulk of the requirements were obtained from the Trade and not from the Ministry of Defence, U.K. or the Royal Air Force. In fact the Ministry of Defence, U.K. and the RAF were dependent on the same Trade for their own needs. However, there was an understanding with the Ministry of Defence (U.K.) and the RAF that in case of emergent operational demands for small quantity, they would release from their own stock. But the RAF or Ministry of Defence, U.K. could not be treated as a substitute for the Trade. Therefore, the question of keeping the DGISM informed of any requirement which was projected to the RAF or the Ministry of Defence, U.K. did not arise. If that was done, the DGISM would probably slow down his procurement effort.

3.26. The witness added that in this case the order was placed with DGISM, in June, 1966 but the contract was finalised only in December, 1966. Meanwhile, there was an emergent demand in November, 1966. The Air Adviser was, therefore, asked to get some of those stores from the U.K. Government.

3.27. Asked why the Air Adviser did not take steps to prevent the order being placed on private sources by getting in touch with DGISM, the witness stated "Here consciously raised an indent on the Air Officer and we were aware that the two supplies are both likely to materialise-one earlier and the other in the ordinary course."

3.28. In a further note on this subject, the Ministry have stated as follows:

"The intimation in regard to the availability of items on payment offered by Ministry of Defence (Royal Air Force) was received by Air Headquarters on 9th February, 1967. In the meanwhile the DGISM, London had already finalised the contract on 14th December, 1966 against the indent. DGISM, London were requested by Air Headquarters on 2nd March, 1967 to look into the possibilities of deleting all the items offered by Ministry of Defence (Royal Air Force) at cheaper rates, from the contract, or alternatively procure 38 items with revised quantities as demanded in the subsequent indent dated 25th August, 1966, which had been raised for procurement of similar ground equipment against the maintenance reserve."

The representative of the Ministry added in evidence that it was not always that the Air Adviser had arranged cheaper supplies. Some of the items procured by the Air Adviser through the Ministry of Defence, U.K. even in the present case were more expensive but these were not mentioned in the audit paragraph.

3.29. To a question if the time taken by the DGISM in this case to finalise the contract was not on the high side, the representative of the Ministry of Supply admitted that the DGISM did take a longer time. He, however, assured the Committee that the DGISM did not treat Defence indents particularly 'priority' ones in a routine manner.

3.30. When asked whether the DGISM and the Air Adviser were not going the same type of work, the representative of the Ministry of Defence stated that the former was a Government of India agency for procuring stores on behalf of all Ministries. They followed a set procedure whereby supplies took time in materialising. On the other hand, the Air Adviser who was posted in London, was a representative of the Air Force. He had his professional duties. But in his diplomatic capacity he maintained liaison with the RAF and carried out studies of any developments of interest in that country. By his contacts with the Royal Air Force he was able to get the emergent demands met from RAF's own supply. For instance, they had an undertaking from the RAF that whenever they needed supplies on AOG priority (aircraft on the ground) they would release certain supplies.

3.31. In cases where they felt that the suppliers were being unreasonable with regard to prices, the RAF and Ministry of Defence, U.K. had been helping them in exerting pressures on the trade and asking them to effect supplies on rates comparable to those on which they were themselves obtaining them.

3.32. To a question, how security considerations were taken care of under the existing arrangements, particularly in respect of supply of sensitive and critical items, the witness stated that the trade U.K. would not supply such items except with the knowledge of the Government there. However, there was an understanding with the U.K. Government that such purchases would not be disclosed to a third country.

3.33. The Committee enquired whether the orders placed on DGISM could not be routed through the Air Adviser. The witness stated that this experiment had been tried but it added to paper work and was also time consuming. He, however, admitted that the best course would be to keep both of them informed so that they could coordinate with each other.

3.34. In a further note on this subject the Ministry have stated that the question of transfer of work regarding the purchase of stores in the U.K. from the Service Advisers to ISM was previously

discussed in a meeting of Secretaries held on 30th May, 1969 wherein it was decided that no change need be made in the existing procedure.

(The transfer of procurement work from Service Advisers to ISM, London, was suggested in the report dated 3rd May, 1966 by Shri A. D. Pandit, former Secretary, Ministry of Supply, Technical Development and Material Planning.)

(b) *Spares*

3.35. The Committee enquired as to when the need for the spares was felt and when indent was placed on the DGISM. The representative of the Ministry of Defence explained that the need for such items was a continuous one and indents were placed periodically according to assessment made from time to time. In the present case the indent placed on the DGISM for 52 items was dated 27th September, 1965. As there was critical shortage for these spares which was holding up the repair of the aircraft, in January, 1966 a revised list of 35 items against the earlier projection for 52 items was prepared and a contract for those items was finalised by the DGISM with a firm in March, 1966 the period of supply being 12 to 14 months. Thus the supplies were expected to materialise in March to May, 1965. Meanwhile, realising the critical nature of the requirements, the Air Headquarters sent a letter to the Air Adviser asking him to procure 6 of the items from the U.K. Government sufficient quantities of which were available with them immediately.

3.36. In reply to a question as to why there was a delay of six months in placing the contract after the receipt of the indent, the representative of the Department of Supply stated that normally it required 3 to 6 months to call for quotations from Trade and finalise the contract. The indent was received by ISM on the 7th October, 1965, tenders were called on 2nd November, 1965 and the contract was finalised on the 22nd March, 1966.

3.37. The Committee enquired whether the fact that the stores were being procured from the firm at cheaper rates was known to the Air Adviser and whether any action was taken by him to get a reduction in the price. The witness stated that "at the time we were not really concerned with price". There was also the general understanding that "The RAF will charge us reasonable prices. . . ." In this case also it has been verified that they did charge reasonably. Rather we got lower prices from them because they gave us the benefit of 1961 prices, for some reasons."

3.38. The Committee asked for particulars of same items procured by the Director General, I.S.M. and Air Adviser at different rates during the last three years. The Ministry of Defence have stated

that "the compilation of complete list of such items will need considerable time and effort." They have given however, the following "representative list" of such items with data about the prices paid by the two procuring agencies:—

Sl. No.	Description	Qty.	Purchased from MOD (RAF)			Purchased by DGISM London		
			Price per unit			Price per Unit		
			£	s.	d.	£	s.	d.
1.	Gauge Incidence	1	29	14	7	51	10	0
2.	Spanner Castellation	1	5	1	9	25	15	0
3.	Spanner Bol 7 16" Square	6	7	8	0	13	15	0
4.	Spanner Special 1" B.S.P.	2	11	14	5	23	6	0
5.	Spanner Special 5 16" B.S.	2	8	1	5	21	4	0
6.	Spanner Special 3 8" B.S.P.	2	2	0	9	26	10	0
7.	Spanner Special 1" B.S.P.	2	7	7	2	26	10	0
8.	Spanner	1	6	18	10	19	14	0
9.	Jig Setting	1	174	9	1	229	0	0
10.	Jig Setting	1	135	15	3	184	0	0
11.	Gauges ounce Valves setting micro switch Down	1	32	3	10	36	5	0
12.	Gauges ounce Valve setting micro switch Up	1	26	15	11	32	0	0

3. 39. In the Committee's opinion, these two cases underscore the need for better co-ordination between the DGISM, London and the Service Advisers to the High Commission in London in the matter of procurement of stores and equipment. In the first case, the Air Adviser was able to obtain cheaper rates from the RAF for stores for which DGISM had in the same month placed orders with the trade in U.K. In the second case, the DGISM was able to procure stores from the trade at rates below that at which they were ordered by the Air Adviser three months later. The overall, differences in cost in both the cases on the stores procured was Rs. 1.01 lakhs.

3.40. The Committee consider it essential that better coordination should be secured between them so that the rates paid by them for the same item do not vary. For this purpose, the Committee would like the following course of action to be adopted:

- (i) The indenting authorities in India should, while raising indents on the Service Advisers as well as the ISM, Indicate in each of the indents the prices previously paid for these stores procured through both the agencies.

- (ii) Copies of contracts placed by ISM in so far as they pertain to the requirements of the Services, should be endorsed to the Service Advisors and vice-versa so that each of these purchasing agencies would know what prices had been paid for common items of stores procured by them.

3.41. The Committee also consider the period of nearly 6 months taken by DGISM in finalising a contract for supply of equipment urgently needed by Air Headquarters after receipt of indent, as excessive. They feel that DGISM has to streamline its procedures in order to attend expeditiously to defence requirements.

Defective work in an airfield

Audit Paragraph

3.42. As part of works for developing an air base two contracts for extension and strengthening of taxi tracks (Rs. 45.85 lakhs) and runways (Rs. 106.10 lakhs) were concluded by a Chief Engineer in December, 1962 and January, 1963 respectively. The works were completed in May, 1963 and in January, 1964 the airfield was taken over by the Air Force for use. In May, 1964 the Air Force reported various defects in the airfield such as:—

- (i) water-logging of runway;
- (ii) cracks unevenness in the concrete slabs in runway and taxi tracks and potholes;
- (iii) rough edges in joints, etc.

Though some patch repairs were carried out by the contractors, the defects which were extensive persisted and made the runway and the taxi tracks unreliable for use by heavy aircraft for which they were meant.

3.43. In February, 1966 chemical analysis of core samples of the concrete used by the contractors showed that the concrete actually used by the contractors in the runways and the taxi tracks was 33.33* per cent and 27.27 per cent respectively leaner than that specified in the contract. It was, therefore, proposed to recover Rs. 30.03 lakhs for the runways and Rs. 8.34 lakhs for the taxi tracks from the respective contractors for the substandard works executed by them.

*Audit have intimated later that the percentages mentioned indicate the proportion of tested samples found deficient and not the extent of deficiency in the samples.

3.44. The contractors, however, challenged the decision mainly on the ground that—

- (i) no sub-soil drainage was provided for in the design (of the works) which was responsible for unevenness of slabs etc., caused by unequal settlement of sub-soil;
- (ii) they were not responsible for substandard work pointed out after the maintenance period; and
- (iii) chemical analysis of the concrete was not provided for in the contract.

3.45. When the dispute was referred in May, 1967 to arbitration Government's claim for the runways contract was rejected by the arbitrator; the award in the taxi track contract is still awaited (December, 1968).

3.46. Rs. 65 lakhs have since been sanctioned in December, 1968 for resurfacing the runways and taxi tracks (Rs. 40 lakhs) and for providing drainage of the area (Rs. 25 lakhs).

3.47. The Ministry have stated (January, 1969) that in view of the emergency the works had to be completed at top speed in a short period of 4 months and, therefore, some shortcomings in the quality of the work could not be avoided with the best supervision and control. It was further stated that the Engineer-in-Chief who examined the case in detail has concluded that there was no lapse on the part of the supervisory staff.

[Paragraph 23, Audit Report (Defence Services), 1969.]

3.48. During evidence the Committee desired to know the circumstances in which the work was undertaken. The representative of the Ministry of Defence stated that as a result of certain developments in 1961, Government gave directions for bringings the forces to a state of readiness. "Out of this directive, a list of a number of airfields was drawn up which were to be got ready, by April, 1963. It was a specific Government decision that in a short time 11 or 12 airfields were to be got ready". While in the case of other air fields work was started somewhat earlier, the decision to take up work in the present case was taken only about six months prior to its completion in May, 1963. Because of certain special conditions, it took two months to call for tenders and to take decision thereon. For instance, the contractor stated that he was required to do a big job in a concentrated period of time. Since the capital outlay involved was very much higher than normal, he asked for Government loan for undertaking the work. The request had therefore to be examined. Thus only four months were left for this particular tenderer to do the work "and according to the engineer it is really a tribute to the tenderer that in four months he could do a job of this magnitude."

3.49. The representative of the Ministry added: "When you take a decision to do a work in a period of four months you have got to take with it of four months you have got to take with it certain other consequences. This is obviously an abnormal situation and the work is being done in a abnormal manner. You cannot then apply the normal standard tests of measurements or other tests which you would otherwise carry out. Certain risks were inherent in this situation. What was paramount was that you should have a minimum operational facility available for using an aircraft. Leaving aside the work of permanent drainage and other work, the contractor was asked to take up the work of the runway at the site as a priority job."

3.50. The Committee pointed out that, though the works were completed in May, 1963, the airfield was taken over by the Air Force only in January, 1964. They therefore enquired about the reasons for the delay. The representative of the Ministry stated that "there were a number of inadequacies in the airfield. The Air Force, therefore, felt that they would like these deficiencies removed because they would possibly have some effect on the wear and tear of the aircraft". Secondly, other works had been taken in hand *viz.* construction of blast pens etc. as part of a long term project of an airfield which also came in the way of operational use of the airfield to some extent. Thirdly, the emergency by then had eased somewhat, and therefore, it was felt they would rather wait for completion of the works and rectification of the defects though, "if there were an emergent need, they would at a pinch have used that airfield."

3.51. The Committee enquired when the defects were first noticed. The witness stated that these were noticed in May, 1963 when the airfield was offered by the contractor. A few of them were rectified during the maintenance period of one year after completion of the work.

3.52. The Committee asked whether the work was supervised during execution and whether any defects were noticed at that time and if so, whether they were got rectified immediately. The witness explained the position as follows: "The procedure briefly is this. After the contract is accepted and during its execution, the engineer in charge who is responsible for the work supervises the work from time to time, and issues notices to the contractor if the work is not going on properly. If there are any defects during the currency of the work, these are brought to the notice of the contractor, and rectified during the execution. When the work finishes (in this particular case, it was in May, 1963) the Engineer in Charge takes over the work from the contractor, and makes out a list of all the defects noticed, gives it to the contractor and makes sure that these are rectified. The third stage is when the user takes over the work; at that

stage, too, a joint inspection is carried out and any further defects noticed are passed on to the contractor for rectification. So, there are three stages, and these were followed in this particular case”.

3.53. In a written note on this point the Ministry have stated as follows:

“Defects of various nature were noticed in both the works during execution, on completion and during the maintenance period. During the execution, the defects were pointed out mostly through site order books. The defects left unattended or noticed afresh were pointed out to the contractors at the time of completion to be rectified, along with the completion certificates. Defects noticed during the maintenance period of one year after completion were communicated to the contractors. . . . Every time a letter was issued, a fresh list of defects was pointed out to the contractor deleting those which were attended to and adding those which were new. The majority of these defects were attended to between 1st October, 1964 and 2nd February, 1965.”

3.54. The Committee pointed out that about one third of the work in one case and one fifth in another, was found to be sub-standard and enquired whether this being so, the Ministry were still bound to take over the airfield after expiry of the maintenance period and thus absolve the contractor. The witness stated that “there is a little misunderstanding about the amount of work that was sub-standard. . . . The samples which were chemically analysed were done very much later, in 1966, and the provocation for taking these samples and analysing them was not because the Engineers were *ab initio* or at the time of taking over the work convinced that there was some sub-standard work in the way of mixing of cement but that was because the SPE inquiry had started at that time and in pursuance of that, these samples were taken and the results obtained by chemical analysis. The technical opinion on this matter is very firm and they are unanimous that the taking of samples of this kind subsequently and analysing them is no guide to the fact whether a certain quantity of cement was actually used or not used. This is not a practice which they recommend or follow, and in fact, to corroborate that our own Engineers were not taking a wrong view, this opinion has been obtained from other technical agencies which also carry out work of this kind, namely the C.W.P.C., the C.P.W.D. and the Railways. . . . they have confirmed this opinion that the sample analysis *ex-post-facto* is no indication of the actual quantity of cement used.”

3.55. The Committee note on this point that the Central Vigilance Commission to whom this case was referred constituted a technical Committee in September, 1969 to report on the extent of reliance to

be placed on chemical analysis of concretes and mortars and the tolerance percentage upto which deviations from specifications might be accepted. The conclusions of the Technical Committee were as follows:—

- (i) The extent of reliance that may be placed on chemical analysis for determining cement content in a particular mix.

“If as a result of such assessment, reasonable grounds are found to exist to suspect that the strength of the work is below its expected strength, chemical tests could help to establish whether the work has suffered in strength.

“Complete reliance may not be placed on the results of chemical analysis by itself to arrive at the quantities of cement that have gone into a particular item of work. These data, however, form useful confirmatory evidence in cases where the strengths or other properties of mortar or concrete are found on inspection and after carrying out other tests to be manifestly below that are generally expected for works of similar kind and of like specifications. Tests based on chemical analysis are also useful in investigating local failures and can form a basis for devaluing items of work which appear on physical examination to have fallen below the specified standards.

- “(ii) The tolerance percentage upto which deviations from specifications may be accepted.

The assessed quantity of cement in the sample tested may deviate from the quantity of cement that has actually gone in into its manufacture by 5 per cent to 15 per cent if the tests are carried out by a skilled analysis and provided that representative samples of fine and coarse aggregates are available for blank tests. While applying the results to the work as a whole, however, the margin of error can become wider still, due to the difficulties in taking truly representative samples of the work as a whole. Errors of 20 per cent to 25 per cent on an average are not unlikely.”

3.56. The Committee enquired whether the supervision exercised by the E-in-C's organisation during the construction stages was adequate. The representative of the Ministry stated that, “In a normal situation, if any rush work has to be done, we can stop some other work and concentrate staff and equipment on this work and yet get the job done in an A-I manner. In this particular case, the emergency was not only at the site of work but it was all over

the country. . . . The amount of work we had to do in 1961-62 through the M.E.S. was of the order of Rs. 32 crores. In 1962-63 we actually executed work of the order of Rs. 67.87 crores." He added "In this particular case. . . . it is unfortunate that because of shortage of staff on account of the big spurt of work which was taken on hand in 1962, we could not either sanction or position the same amount of staff which the importance of this work would justify." The representative of the Ministry further stated that "Against one garrison engineer required we had one, against 4 Assistant garrison engineers, we had only 2 on site, against 6 Superintendents, Grade I required, we had only one, against 12 Superintendents Grade II, we had only 7." He added: "Apart from this, the mechanical equipment which would have done the work more adequately with better finish was also not available. So labour intensive methods had to be adopted."

3.57. The witness went on to say that "since we were short of technical personnel to carry out the supervision, we inducted assistance from other technical bodies. . . . We had a two-men team from the Central Road Research Institute, an entirely outside independent body, whose technical officers on the spot were observing this and reporting on those observations not only to the Chief Engineer of the Army but also to the Central Road Research Institute, the parent body which had loaned them, and the reports of those people are available on record to prove that they have done this supervision."

3.58. The Engineer-in-Chief added that "the object of the team was to test the compaction of the soil when the work was going on, and also that the compressive strength of the concrete laid was also satisfactory. This was later on tested by the CRRI by testing out different samples, and it was found that the strength of the concrete was of the correct order. As far as the strength of the runway is concerned, it is satisfactory and according to specifications. . . . The trouble arose because of the nature of the soil where we cannot have sub-soil drainage. In the settlement of the slabs there was lack of uniformity and this caused minor differences in levels between slabs."

3.59. When asked whether another site with better facilities could not be chosen for the airfield, the representative of the Ministry stated that "in this particular case the site was pre-determined. There was no question that in those four months we were able to survey and acquire another site." "There was a small airfield there and what was taken up was the strengthening and expansion of the runway to meet the emergency."

3.60. To a question whether any designing work was done at the initial stage and whether the drainage question cropped up at that time, the Engineer-in-Chief informed the Committee that as far as drainage was concerned, "they had gone into the question and provided *kachha* drainage because that was what was possible within the four months." As for the specifications for the runway, the CRRI were not consulted. The designing was done by their own Engineers based on their past experience. In reply to a specific question whether the site was suitable, the Engineer-in-Chief affirmed "I would say the site was suitable". The representative of the Air Headquarters added: "This particular site has a definite strategic place in the operations of the Air Force. The runway was not built purely because an airfield was in existence there, but because it filled a place in the operational plan of the Air Force. It is unfortunate that this airfield has not been available to us for some time, but we have every intention of operating fighter aircraft from this airfield when it is ready."

3.61. The Committee were given to understand that the Air Force Wing informed the Air Command in May, 1964 of their views regarding the quality of work done by the contractors. These were at variance with those of the engineering authorities. The Committee enquired when exactly the joint inspection of the airfield was carried out by the engineers and the Air Force authorities before it was taken over by the latter and what their views in the matter were. The Ministry have stated that the joint inspection was carried out by a Board of Officers which assembled on 10th January, 1964. The Ministry have, at the instance of the Committee, furnished a copy of the note from the Air Force Wing pointing out the defects in the airfield. The Wing had *inter alia* stated:—

"Since the arrival of the squadron (February, 1969), intensity of flying has not been very great as weather conditions during the period have been unfavourable for flying. In spite of this limited air traffic, condition of the runway has deteriorated to an extent which has given cause for concern. A letter on the subject was addressed to M.E.S. representatives... but matter was also discussed with C.E. but in C.E.'s opinion the runway condition was good.

2. Though this Wing is not competent to comment upon the technical aspects of the runway, it is felt that headquarters... Air Command should be made aware of the present state of runway which is quite likely to deteriorate with the progress of monsoon. Following facts about the runway are submitted for consideration:—

(a) After rains, the runway is water-logged at many places. This water-logging can lead to serious accidents as the take-off and landing speeds of the... aircraft are quite

conducive to what is known as the "steam burns" leading to punctures. It is obvious that no proper camber has been provided on the runway.

- (b) The runway and the taxi-track slabs have cracked at many places. The approximate number of such slabs must be more than 40 with varying degrees of cracks.
 - (c) Some of joints between slabs have been haphazardly filled with a tar macadam mixture. There are a number of such fillings. The rough edges in such joints are ideal for tyre bursts.
 - (d) Quite a number of slabs do not have smooth surfaces. In certain slabs the quarry used in the mixture are showing on the surface.
 - (e) In certain cases the standard slab dimensions have been reduced whilst carrying out repairs for defective slabs. Smaller slabs may perhaps have lower L.C.N. specifications.
 - (f) The runway inspection has shown that at many places there are potholes of 1½" to 6" width which are a real danger to aircraft taxing, taking-off or landing. This danger cannot be overemphasised. Some of these holes have been filled with just plain tar which is washed away in rains or melted with heat.
3. The potholes have revealed that the material can be easily scraped with an ordinary sharp edge. Whether this runway will withstand the intensity of operation ... is to be seen. The nature of present defects are such that these will certainly be aggravated with heavy rain.
 4. Difference of opinion, does exist on the subject between the M.E.S. and the Air Force. Notwithstanding this difference of opinion, there is the vital question of safety of valuable aircraft and even more valuable pilots."

3.62. The Committee enquired at whose instance the SPE enquiry was initiated and what their findings were. The Ministry have stated in a note that the SPE enquiry "was started on the basis of certain information received by the C.B.I. in September, 1964. The S.P.E. held the Engineer-in-Charge of the taxi track work "responsible for neglect of duty which was not only rendered the work of a very important nature substandard but also caused pecuniary advantage to the contractor to the tune of a lakh of rupees being the minimum cost of 23366 bags of cement. This has resulted in corresponding loss to Government of Rs. one lakh. It has also recommended that action be taken for the recovery of this amount from the contractor concerned."

3.63. The Committee were informed during evidence that as a result of the S.P.E. enquiry, the disciplinary aspect was referred to the Central Vigilance Commission (CVC). The C.V.C. reported as follows:—

“The charge that Shri.....was responsible for wrongfully causing loss to Government and causing the execution of substandard work is *not* sustained; the charge of failure to maintain absolute integrity is also *not* proved, the charge of failure to maintain absolute devotion to duty is proved. On the one charge on which the inquiring officer felt that it has been proved, the CVC took a different view. While agreeing on the exoneration on two charges, they did not accept the findings on the third charge against the officer; they advised that the entire charge against Shri.....may be treated to have been *not* proved and the officer exonerated.”

3.64. The Committee enquired whether the arbitrator in the runway contract case had given any reasons for rejecting Government's claim. The witness stated that no reasons had been recorded by the Arbitrator nor it was necessary for him to do so. In regard to the taxi trade contract, the witness stated that the arbitration proceedings were still pending. When the Arbitrator retired, he was requested to continue. As his terms were very unreasonable Government decided to appoint another officer who was still in service. This position was contested by the contractor whose view was that the arbitration proceedings could not be changed from one arbitrator to another. He had, therefore, taken the matter to the Court. A decision was now awaited.

3.65. To a question whether Government's position in this case was inherently weak since the witness had himself stated earlier (Para) that according to the engineer it was really a tribute to the tenderer that in four months he could do a job of this magnitude, the representative of the Ministry stated that, “The Engineers and the Engineering-in-Chief with whom I had discussed are emphatic that he carried out the work in quantity as well as according to specifications that was entrusted to him under the contract. It is on their opinion that I expressed my view that it was quite an achievement of this contractor or anyone else with labour intensive methods to execute the work of this magnitude.”

He added, “Government can go against an Arbitrator's verdict only on the ground of corruption or of his acting *mala-fide*. For us to prove that he had acted *mala fide* in this case was just not possible because we did not have the evidence for that. About the Government's position I would like you to know that we are between one-

stool and another. Even if we feel that the work which has been done is in accordance with the contract, we will still be questioned as we are being questioned today about the adequacy or inadequacy of the contract. The technical opinion in this particular case all along has been that the contractor is not at fault and there is no case against him. We have got this technical opinion on record more than once given by the Engineer-in-Chief that according to the terms of the contract the contractor has fulfilled his conditions and there is no ground for going against him, yet, we went to fight a case on the basis of those poor samples, sub-standard mix and so forth, which were taken, but as accepted by engineers, not necessarily by people like me."

3.66. The Committee enquired whether the works sanctioned in December, 1968 at an estimated cost of Rs. 65 lakhs would really be adequate to make the airfield fit for operational use in view of the apprehensions about suitability of the site and absence of sub-soil drainage. The representative of the Ministry stated: "In a matter of this kind Government has to abide by the opinion of their technical experts. Obviously, there would be two or three alternatives to the action which we have taken. One would be to abandon this airfield, find another area, acquire fresh land and build a new airfield *ab initio* according to permanent specifications taking the requisite amount of time necessary for them. I am quite sure that alternative would have cost us many, many times more. The second alternative would be to scrap the runway and taxi-track, go down to the soil, do the sub-soil drainage and relay all your concrete and things again, taking all the necessary safeguards. Even this alternative, I am sure, will cost much more than what has cost now. Also, there will be the time factor involved in doing that. So, I take it that the decision is based on a totality of considerations. Having spent so much money it is better to spend some more to rectify this airfield than to scrap entirely the work which has been done." Asked to state his views in the matter, the E-in-C replied: "I can assure you that with the work which we will now be doing, as far as the runway and drainage are concerned, it would be useful and up to the same standard as any other normal airfield." To a question whether any further investment over and above Rs. 65 lakhs already sanctioned would be required, the witness replied "At present there is no expectation of any more expenditure than this. This is based on the assessment of the deficiencies which have to be rectified."

3.67. The Committee enquired whether the work would be executed through the same contractor. The witness replied "When we started proceedings against him, we stopped giving work to the contractor. In the first case, now the arbitration has gone in his favour. There is now no ground for blacklisting him. In the other case, a view has yet to be taken."

3.68. In a further note on this subject the Ministry have stated as follows:

“Work sanctioned in December, 1968 for improvement to runway and area drainage has not yet been completed. The work consists mainly of two portions, Rs. 38.75 lakhs for runway and Rs. 23.49 lakhs for the area drainage. The work on area drainage has been taken in hand and will be completed within time scheduled for completion. It has, however, not been possible to commence work on the runway as even leading contractors are not coming forward to do the work inspite of issue of tenders twice. Only the National Building Construction Corporation Ltd. (a Government concern) has quoted twice for this work but their rates are very high and unreasonable. Their latest quotation in spite of economising the specifications, has shot up to Rs. 57.08 lakhs approximately from Rs. 51.71 lakhs approximately quoted in the first instance, against Rs. 38.75 lakhs sanctioned in the administrative approval. The firm has attributed the reasons for their high quotation due to disturbed working conditions in Assam and unpredictable efficiency of local labour to handle this type of work, while importing of labour from outside is resented by the local population. The work may now have to be taken in hand with departmental labour.”

3.69. The Committee enquired whether the airfield was being put to any use at present. The representative of the Ministry stated that “some small use is being made occasionally by transport aircraft and helicopters also.” He added “The position is not that we are loth to using this airfield unless we have to; the position is that if we had an emergency, we would use it even today and we are going ahead to make it as usable as any normal airfield. That is our intention.....Of the eleven or twelve projects taken up, you will find that this is the only one which was built in four months and this is the only one that has suffered these defects. All the other airfields including the air field built by the same contractor have not shown the same trouble because they had more time.”

3.70. The Committee enquired about the remedial measures taken in the light of the experiences in this case. The Ministry have stated in a note that “Instructions have been issued to all executive formations on works of quality concrete. Further, in order to achieve high standards of work, field laboratories have been set up at various levels to keep control on the quality of materials and workmanship, as the work proceeds”.

3.71. The Committee are of the opinion that the Military Engineering Department accepted sub standard work done by the contractors in respect of the runway as well as taxi-tracks. The representative of the Ministry of Defence stated that in the view of the engineers, "it is really a tribute to the tenderer that in four months, he could finish a job of this magnitude". The engineers of the M.E. Department could not, in the circumstances of the case be expected to express a contrary view. In any case it is difficult to square this view with the findings of the user (the Air Force) who reported within four months of taking over the work that the condition of the air field "has given cause for concern" and raised "the vital question of safety of valuable aircraft and even more valuable pilots." Listing the defects found in both the taxi-tracks and the runaway, the Air Force Wing pointed out they, "have cracked at many places" creating "pot holes", "of $\frac{1}{2}$ " to 6" width which are a real danger to aircraft taxiing, taking off or landing". The Wing reported that the pot holes "revealed that the material can be easily scrapped with an ordinary sharp edge" "with some of the holes filled with just plain tar which is washed away in rains or melted with heat". It was also stated that no proper camber. "had been provided on the run away," which was "waterlogged at many places" with the further possibility of this condition "getting aggravated with heavy rains". This, they pointed out "can lead to serious accidents" when aircraft take-off on land.

3.72. It is also significant that laboratory analysis of certain samples of concrete used in the run way and taxi-tracks though carried out rather belatedly—disclosed that the concrete used was "leaner than specified in the contract." The Ministry of Defence have stated that the technical opinion is that such sample analysis carried out ex-post-facto cannot yield reliable results. However, the Committee find that a team of technical experts constituted by the Vigilance Commission to go into this question came to the conclusion that, while "complete reliance may not be placed on the result of chemical analysis" and "errors of 20 per cent to 25 per cent on an average are not unlikely", these data could still provide "useful confirmatory evidence in cases where the strength or other properties of the mortar or concrete are found, on inspection and after carrying out other tests, below that generally expected". In any case, the fact remains that the Defence authorities have been obliged to carry out further works for improving the condition of the air field at a cost of Rs. 65 lakhs. This constitutes as much as 43 per cent of the original cost of the work.

3.73. The Committee also feel that the designs for the work which were drawn up by the M.E.S. were defective. There was for instance an omission to provide adequate sub-soil drainage. The absence of this and "a proper camber" for the runway led to uneven settlement of the sub-soil, with all attendant consequences, such as water-logging, cracks etc.

3.74. In the light of the foregoing position, the Committee feel that the case needs to be re-investigated to ascertain whether under normal circumstances, a work of this kind would have deteriorated to the extent reported, unless it had not been satisfactorily executed. The question whether and to what extent the designs for the work were defective should be also examined in the course of this re-investigation. The Committee suggest that the re-investigation be done by an independent body of professional experts. Based on their findings, appropriate action should be taken.

3.75. One other aspect of the case calls for comment. Government apparently took an inordinately long time to finalise the preliminaries in connection with this work. Sometime in 1961, it was decided that the Services should be kept in a state of readiness and a list of 11 or 12 air-fields was drawn up to be got ready by April, 1963. However, preliminary examination of the work in connection with this particular airfield was not completed till December, 1962/January, 1963 when the contracts were concluded. As against a period of one to two years that Government took to finalise the preliminaries in connection with the work, the contractors were given a period of 4/5 months for actual execution of the work. It should be examined why this situation arose, particularly in the execution of work that was considered of an emergent nature.

3.76. The Committee note that it may not be possible to proceed against the contractor who executed the work on the run way, as an arbitrator to whom the case was referred did not give a decision in favour of Government. The other case relating to the work on taxi tracks is still stated to be under arbitration. The Committee would like to be apprised of the outcome of the arbitration proceedings.

Premature construction of residential accommodation for Air Force units

Audit Paragraph

3.77. Government sanctioned in March 1964 a project for provision of accommodation for a certain unit at a station. The project *inter alia* included construction of 41 quarters for the married personnel of the unit. Even though the works relating to the technical accommodation for the unit were yet to be released for execution, construction of the residential accommodation was taken up in December 1964 itself. These were completed between November 1965 and June 1966 at a cost of Rs. 7.01 lakhs but are still lying vacant (December 1968) as the unit is yet to be set up.

3.78. Similarly, at another station where a certain unit was being set up, accommodation for the married personnel was built in September, 1966 before the construction of the technical accommodation for the unit was finally approved. The residential accommodation (consisting of 58 quarters) costing Rs. 11 lakhs is lying vacant as the unit has not yet been established (December 1968).

3.79. The Ministry have stated that the circumstances in which the units were not positioned as planned could not be foreseen and that, for easy planning and economy in providing external services, construction of the residential accommodation had been taken up along with that for certain other units.

3.80. It is, however, difficult to see why, for ease of planning and economy in providing external services, actual construction of the residential accommodation need have been taken up before commencement of construction of the technical accommodation.

[Paragraph No. 24—Audit Report (Defence Services), 1969].

3.81. In their note dated the 25th February, 1970, the Ministry of Defence have stated that the vacant quarters at both the stations were being looked after properly and there was no danger of their occupation by unauthorised persons or any damage being caused to the buildings. It was also stated that there was no scope of these quarters becoming permanently surplus to requirements.

3.82. The Committee find that in both the cases mentioned in the Audit paragraph the construction of residential accommodation at a cost of Rs. 18.01 lakhs preceded the construction of technical accommodation to be provided to the two units which were to have been positioned at these stations. The accommodation has, however, not been utilised, as the units have not so far been stationed at these places. While delay in the positioning of units due to unforeseen circumstances is understandable, the construction of residential quarters before any provision has been made for technical accommodation for the units shows a deficiency in planning. The Committee would like to be informed when the decision not to set up the units was taken and whether at that time the feasibility of stopping further construction of accommodation was examined. The accommodation should also be transferred forthwith to other needy organisations, if there is no prospect of their use by the Services.

Land requisitioned for a work

Audit Paragraph

3.83. In February, 1964 Air Headquarters sanctioned construction of a bomb dump to permanent specification at a station at a cost of Rs. 43.20 lakhs.

3.84. Initially, it had been thought that for that work 38 acres of land would be required. This was later increased to 45 acres and a revised sanction to expenditure of Rs. 46.37 lakhs issued in October, 1964. However, at the suggestion of the civil authorities 72 acres of land were actually requisitioned and taken over in September, 1964, the recurring compensation therefor being Rs. 47,530 per annum in addition to an initial compensation of Rs. 1.15 lakhs. Later, due to a change proposed (May 1967) in the design of the bomb dump

to temporary specifications, a Board of Officers reassessed that only 18 acres of land would be needed. The excess 54 acres of land already requisitioned have not been released so far (January 1969). The compensation for the 54 acres of land (which are not required) from September 1964 onwards is thus unfruitful. This amounted to Rs. 2.41 lakhs upto January, 1969. A major part of this land is under unauthorised occupation by the owners themselves. The Ministry have stated (January 1969) that the fluctuations in the land requirements at the station were on account of the constant review necessitated by the changing role of the station. Even so, there was no justification for requisitioning when 45 acres were (according to the sanction) required, 27 acres in excess. The compensation for that excess land upto January, 1969 was Rs. 1.20 lakhs.

3.85. Between 1964 and 1966 stores worth Rs. 7 lakhs were also collected for the project. As execution of the project has not yet been taken up (January 1969), Rs. 6.97 lakhs worth of stores have been transferred to other projects. The expenditure on handling, freight care and custody and other incidental charges of those stores was Rs. 1.83 lakhs.

[Paragraph No. 27—Audit Report (Defence Services), 1969].

3.86. In their note dated the 25th February, 1970, the Ministry of Defence have stated that the civil authority had advised the Air Force "regarding the area to be requisitioned taking into consideration the need to avoid sub division of holdings." The areas (72 acres) suggested by the civil authority was accordingly accepted by the Air Force. It was further stated that the field authority could not "take over the land in excess of the administrative sanction." But the land was taken over in accordance with the advice of the civil authority in anticipation of the sanction from Air Headquarters.

3.87. Explaining the reasons for the delay in re-assessment of land and the reasons for not releasing 54 acres of land when the requirement of land was reduced in May, 1967 to 18 acres, the Ministry of Defence have apprised the Committee of the following position:

"In June 1965, the Key Location Plan of changed from Fighter to Transport Squadron as a result of which the need for a Bomb dump in had to be reviewed. In November 1966, Air HQ decided to have a temporary Bomb Dump at to meet their requirement. In August, 1968, Air HQ came to the conclusion that even though the KLP of was changed from Fighter to Transport Squadron the station may be used as a base for fighters during an emergency and, therefore, decided that a half permanent dump should be provided at according to the revised drawing for a dispersed Bomb

Dump. The reduction of the requirement of land to 18 acres in May, 1967 was on the basis of providing only a temporary bomb dump. The reason for not releasing 54 acres of land in May, 1967 was that the various proposals mentioned above were only the thinking of Air Headquarters in the matter and as it was clear that the project sanction could be issued only with Government approval. Thus the decision to release the land could have been taken only after final Government decision on the scope of the project at In the meanwhile, a further change took place and Air Headquarters came to the conclusion in June, 1967 that a temporary bomb dump would not do and that what should be provided in was a half permanent dump. This was finalised in August, 1968. "Having requisitioned the land with an area of 72 acres, it would have been embarrassing for Government to derequisition the land and move for requisitioning the land again later. Therefore, Air Headquarters decided to wait for a final decision on the scope of the project; unfortunately some delay occurred in taking final decision."

3.88. The Committee enquired whether it was a fact that the Ministry of Defence had approved in October, 1969, the requirements as 40 acres and authorised the derequisitioning of 32 acres. In reply, it has been stated: "The requirement of about 40 acres (39.74 acres) of land has been fixed on basis of War Reserve for Squadrons. The earlier requirement for permanent dump had been assessed as 45 acres. But even though the new requirement is for half a permanent dump, the land required is 40 acres and in deciding the extent of the land, the Explosive Regulations have been fully kept in mind. The new site would be in accordance with the latest drawing approved in September, 1968."

3.89. Regarding the unauthorised occupation of the land by the owners themselves, it has been mentioned that out of the total area of 72 acres requisitioned, approximately "41 acres had been encroached upon". In spite of the request made by the Military Estates Officer that no payment should be made to the owners pending proper enquiry, the civil authority made some 'on account' payments to persons concerned.

3.90. The Committee consider that it was not appropriate for the Air Force Authorities to have gone in without proper sanction for 72 acres of land for this project against the actual requirement of 45 acres. It has been stated that this was done to avoid sub-division of holdings, but if this were so, it is not clear how proposals for derequisitioning 32 acres have been approved by the Ministry of Defence. It is clear that land was obtained far in excess of requirements there was also avoidable delay in working out the requirements as this process took about four years.

3.91. The Committee have in their past reports repeatedly stressed the need for the Defence Authorities to undertake a periodical review of the position in regard to acquired lands so that those which are not required might be speedily disposed of. A reference in this connection is invited to the Committee's observations in paragraph 5.66 of their Sixty-Ninth Report (Fourth Lok Sabha). The Committee note from the replies furnished to them in this regard (vide page 132 of the Ninety-Ninth Report) that the review is still in progress. The work should be expeditiously completed.

3.92. The Committee also suggest that in this particular case appropriate steps should be taken to make recoveries from the owners of the land who are stated to have occupied part of the land in an unauthorised manner. The matter may also be taken up with the civil authority as to why compensation was paid to them inspite of the fact that the Military Estates Officer had made a request that no payment should be made to the owners pending proper enquiry.

3.93. The Committee also note that stores worth Rs. 7 lakhs were collected for this project. But, as the execution of the project was delayed, Rs. 6.97 lakhs worth of stores had to be transferred to other projects and in that process Rs. 1.83 lakhs were spent on freight and other incidental charges. This expenditure of Rs. 1.83 lakhs could have been avoided if the project had been properly planned and executed. Government should go into the question of delay in execution of the project and find out why a project conceived in February, 1964 could not be executed even by January, 1969.

Infructuous expenditure due to delay in release of surplus land

Audit Paragraph

3.94. For construction of certain buildings at an airfield 813 acres of cultivable land were requisitioned at a station in January, 1966 at an annual rental of Rs. 590 per acre. In April 1966 a Board of Officers convened to reassess the requirement of land recommended that 252 acres out of 813 acres already requisitioned be released. This Board also resited some of the buildings as a result of which another 121 acres of land had to be requisitioned. While the additional land was requisitioned in September 1966, release of the surplus land was approved by the Air Force Command Headquarters only in May 1967 and the land was actually derequisitioned in September, 1967. The delay in release of the surplus land resulted in unnecessary expenditure of Rs. 1.49 lakhs (approximately) on payment of rental.

3.95. An enquiry has been ordered (January 1969) to investigate the reasons for the delay in releasing the land.

[Paragraph No. 28—Audit Report (Defence Services), 1969.]

3.96. In their note dated the 25th February, 1970, the Ministry of Defence have stated that it was not correct to say that the need for 121 acres of land had arisen as a result of fresh assessment made in April, 1966. The Sitting Board constituted in April, 1966 was for the purpose of considering whether the Air Force requirements could be met in a lesser area of land. The Ministry of Defence have, however, admitted that "there was an avoidable delay in issuing orders for the derequisitioning of the surplus 252 acres."

3.97. Regarding the result of the Court of Inquiry, the note has pointed out that the Court was unable to suggest any disciplinary action against the concerned Officer who had since retired.

3.98. This is yet another instance where land in excess of the actual requirement was not derequisitioned in time with the result that there was unnecessary expenditure of Rs. 1.49 lakhs towards rental of the land. An inquiry held into the case disclosed that disciplinary action could not be taken against anyone as the concerned officer had retired. The Committee would like Government to take necessary steps in order that such cases do not recur in future. Assessment of the requirements of land should be done at the initial stage realistically so that it does not become necessary to de-requisition the land subsequently.

IV

GENERAL

4.1. The Committee have not made recommendations/observations in respect of some of the paragraphs of the Audit Report (Defence Services), 1969 relating to the Ministry of Defence. They expect that the Ministry will none-the-less take note of the discussions in the Committee and take such action as is found necessary.

NEW DELHI;
April 28, 1970.

Vaisakha 8, 1892 (S.)

ATAL BIHARI VAJPAYEE,
Chairman,
Public Accounts Committee.

APPENDIX

Summary of main conclusions/Recommendations (Referred to in para 4 of introduction)

S. No.	Para No. of Report	Ministry/ Department concerned	Conclusions/ Recommendations
1.	2	3	4
1.	1.62.	Deptt. of Defence Production.	<p>The Committee are far from happy about the progress achieved in the manufacture of this weapon. The investment in the project, which was sanctioned in 1959, has by stages amounted to over Rs. 9 crores. 184 weapons were to be produced in three phases, the first phase covering 60 weapons to be completed by April, 1962, later changed to October, 1964. The rate of production was also to be scaled up by degrees to eight units per month starting from November 1967. None of these expectations have been realised. The 60 weapons to be produced in the first phase were actually completed in August, 1967 i.e., after a delay of 3 years. The maximum rate of production achieved so far has been 2.5 units per month—less than even what was contemplated in 1964, when it was fixed as 4 per month. The substantial shortfall in production has compelled Government to resort to import of this weapon at a cost of over Rs. 5 crores. It has also led to the accumulation of imported components and sub-assemblies valued at Rs. 1.14 crores, which can be used up only when production is stepped up.</p>
2.	1.63.	-Do-	<p>Apart from shortfall in production, the target set for indigenisation of production of components has also</p>

1	2	3	4
			not been achieved. It was expected that 80 per cent of the components would be indigenously made by 1964. The present position however is that 43 per cent of the components still continue to be imported.
3.	1.64.	Deptt. of Defence Production.	The Committee are aware that the production of a complicated weapon of this nature will present difficulties in the situation which obtains in the country <i>e.g.</i> , lack of adequate industrial base, know-how etc. But it would appear that the Defence authorities consistently over-simplified these difficulties and set fanciful targets for production at every stage, even after having become aware of the difficulties that arose. As late as November, 1965—after the project had worked for over six years—Government sanctioned provision of extra facilities for raising the scale of production to 8 units per month, though till then the average production had not exceeded 1 per month.
4.	1.65.	-do-	The Committee note that Government are themselves exercised over the slow progress of the project and have set up a Departmental Committee to go into this question. The Committee would like the work to be expeditiously finished, and to be apprised of their findings as also of the measures to correct the existing situation.
5.	1.66.	-do-	Apart from lack of adequate know how and various other procedural delays, an important factor which apparently retarded the progress of the production would appear to be the

1

2

3

4

fact that co-operation from the foreign collaboration has not been so rapidly forthcoming. It was stated during evidence that at the initial stage "there was difficulty in getting all the drawings etc." from the collaborators and this, in turn, led to delay in procurement of plant and machinery needed for indigenous production. The Committee would like it to be impressed on the collaborators that the progress in production has not been satisfactory and that they have to share the responsibility for this state of affairs. For the future, Government should examine what safeguards should be built into collaboration agreements of this type, so that the collaborator gets a stake in ensuring that contemplated production schedules are achieved. Ultimately the solution to the problem lies in developing expertise in the country through intensified research and development effort.

6. 1.67. Deptt. of Defence Production. The Committee also note that 16 out of 159 machines for which orders were placed between February 1966 and May, 1966, as part of the programme to step up production are still to be received, though they were to have been received between April 1966 and April 1969. Government should take steps to ensure that these machines are delivered without further delay. It is essential that production be stepped up, apart from other reasons, for ensuring that imported components worth Rs. 1.14 crores, now lying unused, are utilised before their shelf-life expires.

1	2	3	4
7.	1.68.	Deptt. of Defence Production.	The Committee observe that this weapon is no longer in use in the country of manufacture, which has switched over to surface-to-air missiles. The Committee have in paragraph 1.20 of their Ninety-Ninth Report (Fourth Lok Sabha) already stressed the need to develop missile technology in the country, in the context of developments elsewhere in the world. In any programme for future production of this weapon, it is necessary that Government should keep in view its plans for development of missiles, so that production is based on a proper appreciation of the role and scope for use of this weapon <i>vis-a-vis</i> others proposed to be developed.
8.	1.69.	-do-	The Committee note that 3057 fuzes for this ammunition produced indigenously at a cost of Rs. 40,000 have turned out to be defective. Due to production not having been satisfactorily established, Government have been forced to resort to import of fuzes. 60,000 numbers were imported in 1964, 1,20,000 numbers in 1967 and an identical number in 1968.
9.	1.70.	-do-	It is a matter for concern to the Committee that it has not still been possible to identify the cause for failure of the indigenous fuzes. The matter needs to be pursued with the collaborator who should be asked to rectify the fuzes at his cost and reimburse Government for the losses sustained. The Committee would also like to be apprised of the steps taken to stabilise indigenous production at a satisfactory level, so that imports could be avoided. It seems particularly necessary to stop imports, as imported fuzes are stated to be costlier than indigenous fuzes.

1	2	3.	4
10.	1.110.	Deptt. of Defence Production.	The Committee are concerned to observe that ammunition worth Rs. 3.58 crores imported for the use of the services has turned out to be defective. It has been stated that the firm which supplied the ammunition has agreed to rectify the defects at their cost and that a programme for this purpose is being worked out. The Committee would like the arrangements to be speedily finalised and intimated to them.
11.	1.111.	-do-	The orders for the import of this ammunition valued at Rs. 7.22 crores were placed with the firm in September, 1966. The ammunition was "received in several lots on different dates" till, in February 1968, Government decided, after testing the ammunition, that further imports should be stopped (after a little over 54 per cent of the 'contracted' quantity of ammunition had been delivered). The 'check proof' on the ammunition are stated to have been carried out on different dates between June 1967 and June 1968, and their results to have become available between February 1968 and December, 1968. The Committee would like Government to investigate why the results of the check-proof became available so belatedly, and whether this delay made timely action for stoppage of further import impossible. It should also be investigated whether there was delay in starting the check proof immediately after the first consignment of imported ammunition was received.
12.	1.112.	-do-	The Committee were also given to understand that the ammunition was tested before import and the inspection tests were carried out by the experts of a foreign country, when observers

1	2	3	4
			<p>from our country were also present. It is not clear how the fact that the ammunition was defective in the matter of dispersal as well as range escaped notice during this inspection. The Committee would like this aspect of the matter also to be thoroughly investigated.</p> <p>The Committee would like to be apprised of the findings of the investigation into all the foregoing points.</p>
13.	1.113.	Deptt. of Defence Production.	<p>The Committee observe that indigenous manufacture of this ammunition was undertaken in June 1967 in collaboration with the foreign supplier. As the ammunition produced indigenously was also found to be defective, further production has been suspended. The financial repercussions of the suspension of production was estimated at one stage as Rs. 25.85 lakhs, though it has been stated that the final position in this regard is still to be worked out. Government have informed the Committee that negotiations are in progress with the collaborator for rectifying the defective ammunition. The Committee would like to point out in this connection that the collaboration agreement casts an obligation on the collaborator to supply material of the highest quality for purpose of production. It should therefore be impressed on the collaborator that any rectification will have to be at his cost, and that he would have to reimburse Government for the losses sustained as a result of stoppage of production, after the losses are finally assessed. The Committee would like these negotiations to be expeditiously finalised and to be apprised of their outcome.</p>
14.	1.114.	-do-	<p>One point relating to the indigenous production of the ammunition calls for investigation. The first lot of</p>

1

2

3

4

ammunition is stated to have been produced "in early 1967", and "subjected to proof in April, 1967" when "dispersion in range and accuracy beyond Range Table limits was observed". It is not clear why in the circumstances the bulk production of the ammunition was commenced in June 1967. The Committee would like this matter also to be covered in the course of investigations into this case which they have suggested earlier.

15. 1.115. Deptt. of
Defence
Production.

The Committee would also like Government to take note of certain other aspects of the case which emerge out of the information furnished—

(i) The production of a related ammunition was also taken up in the ordnance factories from April 1964. The production of this ammunition which, according to the representative of the Department of Defence Production "did not present much difficulty" has consistently been falling short of targets since 1964-65. The indigenous cost of tail fins, one of the components of the related ammunition, has been Rs. 24.68 each as against the imported cost of Rs. 15.48 per unit. Steps should be taken to bring up the production to the desired targets and reduce the cost of manufacture of the tail-fins.

(ii) It took more than two years to complete the civil works for the project which was sanctioned by Government in May, 1962. The civil works costing Rs. 1.95 lakhs were originally planned to be completed within 9 months i.e.

1

2

3

4

by February, 1963 but were actually completed only in August, 1964. The Committee would like Government to take steps to ensure that similar delays do not occur in future.

- (iii) The commencement of production would also appear to have been delayed because certain items of plant and machinery were belatedly ordered. It was stated during evidence that the collaborator did not disclose the manufacturing designs at the time of negotiation and that therefore the need for these items of equipment could not be visualised. The Committee are not very happy that this occurred and would like Government to take adequate steps to protect their interests in negotiations of this kind with collaborators which they may undertake in future.

16. 1.125. Deptt. of Defence Production. The Committee observe that Government incurred an extra expenditure of Rs. 6.02 lakhs on the manufacture of 23,000 number of a component of a weapon in a public sector company, when an ordnance factory was producing the same item at lower cost. Further orders for production of 15,000 numbers of the same component had also been placed with the Company. It has been stated that "matching capacity" for production of this item and another component has been set up in the Company which it is necessary to utilise. The Committee would like Government to examine whether the capacity in the

1	2	3	4
			company could be put to more economic and alternative uses, so that production of the component could be maximised in the ordnance factory which is manufacturing it at a cheaper cost.
17	1.126	Deptt. of Defence Production.	The Committee also observe that in respect of the other component of the same weapon the labour and material costs are higher in the ordnance factory than in the Company. The reasons for this should be investigated and steps taken to reduce these elements of costs.
18	1.141	-do-	This is another instance where production of an item undertaken with foreign collaboration fell short of anticipated levels necessitating imports to the tune of Rs. 27.40 lakhs. The case illustrates the need for ensuring that, where foreign collaboration is sought, it is on such terms, which will give the collaborator a stake in ensuring that the stipulated production schedules are achieved. The Committee have made observations on this point elsewhere in this Report.
19	1.142	-do-	Though the shortfall in production was caused by a variety of factors, one major factor was that the collaborator who was to supply technical documentation by December, 1963 did not complete the supply till July, 1966. In the agreement executed with the collaborator there was no penalty clause to bind him to supply the technical documents within the stipulated period. The representative of the Department of Defence Production admitted during evidence that the incorporation of such a clause in agreements of his nature would be desirable. The Committee

1	2	3	4
			trust that this point will be kept in view in any arrangements made with foreign collaboration in future.
20	1.143	Deptt. of Defence Production.	The Committee note that this item is being produced for an aircraft which has been in service for quite some time. The Committee trust that in any future programme for production of this item, Government will keep in view their plans in regard to phasing out of this aircraft so that production does not continue beyond a predetermined date.
21	1.144.	-do-	The Committee observe that a wagon containing charges required for the manufacture of this item was misplaced for two months after which it was traced out and sent to the consignee. This raises the vital question of security of valuable defence consignments. The Committee trust that in future it will be strictly ensured that any consignment containing ammunition or any vital defence material is sent with proper escort.
22	1.162	-do-	In the Committee's view, this case spotlights the weaknesses in our defence production programme arising out of the gaps in indigenous know-how. This project was started as far back as 1957. It envisaged the indigenous production of a new type of ammunition required by the Army out of which an annual saving in foreign exchange of Rs. 58 lakhs per annum was expected to accrue. After thirteen years, the project has still not got off the ground and the imports continue, the last batch of imports valued at Rs. 3.05 crores having been made in 1967.
23	1.163	-do-	The efforts to produce the ammunition have so far failed, because foreign sources from which help had been

1	2	3	4
24	1.164	Deptt. of Defence Production.	<p>expected initially showed "absolute reluctance" to pass on the designs and the drawings. Attempts were thereafter made to produce on our own two out of three vital components of the ammunition, i.e., the propellant, the cartridge case and the fuze. Propellants worth Rs. 9.29 lakhs were manufactured in an ammunition factory in 1965 but when they were tried out there were "two serious accidents." The cartridge case presented difficulty because special steel needed for their production was not available to specifications from the steel producers in the country. The machines imported for the production of these cases at a cost of Rs. 8.17 lakhs had frequent break-downs and produced cases which were "not...completely cylindrical."</p> <p>The Committee have already emphasised in paragraph 1.20 of their Ninety-Ninth Report (Fourth Lok Sabha) the need to step up research and development effort in the field of defence production. This case illustrates how urgent this need is. The Committee have been given to understand that that Research and Development Organisation has succeeded in producing a propellant which has given "encouraging results" in trials. The Committee have no doubt that the propellant will after further trials that are proposed to be carried out, be developed expeditiously to facilitate speedy production of the ammunition.</p>
25	1.165	Min. of Defence/ Deptt. of Defence Production.	<p>The Committee would like to mention certain other points arising out of this case:—</p> <p>(i) The firm which supplied the equipment for manufacture of</p>

1

2

3

4

cartridge cases should be speedily prevailed upon to rectify the defects noticed in the equipment.

- (ii) Civil works in Defence Production are at present taking an inordinately long time. In the instant case the works were administratively approved in 1962, planned to be completed in 1964, but actually finished only in 1966. Other instances of this type are mentioned elsewhere in this report. In order that this may not become a bottleneck, adequate steps should be taken to ensure expeditious completion of civil works for future projects.
- (iii) The factory produced the propellants in this case unnecessarily on a large scale (Rs. 9.29 lakhs). This was wasteful, considering that the propellant had not been proved by then. It should be ensured that, in future, items which are to be proved in technical trials are not produced in quantities in excess of those reasonably required for trial purposes.
- (iv) The country is still dependant on imports for its critical requirements of special steels. The scope for establishing indigenous production of an acceptable quality should be examined as a matter of priority by the Ministry of Defence in consultation with the D.G.T.D. Any research support required
-

1	2	3	4
			for this purpose should be obtained from the C.S.I.R. or the Defence Research Laboratories.
26.	1.175.	Deptt. of Defence Production.	The Committee note that the Defence Department continues to import forgings for making crankshafts for Nissan vehicles, though facilities for the indigenous manufacture of these crankshafts have been set up. Indigenous manufacture was expected to commence in ordnance factories by June 1968, but this expectation has not materialised, due to the inability of the Defence Department to locate reliable sources of supply for castings.
27	1.176.	Deptt. of Defence Production.	The Committee have in their paragraph.....of their 104th Report (Fourth Lok Sabha) drawn attention to the existence of large unutilised capacity in the casting and forgings industry in the country. The Defence Department should, therefore, endeavour to tap this capacity, so that imports could be done away with. For this purpose they should work out a programme of action in consultation with the Director General, Technical Development. Efforts should also be made to bring down the cost of indigenous forgings which are at present much costlier than imported ones. The Committee observe that as much as 61 percent of the components of Nissan trucks are still imported. The Committee would in this connection, like to draw attention to their observations in paragraph 1.39 of their Ninety-Ninth Report (Fourth Lok Sabha). A programme for accelerating the pace of import substitution should be quickly drawn up and implemented.

1	2	3	4
28.	1.179.	Deptt. of Defence Production.	The Committee regret to find that two tube drawing machines purchased in August, 1953 at a cost of Rs. 2.83 lakhs were considerably under-utilised due to paucity of orders from the ordnance factories, the utilisation being 6 percent last year and 23 percent in the current year. Further, raw materials worth Rs. 1.87 lakhs imported between 1953-54 and 1957-58 are still lying unutilised. Evidently, the procurement of these machines was not based on any realistic assessment of requirements. Government should examine whether these could, with suitable modifications, be utilised for other alternative jobs or else whether at least one of the machines should be disposed of.
29.	1.212.	Min. of Foreign Trade/ Deptt. of Defence Production.	The Committee regret to observe that though the MMTC had substantial stocks of zinc which they later sold to actual users at reduced prices; they did not meet the indents of the Ordnance factories for 1531 tonnes of zinc. Consequently the Defence authorities were obliged to obtain their requirements through the open market at higher rates which resulted in an extra expenditure of Rs. 12.26 lakhs.
30.	1.213.	Min. of Foreign Trade/ Deptt. of Defence Production.	The Contention of the MMTC that they could not accommodate the Defence requirements as there had been delays of over a year on the part of the Defence authorities in lifting stocks against previous orders, does not bear close scrutiny. From the information in this regard furnished to them, the Committee observe that the Corporation were as much responsible as the Defence authorities for this situation. In respect of one sale note dated 20th

1	2	3	4
31.	1.214.	Min. of Foreign Trade/ Deptt. of Defence Production.	<p>November 1965 for 6156 tonnes of zinc, the material was tendered by the Corporation for inspection by the Defence authorities after about a year from the date the order was placed. In respect of another sale transaction concluded on the same day for 200 tonnes of zinc, the Corporation took six months to segregate the material for inspection. In regard to two other sale transactions agreed to in October, 1966 for 1200 tonnes and 589 tonnes respectively, the stocks could not be lifted pending settlement of the price which took about ten months. After this issue was settled, there was further delay on the part of the Corporation in furnishing particulars required for issue of inspection notes. In fact, supplies were eventually made only against the sale note for 1200 tonnes and no material was tendered for inspection against the other sale note for 589 tonnes.</p> <p>Another point is that the MMTC quoted a provisional price of Rs. 30.50 per tonne to the Defence authorities (in the instant case) giving them a month's time to finalise the transaction. Yet when they decided later to sell the stocks at a concessional rate of Rs. 2,700 per tonne, neither the question of reducing the price quoted to the Defence authorities nor that of giving an adequate extension of the delivery period, was considered by the Corporation. The least that the Corporation could have done in the matter was to have contacted the liaison officer of the DGOF stationed in Delhi to settle these issues. This was all the more necessary as at the meeting of the Committee of Economic Secretaries held on 20th February, 1967, which the representative of the MMTC also attended, it</p>

1	2	3	4
			had been decided that the date for lifting the accumulated stock with the MMTC should be extended upto 30th April, 1967. In the circumstances the MMTC could have easily accommodated the Defence authorities both in the matter of price as well as extension of dates for finalising the transactions.
32.	1.215.	Min. of Foreign Trade/ Deptt. of Defence Production.	Government as a policy is now canalising more and more imports of vital raw material through the public sector undertakings like the STC and MMTC. It is necessary that for meeting the vital needs of Defence and other Government priority projects, proper coordination is maintained between the consuming Government departments and the importing public sector undertakings. Government should prescribe how the requirements of defence, public sector undertakings and Government departments are to be met from such imports and the price at which these should be made available to them.
33	1.216.	Deptt. of Defence Production	It would appear that the Defence authorities were on their part also lax in pursuing the matter even though they were experiencing "terrible" shortage of this critical metal at that time. The Committee find that two of the ordnance factories (Katni and Chandigarh), to whom some extension of delivery date was granted, failed to lift the supplies by the extended dates. A third factory (Ishapur) delayed the inspection till 15th March, 1967 by which time the stocks had been covered by sale to other eligible units. Another factory (Jabalpur), could not obtain the supplies for reasons which

1	2.	3	4
			<p>are yet to be explained to the Committee. Yet another factory (Ambar-nath) initially declined the allocation made by the MMTC "due to a mis-apprehension". The Committee would like the Ministry of Defence to examine why the ordinance factories failed to take timely action on DGOF's letter dated 7th February, 1967 asking them to place orders immediately on the MMTC for the quantity of zinc ingots covered by their sale note of 3rd January, 1967. The Committee would also like it to be examined how shortages developed in respect of this critical item which is normally stockpiled by the Defence authorities.</p>
34.	1.217	Min. of Foreign Trade/ Deptt. of Defence Production.	<p>The Committee trust that for the future the MMTC as a public corporation, would show a greater sense of accommodation in meeting defence requirements of critical items. It should also be impressed upon the ordnance factories that they should act in a businesslike manner while provisioning for critical items, so that a case of this kind does not recur.</p>
35.	1.236.	Deptt. of Defence Production.	<p>The Committee observe that a firm, on which orders were placed for soap-bars costing Rs. 13.18 lakhs, supplied material which was found on tests to be "significantly below standard". Investigations into the case by the Special Police Establishment revealed that "the firm had deliberately cheated Government by supplying sub-standard stores whose value was not even 50 per cent of the contract value" and that the officials who inspected the stores "accepted sub-standard stores from the firm". Disciplinary proceedings against the officials are stated to</p>

1	2	3	4
			have been initiated and final action against the firm is awaiting the finalisation of the case in arbitration. The Committee would like to be apprised of the further developments in this regard.
36	1.237	Deptt. of Defence Production.	The Committee would also like the loopholes like substitution of goods while under bond in the suppliers godowns or under despatch, drawing of specially selected samples to conceal substandard quality etc. which came to light during the investigation of this case, should be plugged by laying down of fool proof procedures.
37.	1.249	-do-	The Committee observe that the firm which supplied sub-standard soap bars also supplied soft soap costing Rs. 1.01 lakhs which was found sub-standard. The sub-standard soap was accepted with a price reduction of 5 per cent, but, after further storage, it was found that part of the supply had deteriorated further. Investigations thereafter conducted by the Special Police Establishment revealed that the officer, who inspected the stores before supply failed to draw samples properly or label the containers from which the samples were drawn. The Committee have been informed that action has been initiated against the inspecting officer and that notice has been served against the firm for recovery of the sum of Rs. 19,257, for which a suit will be filed. The Committee would like to be informed of further developments.
38	1.262	Deptt. of Defence Production. Deptt. of Supply.	The Committee observe that the DGOF in this case placed an indent with the DGS&D in February, 1965 for supply of 14 tonnes of ferro-tungsten without making any provision for foreign exchange. The DGOF had been ad-

1	2	3	4
			<p>vised earlier by the C.S.I.R. that three firms in the country had been licensed by them to produce ferro alloys but that this was with imported raw materials. The D.G.O.F. should have there fore obtained prior foreign exchange clearance before raising the indent on the D.F.S.&D. The omission to do this and the time spent later in getting the foreign exchange release resulted in a situation where the original tenders lapsed. When fresh tenders were called and orders placed, Government had to pay Rs. 3 lakhs extra.</p>
39.	1.263	Min of Defence/ Deptt. of Defence Production.	The Committee would like the Ministry of Defence to examine why the D.G.O.F. did not obtain prior foreign exchange release for this transaction in spite of the information received from the C.S.I.R. that the firms licensed by them for production of ferro-tungsten were dependent on supplies of raw material from overseas.
40.	1.264.	Min. of Defence/ Min. of Finance	The Committee would also like Government to devise adequate procedures to eliminate delays in release of foreign exchange required for meeting defence needs.
41.	1.276.	Deptt. of Defence Production/ Deptt. of Supply.	The Committee observe that the DGOF placed orders on a firm between January and October, 1964 for supply of springs leaves for Shaktiman trucks. The firm could not adhere to the delivery schedule due to delay in receipt of import licence from the Iron & Steel Controller for spring flats and had, therefore, to be granted extension of delivery period upto October, 1966. In the meanwhile, the DGS&D concluded rate contracts with four firms including the one on which orders had been

1	2	3.	4
			placed by the DGOF for supply of the springs leaves at cheaper rates. The relevant lists were, however, not received by the DGOF who came to know about these only in June, 1966, by per cent of the supplies. Non-cancellation of the outstanding orders thus resulted in an avoidable loss of Rs. 1.50 lakhs in this case.
42.	1.277.	Deptt. of Defence Production/ Deptt. of Supply.	As it has been stated that cancellation of the contracts would have had financial repercussions, the Committee do not wish to pursue this case further. However, the case clearly indicates that there was lack of co-ordination between the DGS&D and the DGOF. The DGS&D has since decided to publish lists of the rate contracts concluded by the Organisation every month (instead of half yearly so that all indenting organisations, which make such purchases, are made aware of the terms of the DGS&D contracts. The Committee trust that this would eliminate recurrence of cases of this type in future.
43.	1.289.	Deptt of Defence Production.	The Committee note that the C.B.I. are investigating into the various lapses that occurred in an ordnance clothing factory where a special stock taking ordered by the DGOF in September, 1968 revealed a shortage of Rs. 2.62 lakhs worth of clothing material. The Committee trust that speedy action will be taken in the light of the findings of the C.B.I. to fix responsibility for the lapses noticed. The procedures should also be suitably tightened up with a view to ensuring strict control on stocks and periodical stock taking and reporting of the stock position to higher officers.

1	2	3	4
44.	1.295.	Deptt. of Defence Production.	<p>The Committee observe that after a deficiency of 29,928 metres of canvas valued Rs. 1.88 lakhs came to light in an Ordnance factory in August, 1966, three enquiries were held in the matter in September, 1966, November, 1966 and April, 1967. The Committee regret that the DGOF has even now not been able to finalise the case after a lapse of three years. The Committee note that the second Board of Inquiry came to the conclusion, after a scrutiny of all relevant documents, that the shortages were due to issue of material without proper documentation. However, further investigations were considered necessary by the DGOF (December, 1968), with a view to ascertaining the individual(s) responsible for the lapses/irregularity, if any and to suggest remedial measures. The Committee would like to be apprised of the action taken on the findings of the fresh Board of Inquiry. The Committee would also like to impress upon Government the need to ensure that enquiries in cases of this nature are conducted promptly and thoroughly. As time is of essence in such cases, it is imperative that the defaulting officials are brought to book with the least possible delay.</p>
45.	1.299.	-do-	<p>The Committee regret to observe that due to cumulative administrative lapses over a period of time, deficiencies/surpluses involving several lakhs of rupees were noticed in February, 1966, in a number of items of spares stocked in an Air Force Repair Depot. The Court of Inquiry ordered to go into the case found <i>inter alia</i> that 'supervision', command and control over stock holders were inadequate' and the storage and accounting of stores in the unit to be unsatisfactory.</p>

1	2	3	4
46.	1.300.	Deptt. of Defence Production.	Since deficiencies over Rs. 23 lakhs could not have occurred suddenly in the course of one year it could be concluded that the earlier annual stock takings which had brought out deficiencies of a few hundreds only must have been perfunctory. This is also borne out by the findings of the Court of Inquiry. In view of this steps would have to be taken for ensuring proper stock taking in future.
47.	1.301.	-do-	The Committee observe that remedial measures have since been taken in pursuance of the observations recommendations of the Court of Inquiry. They hope that proper watch would be kept on the working of the Depot in future so that such lapses do not recur.
48.	1.309.	-do-	The Committee disapprove of the delay that took place in investigating this case. A complaint about misappropriation was received in October, 1964 and an audit of the accounts (by the Controller of Defence Accounts) was undertaken in December, 1964 which was completed in February, 1965. The case was, thereafter, referred to the Special Police Establishment in July 1965 and it took over two years (i.e., till December, 1967) to complete the investigation. In the meanwhile, one of the two officials involved in the misappropriation died and the other was allowed to retire.
49.	1.310.	-do-	The Committee are surprised that for investigating a relatively petty case, took the Defence Authorities and the Special Police Establishment over two years.
50.	1.311.	-do-	It is evident that the case was dealt with at all levels in the most routine fashion. The Committee would

1	2	3	4
			like Government to evolve a procedure to ensure that investigations in cases of this type are completed within a prescribed period, say six months or so. Any delay, would only make ascertainment of facts and establishment of guilt difficult.
51.	1.312	Deptt. of Defence Production.	The Committee note that Government have proceeded against the retired official for his involvement in this case. They would like the proceedings to be expeditiously finalised.
52.	2.18.	Min. of Defence/ Deptt. of Supply.	The Committee note that orders were placed by the India Supply Mission between 1965 and 1967 for about 8,660 items of spares for the vehicles, on the basis of indents received from Army Headquarters. However, the Army Headquarters subsequently sought cancellation or variation of as many as 3,000 of the items indented for. Though the India Supply Mission would appear to have been successful in a few cases in cancelling the orders placed, a complete picture is not available as the Ministry of Defence have not been able to indicate how many items of spares were indented for, how many were sought to be deleted from the contracts and how many were actually deleted. Data on these points should be collected and the circumstances which led to such large scale cancellations variations examined, with a view to ascertaining whether the provisioning was excessive and failed to take note of the fact that indigenous production of some of the items had been established. The Committee would also like to be informed about the position of utilisation of spares in respect of which efforts to cancel supplies were not successful.

1.	2	3.	4
53.	2.24.	Min. of Defence	<p>The Committee are at a loss to comprehend how, when a review carried out in April, 1968 disclosed that there would be a surplus of 30,440 pairs of rubber boots, after providing for 33 months' requirements, it has now been stated that there would not be a surplus but a deficit. The fact that the Army Headquarters attempted to cancel, but unsuccessfully, pending orders for boots would also indicate that there had been over-provisioning of this item. The Committee would like the matter to be investigated further. The Committee also hope that the existing stocks of boots will be consumed before their shelf-life is over and fresh orders will be placed for the procurement of rubber boots only after ascertaining the requirements correctly.</p>
54.	2.48.	Min of Defence Deptt. of Defence Production.	<p>The Committee note that out of 496 Kamatsu tractors held by the Army, 140 are awaiting repairs. 41 of these tractors have been off-road for more than four years. The Committee were told during evidence that maintenance spares for these tractors were not ordered from Japan in the beginning. Indents were placed from 1961 but supplies started only in 1965, when just 44 per cent of the total items indented for were received. Even by 1966 supplies had materialised to the extent of 55 per cent only. The Committee cannot visualise how any machinery, especially one required for use in forward area and for rugged work could be ordered without the necessary percentage of maintenance spares. The matter may be enquired into and Committee informed. The Committee would also like instructions to be issued for avoidance of such repetition.</p>

1	2	3	4
55.	2.49	Min. of Defence/ Deptt. of Defence Production.	The Committee can only draw one conclusion that there was neither adequate planning nor enough coordination between the Ministry of Defence and Director General Ordnance Factories in the matter of procurement of the spare parts from Japan. Right in the beginning when manufacture of Komatsu tractors was commenced in collaboration with Japanese firm, some spare parts for each type of tractor should have been procured to meet emergent demands. This was necessary, particularly in respect of those critical items which were not planned for manufacture in India.
56.	2.50.	-do-	The Committee observe that the models of the tractors had been rapidly changing in Japan and that had been giving rise to difficulties in the procurement of spares. To get over this difficulty, efforts should have been made to achieve rapid indigenisation by import substitution to the maximum extent possible. But it would appear that enough efforts have not been made in this direction as even 85 per cent indigenisation is still a target to be achieved.
57.	2.51.	-do-	The Committee were told that the tractors did not suffer from any manufacturing defect and that the main reason for the tractors being off-road was that spares were not available. The Committee would like this point to be further investigated as it has been reported to the Committee that Komatsu tractors supplied to the Dandakarayana Project have some inherent manufacturing defects. A reference in this connection is invited to paragraph 1.71 of their 118th Report (Fourth

1.	2	3.	4
			<p>Lok Sabha). Moreover, the Committee find that a large number of spares received between 1963 and 1969 have accumulated with the DGOF. The accumulation has reached such proportions that it became necessary to constitute a Group to segregate and sort out the spares. It is amazing that while tractors remained grounded with the Army for lack of spares in some cases upto five years. The D.G.O.F's. organisation should have been accumulating these spares without bothering to segregate them and to ascertain to what extent they would meet the Army's requirements. The Committee hope that the segregation will be expeditiously completed and the spares speedily sent to the EME Workshops in need of them.</p>
58.	2.52.	Min. of Defence	<p>The Committee note that in respect of the indents placed on BEML during the years 1966 to 1968 only 78 per cent of the spares were supplied till the end of 1969. Against indents placed on BEML in 1969, only 4 per cent of the items had been supplied upto December, 1969. The Committee would like measures to be taken to improve the supply position of spare parts.</p>
59	2.65.	-do-	<p>The Committee note that a large number of Tracked Carriers and Armoured Cars remained in the vehicle depots for more than 16 years although there was no scope for their effective use. Against the total stock of 3,528 Tracked Carriers and 290 Armoured Cars with the Army over a period of seven years, those in actual use by the units were very small. The experience of their actual use during the emergencies that arose in 1962 and 1965 was also not very happy. Some</p>

1	2	3	4
			<p>modifications were carried out in 1962 to keep the vehicles going and trials were completed in 1964. But then it was found uneconomical to carry out these modifications on all those vehicles. In view of that position, there was no point in having retained those vehicles and action should have been initiated in 1964, if not earlier, for their disposal. It was admitted during evidence that it was only after the matter was raised by Audit that the question of their disposal was taken in hand.</p>
60.	2.66.	Min. of Defence	<p>The Committee suggest that periodical reviews of all vehicles/equipment should be carried out and those which are beyond economical repair should be declared surplus and disposed of. Continuance of unserviceable vehicles in stock is also apt to give rise to a false sense of security.</p>
61.	2.67.	Min. of Defence/ Deptt. of Production	<p>The Committee note that the production of tanks is being stepped up and that as against the present indigenous content of 55 per cent, its indigenous content is expected to increase to 80 or 85 per cent by 1974. The Committee hope that these targets would be achieved and the country would be self-sufficient in tanks and also other types of armoured vehicles for which the schedule of production is expected to be finalised during the current year.</p>
62.	2.78.	Min. of Defence	<p>The Committee consider it regrettable that the Defence Department did not consult the civil administration before chartering a vessel for loading operations at the island. The Civil Administration took over the stevedoring work at the island at about the time</p>

1	2	3	4
			the loading operation commenced, but the Defence Department was not even aware of this fact. It is not clear why the civil Administration could not complete the loading of the cargo within the time anticipated. The result to this was that the operations got prolonged entailing an extra expenditure of Rs. 1.04 lakhs. The Committee hope that cases of this type will not recur.
63.	2.79.	Min. of Defence	The question as to who should bear the charges for the excess time taken (12 days) may be settled expeditiously with the Civil Administration.
64.	2.90.	-do-	The Committee note that a sum of Rs. 76,988 is recoverable from the contractors in these cases as a result of awards made in arbitration. The Committee would like to be apprised of the progress of recovery.
65.	2.91.	-do-	These sums have become recoverable due to the contractors having been overpaid for the work. Disciplinary action against the officers and staff is stated to have been initiated. The Committee would like them to be expeditiously finalised and results intimated.
66.	2.107.	-do-	The Committee are distressed to observe that the party profited at the expense of Government to the tune of Rs. 2.50 lakhs in this transaction. The godown was handed over to the party in January, 1965 at a rent of Rs. 4,430 p.m. on the understanding that it would be used by him or his business associates. The Department however failed to get a lease deed

1	2	3	4
			<p>executed before handing over possession. The result of this was that when the party sub-let the godown to the Maharashtra Government on a rent of Rs. 18,500 p.m. shortly after taking it over, the Department found its hands tied and was unable to proceed effectively against the party. Action was sought to be taken against the party for violating the lease conditions by sub-letting the godown, when there was in fact no lease, and it was also evident from the exchange of correspondence with the party that he had not bound himself to any condition in the matter of sub-letting the property. It was only thereafter that the Department thought of invoking their absolute right to secure vacation of the property, but by that time they faced a legal impediment arising out of the invalidation by the Supreme Court of the Punjab Public Premises and Land (Eviction and Rent Recovery) Act, 1959.</p>
67.	2.108.	Min. of Defence	<p>The Committee consider that the question of taking steps against the party was not thought of by the Department till it was too late for them to take effective action. In any case, the Department were ill-advised to hand over possession without getting a lease deed signed. The Committee would like Government to investigate how this occurred and take appropriate action. It should also be ensured that in future Government property is not handed over to private parties as lessee without getting a proper lease deed executed.</p>
68.	2.12.	-do-	<p>The Committee feel that this case does not speak well of the efficiency of provisioning for the Services.</p>

1	2	3	4
69.	3.13.	Min. of Defence	As early as 1961-62 action was initiated on a demand for provisioning of 129 radio vehicles to Air Force units which was considered an "urgent requirement." As in December, 1969, 55 of these vehicles are still to be supplied to the units. On present indications it would appear that supply would be completed only "by early 1971".
70.	3.14.	Min. of Defence/ Deptt. of Supply.	This inordinate delay has been caused by lack of coordination at several stages. In the first place, it was decided that 81 of these vehicles should be obtained from the commercial sector and D.G.S.&D. was accordingly asked to take procurement action. But then the chassis required for the manufacture of these vehicles were not released, even though the Department was aware that it was not being made in the commercial sector. It was only in July 1964 when the Defence Secretary was approached that these chassis were got released from by the Army which was manufacturing them, but by that time, the D.G.S.&D. had returned the indents stating that no supplier was forthcoming. In this manner, the Department lost over three years.
71.	3.15.	Min of Defence	In the second place, after it was decided in 1965 that the manufacture of these 81 vehicles should be taken up in an Air Force Depot, the Department took no action for nearly two years to place an order for metal sheets which were required for the production of these vehicles. It was explained that due to the emergency that supervened other items of work had to be taken in hand, but the Committee are unable to understand how this justifies a delay of two years, in processing an urgent requirement of the services. The result of this delay was that the

1.	2.	3.	4.
			Depot could not take up manufacture till August, 1969, when the sheets became available.
72.	3.16.	Min of Defence	The Committee have drawn attention to another instance of this kind in paragraph 1.70 of their Ninety-Ninth Report (Fourth Lok Sabha) where a delay of nearly 10 years occurred in supplying certain boats to the Navy. The Committee are perturbed at this lack of coordination and suggest that Government should immediately streamline their procedures to guard against recurrence of cases of this type.
73.	3.39.	Min. of Defence/ Deptt. of Supply.	In the Committee's opinion, these two cases underscore the need for better co-ordination between the DGISM, London and the Service Advisers to the High Commission in London in the matter of procurement of stores and equipment. In the first case, the Air Adviser was able to obtain cheaper rates from the RAF for stores for which DGISM had in the same month placed orders with the trade in U.K. In the second case, the DGISM was able to procure stores from the trade at rates below that at which they were ordered by the Air Adviser three months later. The overall difference in cost in both the cases on the stores procured was Rs. 1.01 lakhs.
74.	3.40.	-do-	The Committee consider it essential that better coordination should be secured between them so that the rates paid by them for the same item do not vary. For this purpose, the Committee would like the following course of ac-

1	2	3	4
---	---	---	---

tion to be adopted:

- (i) The indenting authorities in India should, while raising indents on the Service Advisers as well as the ISM, Indicate in each of the indents the prices previously paid for these stores procured through both the agencies.
- (ii) Copies of contracts placed by ISM in so far as they pertain to the requirements of the Services, should be endorsed to the Services Advisors and *vice-versa* so that each of these purchasing agencies would know what prices had been paid for common items of stores procured by them.

75. 3.41. Deptt. of Supply.

The Committee also consider the period of nearly 6 months taken by DGISM in finalising a contract for supply of equipment urgently needed by Air Headquarters after receipt of indent, as excessive. They feel that DGISM has to streamline its procedures in order to attend expeditiously to defence requirements.

76. 3.71. Min. of Defence

The Committee are of the opinion that the Military Engineering Department accepted substandard work done by the contractors in respect of the runway as well as taxi-tracks. The representative of the Ministry of Defence stated that in the view of the engineers, "it is really a tribute to the tenderer that in four months, he could finish a job of this magnitude" The engineers of the M.E. Department could not, in the circumstances of the case be expected to express a contrary

1.

2.

3.

4.

view. In any case it is difficult to square this view with the findings of the user (the Air force) who reported within four months of taking over the work that the condition of the air field "has given cause for concern" and raised "the vital question of safety of valuable aircraft and even more valuable pilots." Listing the defects found in both the taxi-tracks and the runway, the Air Force Wing pointed out they, "have cracked at many places" creating "pot holes", "of 1½" to 6" width which are a real danger to aircraft taxing, taking off or landing". The Wing reported that the pot holes "revealed that the material can be easily scraped with an ordinary sharp edge" "with some of the holes filled with just plain tar which is washed away in rains or melted with heat". It was also stated that no proper camber "had been provided on the run way", which was "water logged at many places" with the further possibility of this condition "getting aggravated with heavy rains": This, they pointed out "can lead to serious accidents" when aircraft take-off on land.

77.

3.72.

Min. of
Defence

It is also significant that laboratory analysis of certain samples of concrete used in the run way and taxi-tracks though carried out rather belatedly—disclosed that the concrete used was "leaner than specified in the contract." The Ministry of Defence have stated that the technical opinion is that such sample analysis carried out *ex-post-facto* cannot yield reliable results. However, the Committee find that a team of technical experts constituted by the Vigilance Commission to go into this question came to the conclusion

1.	2.	3.	4.
78.	3.73.	Min. of Defence	<p>that, while "complete reliance may not be placed on the result of chemical analysis" and "errors of 20 per cent—25 per cent on an average are not unlikely", these data could still provide "useful confirmatoy evidence in cases where the strength or other properties of the mortar or concrete are found, on inspection and after carryng out other tests, below that generally expected". In any case, the fact remains that the Defence authorities have been obliged to carry out further works for improving the condition of the air field at a cost of Rs. 65 lakhs. This constitutes as much as 43 per cent of the original cost of the work.</p> <p>The Committee also feel that the designs for the work which were drawn up by the M.E.S. were defective. There was for instance an omission to provide adequate sub-soil drainage. The absence of this and "a proper camber" for the runway led to uneven settlement of the sub-soil, with all attendant consequences, such as water-logging, cracks etc.</p>
79.	3.74.	-do-	<p>In the light of the foregoing position, the Committee feel that the case needs to be re-investigated to ascertain whether under normal circumstances, a work of this kind would have deteriorated to the exetent reported, unless it had not been satisfactorily executed. The question whether and to what extent the designs for the work were defective should be also examined in the course of this re-investigation. The Committee suggest that the re-investigation be done by an independent body of professional experts. Based on their findings, appropriate action should be taken.</p>

1.	2.	3.	4.
80.	3.75.	Min. of Defence	<p>One other aspect of the case calls for comment. Government apparently took an inordinately long time to finalise the preliminaries in connection with this work. Sometime in 1961, it was decided that the Services should be kept in a state of readiness and a list of 11 or 12 air-fields was drawn up, to be got ready by April, 1963. However, preliminary examination of the work in connection with this particular airfield was not completed till December, 1962 January, 1963 when the contracts were concluded. As against a period of one or two years that Government took to finalise the preliminaries in connection with the work, the contractors were given a period of 4 5 months for actual execution of the work. It should be examined why this situation arose, particularly in the execution of work that was considered of an emergent nature.</p>
81.	3.76.	-do-	<p>The Committee note that it may not be possible to proceed against the contractor who executed the work on the run way, as an arbitrator to whom the case was referred did not give a decision in favour of Government. The other case relating to the work on taxi tracks is still stated to be under arbitration. The Committee would like to be apprised of the outcome of the arbitration proceedings.</p>
82.	3.82	-do-	<p>The Committee find that in both the cases mentioned in the Audit paragraph the construction of residential accommodation at a cost of Rs. 18.01 lakhs preceded the construction of technical accommodation to be provided to the</p>

1	2	3	4
			<p>two units which were to have been positioned at these stations. The accommodation has, however, not been utilised, as the units have not so far been stationed at these places. While delay in the positioning of units due to unforeseen circumstances is understandable, the construction of residential quarters before any provision has been made for technical accommodation for the units shows a deficiency in planning. The Committee would like to be informed when the decision not to set up the units was taken and whether at that time the feasibility of stopping further construction of accommodation was examined. The accommodation should also be transferred forthwith to other needy organisations, if there is no prospect of their use by the Services.</p>
83.	3.90.	Min. of Defence	<p>The Committee consider that it was not appropriate for the Air Force Authorities to have gone in without proper sanction for 72 acres of land for this project against the actual requirement of 45 acres. It has been stated that this was done to avoid sub-division of holdings, but if this were so, it is not clear how proposals for derequisitioning 32 acres have been approved by the Ministry of Defence. It is clear that land was obtained far in excess of requirements: there was also avoidable delay in working out the requirements as this process took about four years.</p>
84.	3.91.	-do-	<p>The Committee have in their past reports repeatedly stressed the need for the Defence Authorities to undertake a periodical review of the position in regard to acquired lands so that</p>

1.	2	3	4
			<p>those which are not required might be speedily disposed of. A reference in this connection is invited to the Committee's observations in paragraph 5.66 of their Sixty-Ninth Report (Fourth Lok Sabha). The Committee note from the replies furnished to them in this regard (<i>vide</i> page 132 of the Ninety-Ninth Report) that the review is still in progress. The work should be expeditiously completed.</p>
85.	3.92.	Min. of Defence	<p>The Committee also suggest that in this particular case appropriate steps should be taken to make recoveries from the owners of the land who are stated to have occupied part of the land in an unauthorised manner. The matter may also be taken up with the civil authority as to why compensation was paid to them inspite of the fact that the Military Estates Officer had made a request that no payment should be made to the owners pending proper enquiry.</p>
86.	3.93.	-do-	<p>The Committee also note that stores worth Rs. 7 lakhs were collected for this project. But, as the execution of the project was delayed, Rs. 6.97 lakhs worth of stores had to be transferred to other projects and in that process Rs. 1.83 lakhs were spent on freight and other incidental charges. This expenditure of Rs. 1.83 lakhs could have been avoided if the project had been properly planned and executed. Government should go into the question of delay in execution of the project and find out why a project conceived in February, 1964 could not be executed even by January, 1969.</p>

1.	2.	3.	4.
87.	3.98.	Min. of Defence	This is yet another instance where land in excess of the actual requirement was not derequisitioned in time with the result that there was unnecessary expenditure of Rs. 1.49 lakhs towards rental of the land. An inquiry held into the case disclosed that disciplinary action could not be taken against anyone as the concerned officer had retired. The Committee would like Government to take necessary steps in order that such cases do not recur in future. Assessment of the requirements of land should be done at the initial stage realistically so that it does not become necessary to de-requisition the land subsequently.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
DELHI					
24	Jain Book Agency, Connaught Place, New Delhi.	11	33.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi—1.	68
25.	Sat Narain & Sons, 3141, Mohd. Ali Bazar, Mori Gate, Delhi.	3	34.	People's Publishing House, Rani Jhansi Road, New Delhi.	76
26.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	9	35.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88
27.	J. M. Jaina & Brothers, Mori Gate, Delhi.	11	36.	Hind Book House, 82, Janpath, New Delhi.	95
28.	The Central News Agency, 23/90, Connaught Place, New Delhi.	15	37.	Bookwell, 4, Sant Narakari Colony, Kingsway Camp, Delhi-9.	96
29.	The English Book Store, 7-L, Connaught, Circus, New Delhi.	20	MANIPUR		
30.	Lakshmi Book Store, 42, Municipal Market, Janpath, New Delhi.	23	38.	Shri N. Chaoba Singh, News Agent, Ramlal Puri High School Annex, Imphal.	77
31.	Bahree Brothers, 188 Lajpatrai Market, Delhi-6.	27	AGENTS IN FOREIGN-COUNTRIES		
32.	Jayana Book Depot, Chaparwala Kuan, Karol Bagh, New Delhi.	66	39.	The Secretary, Establishment Department, The High Commission of India, India House, Aldwych, LONDON W.C.—2.	59

© 1970 BY LOK SABHA SECRETARIAT

PUBLISHED UNDER RULE 382 OF THE RULES OF PROCEDURE AND CONDUCT OF
BUSINESS IN LOK SABHA (FIFTH EDITION) AND PRINTED BY THE GENERAL MANAGER,
GOVERNMENT OF INDIA PRESS, MINTO ROAD, NEW DELHI
