

**PUBLIC ACCOUNTS COMMITTEE  
1959-60**

**TWENTY-EIGHTH REPORT  
(SECOND LOK SABHA)**

**[Contract for Supply of Mechanical Transport Spares]**



**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1960*  
*Chaitra, 1882 (Saka)*  
*Price : Rs. 0.50 nP.*

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**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
1959-60**

**CHAIRMAN**

Shri Upendranath Barman\*

**MEMBERS**

2. Shri T. Manaen
3. Shri Maneklal Maganlal Gandhi
4. Pandit Jwala Prashad Jyotishi
5. Shri Shamrao Vishnu Parulekar
6. Shri Radha Raman
7. Shri Rameshwar Sahu
8. Shri T. R. Neswi
9. Shri Raghubar Dayal Misra
10. Shri T. Sanganna
11. Shri Vinayak Rao K. Koratkar
12. Shri Jaipal Singh
13. Shri Aurobindo Ghosal
14. Shri Yadav Narayan Jadhav
15. Shri Shraddhakar Supakar
16. Shri Amolakh Chand\*\*
17. Rajkumari Amrit Kaur
18. Shri Rohit Manushankar Dave
19. Shri T. R. Deogirikar
20. Shri Surendra Mohan Ghose
21. Shri Jaswant Singh
22. Shri S. Venkataraman.

**SECRETARIAT**

Shri V. Subramanian—*Deputy Secretary.*

Shri Y. P. Passi—*Under Secretary.*

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\* Shri Upendranath Barman was elected to serve as a Member of the Public Accounts Committee on the 10th September, 1959, (vice Dr. P. Subbarayan, who ceased to be a member of the Committee on his appointment as a Minister) and was appointed as the Chairman of the Committee on the 12th September, 1959.

\*\*Ceased to be a Member of the Committee with effect from the 3rd April, 1960 consequent on retirement from the Rajya Sabha.

# I

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee to present the Report on their behalf, present this Twenty-eighth Report on the case referred to in para 13 of the Audit Report (Defence Services), 1959 *re*: Contract for supply of Mechanical Transport spares.

2. The Public Accounts Committee at their sitting held on the 3rd February, 1960 appointed a sub-Committee to examine this case more fully in view of its importance and issues it involved and also certain additional material which was placed before them. The Report of the sub-Committee which is appended hereto was considered and approved by the Public Accounts Committee at their sitting held on the 18th April, 1960 and should be treated as the Report of the Public Accounts Committee.

3. A statement showing the summary of the conclusions/recommendations of the Committee is appended to the Report (Appendix II).

NEW DELHI;

*The 19th April, 1960.*

*Chaitra 30, 1882 (Saka).*

UPENDRANATH BARMAN,

*Chairman,*

*Public Accounts Committee.*

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**II**

**REPORT OF THE SUB-COMMITTEE**

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## INTRODUCTION

I, the Chairman of the sub-Committee of the Public Accounts Committee, having been authorised by the sub-Committee, present this Report on their behalf on the case referred to in para 13 of the Audit Report (Defence Services), 1959—Contract for Supply of Mechanical Transport Spares (Annexure).

2. In view of the importance of the case and the issues it involved and also certain additional material which was placed before them, the Committee felt it necessary to appoint a sub-Committee to investigate the matter more fully, examine such witnesses and obtain such other evidence as may be necessary. Accordingly, a sub-Committee consisting of:—

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|---|---|----------------|
| 1. Shri Upendranath Barman— <i>Chairman</i> | } | <i>Members</i> |
| 2. Shri Shamrao Vishnu Parulekar            |   |                |
| 3. Shri Jaipal Singh                        |   |                |
| 4. Shri Shradhakar Supakar                  |   |                |
| 5. Shri Amolakh Chand                       |   |                |
| 6. Rajkumari Amrit Kaur                     |   |                |

were formed on February 3, 1960. The sub-Committee held 11 sittings on the 12th, 19th and 20th February, 1960 and 8th, 10th, 14th, 15th (two sittings), 16th, 17th and 29th March, 1960 and examined the Secretary, Ministry of Works, Housing and Supply; Financial Adviser (Defence); the Secretary, Ministry of Finance (Expenditure Division) (who was in the earlier stages of this deal Joint Secretary in the Ministry of Defence and the Chairman of the Negotiating Committee); Secretary, Additional Secretary, Ministry of Defence; Master General of Ordnance; Director, Ordnance Services; and Director of Mechanical Engineering. The sub-Committee also took into account two memoranda submitted to them by the Financial Adviser and the Ministry of Defence, respectively.

3. The sub-Committee considered this Report on the 2nd April, 1960 and approved it on the 13th April, 1960.

4. The sub-Committee place on record their appreciation of the assistance rendered to them in the course of their examination of this case by the Comptroller and Auditor-General of India.

NEW DELHI;  
The 14th April, 1960.  
Chaitra 25, 1882 (Saka).

UPENDRANATH BARMAN,  
Chairman,  
Sub-Committee of the Public Accounts  
Committee.

## CONTRACT FOR SUPPLY OF MECHANICAL TRANSPORT SPARES

### *History of the case*

In April, 1956, a representative of a foreign firm came out to India, met the Master General of Ordnance (M.G.O.) and offered him the supply of full range of spares required for the overhaul of war-time army vehicles, both armoured and non-armoured, of North American origin, and also signal equipment in which the Army was deficient, agreeing at the same time to purchase such spares as were surplus to the requirements of the Army. The Master General of Ordnance considered the offer attractive as the non-availability of full range of spares had been impeding the completion of the overhaul programme. He pointed out that the particular foreign firm had been one of the most promising sources of supply and considered that it would expedite supplies if negotiations were conducted with it. He also felt that the sale of spares could be arranged as a "barter" agreement between Government and the firm. M.G.O.'s suggestion was endorsed by the Chief of General Staff who felt that the procedural aspect connected with the procurement of spares had till then seriously affected supplies. The Joint Secretary, Defence, also supported the proposal because procurement of unbalanced spares had held up overhaul. He foresaw, however, the danger of higher prices being asked for in a single negotiated contract, but felt that it should be possible to check some of the quotations with reference to past supplies. The Defence Secretary in recommending the proposal for acceptance considered, however, that careful inspection before despatch was essential, as the condition of most of the spares would be suspect. It was, however, felt that it would be enough if an agreement could be reached with the firm to accept the return of unaccepted stores. Inspection prior to shipment could then be dispensed with. The Financial Adviser agreed to negotiations being initiated, but stressed again the point regarding inspection before despatch.

2. In May, 1956, the question of direct negotiations was taken up with the Ministry of Works, Housing and Supply (W.H. & S). The Financial Adviser of Works, Housing and Supply Ministry thought, however, that it would be prudent to make enquiries from the India Supply Mission whether any other dealer would be prepared to make a competitive offer for the full range of needed spares before deciding to negotiate with a single tenderer. Nevertheless, that Ministry, while acquiescing in negotiations, stated that, based on the

report of the India Supply Mission, this firm was a well organized supplier of war surplus stock but that it had the tendency to quote high prices. They warned that steps should be taken to ensure that the firm did not take advantage of the monopoly deal by demanding high prices and suggested the constitution of a Negotiating Committee. They stressed also that prior inspection was absolutely necessary and advised that in a barter deal of this nature, prices of both purchases and disposals should be correlated with the prices previously obtained.

3. Defence Ministry at first considered that the India Supply Mission (I.S.M.) should be made responsible for negotiating the contract and also for the inspection of the spares. In July, 1956, also, the opinion was that the normal procedure of placing demands on the India Supply Mission should be adhered to. But soon thereafter, it was decided that it would be more expeditious if direct negotiations were undertaken in India with the accredited representatives of this firm by a Negotiating Committee.

4. A prelude to the negotiations was the compilation of a list of requirements and surpluses, but the Master General of Ordnance while expressing his inability, in August, 1956, to give accurate details, agreed to compile a list of uncovered demands. This list was prepared and was valued at Rs. 1.83 crores to provide the basis for negotiations. A list of unwanted surplus spares available for disposal was also drawn up and valued at Rs. 9 crores. These lists were made available to the firm by the M.G.O. between September and November, 1956.

5. In December, 1956, the Financial Adviser suggested that the credentials and the financial standing of this firm should be verified and that enquiry should be made whether there were any other surplus stores dealers in America who would be in a position to handle a deal of this nature. He also protested that the lists should have been sent to the firm without the required check in Finance of the items and quantities with reference to holdings, "dues in" and consumption.

6. This matter was discussed between the Financial Adviser and the Joint Secretary, Defence. The Joint Secretary was of the opinion that "as for the most part, the transaction would be one of barter", it was not necessary to worry about the financial status of this firm or to make any further enquiries in the matter. He also felt that as they had sufficient material with them for checking the prices quoted, he would not be justified in loading the India Supply Mission with the work of ascertaining current prices of the spares held as surplus.



A Negotiating committee under the aegis of the Defence Ministry was constituted and negotiations were started in February, 1957.

7. The firm offered fifty per cent of the spares from stock and fifty per cent from fresh manufacture, with the guarantee that all the spares would be unused and inspection could be in India. At a contemporaneous departmental meeting the Controller of Development (Vehicles) expressed his inability to examine the entire list of spares unless he was given time and special officers. He mentioned, however, that a preliminary scrutiny had revealed (1) that certain items were not needed at all; (2) others could be made in Defence Workshops or purchased locally; and (3) certain prices were "ridiculously high and fantastic, in some cases shockingly absurd". He added that it would not be possible to negotiate with the firm on the basis of such fantastic prices. He was also doubtful whether the firm could supply any spares from fresh manufacture.

8. While the negotiations were on, the Negotiating Committee had, on its own, examined the prices quoted on the basis of (a) prices available in the Price Guide Vocabularies; (b) last known price based on purchased prices; and (c) prices as estimated by the Depot authorities for other items not covered by (a) and (b). The price estimated by the Ministry of Defence, the quotations received from the firm and the final prices settled after negotiation are given in the statement below:—

Category of Vehicles	Ministry's Estimates		Quotations from the firm		Prices settled after negotiation
	Preliminary	Revised	Original	Revised	
	Figures in Canadian Dollars				
Armoured	1,89,000	4,48,288	10,87,000	5,60,832	5,60,800
Non-armoured	4,97,000	9,15,241	10,85,000	9,49,954	9,01,300

It will be noticed that the firm had brought down its original quotation of \$10,87,000 for armoured vehicles spares to \$5,60,800 but had brought down for non-armoured vehicle spares from \$10,85,000 to \$9,01,300 only. The reduction in the original quotation in regard to the armoured vehicle spares was about 50% while in the case of non-armoured it was of the order of 10%.

9. As regards the sale of spare parts, a weighted average price of \$ 110 per ton for the sale of both types of spares had been worked out on the basis of previous prices obtained by the Director General of Disposals on limited sales of these spares. The Negotiating Committee felt that if this price could be obtained for a bulk sale, "we would have done a good transaction in view of the fact that apart from earning dollar exchange of \$ 5.5 lakhs, we would be able to get rid of the spares at one stroke".

10. As a result of prolonged negotiations, agreement was reached both for the purchase and sale of spares and a letter of intent was issued on May 4, 1957. Before the letter of intent was issued, an offer had been received from a firm in Bombay for the supply of signal spares at a price of Rs. 6,00,000 lower than that quoted by the foreign firm and there were also incidental savings in freight. The position was, therefore, safeguarded by a provision in the letter of intent that the requirements of signal spares might not exist at all and the quantity that would be purchased would be indicated later. It was also stipulated that the Government of India would have the right to delete, reduce, or increase the quantities within three months of the placing of the formal contract provided that a List of items to be so covered was attached to the contract.

11. The letter of intent stipulated that the stores would be new and unused and would conform strictly to specifications. The list of requirements was not however appended to the letter of intent, but sent subsequently after one month.

12. After the letter of intent had been issued, officers in the Ministry began to entertain grave doubts about various aspects of this deal. One was regarding the ability of the firm to supply genuine spare parts; the other was about the utility of such an agreement unless each shipment was of balanced spares. The latter condition was considered so important then that it was decided that unless the firm agreed to this condition, no formal contract should be placed with it.

13. To remove the misgivings on the contractual aspect, a reference was made to the Law Ministry. The legal opinion was that the letter of intent was not a completed contract and that it was possible to sell surplus stores to this firm even if no spares were bought from it. Having obtained this opinion, there was a change in the attitude of the Ministry who then considered withdrawing from the sale of spares. The reason adduced was that several offers had been received for the purchase of unwanted spares at a price higher than that negotiated and it was advisable, therefore, that this part of the deal should be called off. Legal opinion was once again taken on this point. The opinion was that though the letter of intent was not strictly a contract, it was morally binding, and to break it would be unfair.

14. When, in September 1957, it came to the notice of the firm that the Government were considering an offer from some other firm to buy Army surplus spares, it sent "an angry and threatening letter" on September 2. But, two days later, on September 4, the firm withdrew the contents of its earlier letter relating to the purchase of the surplus except in regard to 100 tons or so of one selected item. Ultimately it was decided on 17th September, 1957 not to sell the

surplus stores to the foreign firm except 100 tons at a price of \$230 per ton but to declare them to D.G.S. & D. for disposal after inviting global tenders.

15. On September 26, 1957, I.S.M. was authorized to conclude the deal. But instead of going ahead, I.S.M. reported on October 9, that they had received a more attractive offer from another foreign firm for the full range of spares. On the basis of this report, the matter was reconsidered in the Defence Ministry. The orders of Government were sought for concluding the contract. At this stage, the view held was that the other firm was not only genuine and capable of performance, but appeared to be much the better proposition and that legal opinion should be obtained, whether it was incumbent on Government to proceed with the contract on the basis of the letter of intent. The legal opinion given at this stage was that Government could, if it so chose, not proceed with the contract and a suit for performance and damages could be resisted; further, that this firm could not restrain Government from entering into an agreement with anyone else.

16. On November 25, decision was taken to constitute a second Negotiating Committee for discussion with the representatives of the second firm in order to assess after negotiations the relative advantages of the two offers and then make a final choice. About the same time, but after the second offer had been received, the Director, I.S.M. and a Military Officer visited the establishment of the first firm and stated that its stock position and manufacturing facilities were reasonably satisfactory.

17. It was decided on 27th November, 1957 that the contract with the first firm should be signed without further delay. The I.S.M. were instructed to conclude the final agreement on the basis of the letter of intent. The contract was finally signed by I.S.M. on December 18, 1957. It may be mentioned in this connection that in the letter of intent there was a clause reserving the right of Government to reduce, increase or cancel items within 90 days from the date of formal agreement provided the Government furnished alongwith the contract a list of items that might be thus deleted, increased or reduced in quantity. No such list was attached to the formal agreement.

18. On December 31, the I.S.M. was asked to insist on balanced shipments; as regards inspection, the following instructions were given: "No inspection need be carried out before shipment and stores will be accepted for shipment on a certificate rendered by the firm that they are in compliance with the particulars contained in the invoice and packing lists. Discrepancies and shortages or defective stores would be notified within six months from the date of receipt in

consignee's depots in India, and the firm should arrange replacement of stores free of cost as laid down in the letter of intent."

19. On March 4, 1958, as a result of a special review undertaken in February, 1958, the M.G.O. asked the I.S.M. to delete some items valued at \$5,73,000. This cancellation was communicated without consultation with either the Ministry or the financial authority. On March 28, I.S.M. replied that the firm refused to accept the deletions except for supply estimated to cost \$86,000. The Ministry of Law was consulted at this stage and they advised that the cancellation would amount to a breach of contract as it was not covered by any special condition of the contract. Ultimately no cancellation except to the extent accepted by the firm, was pressed. Subject to these variations, the contract was executed and practically all the supplies received by March, 1959.

#### OBSERVATIONS

20. *Direct Negotiations with the firm:* In reply to a question as to why the suppliers approached the M.G.O. and not the procuring agency, it was explained that it was not unusual for suppliers to approach officers of the Defence Ministry or of the Defence Headquarters with offers for supplies. It was admitted, however, that while such approaches were allowed and might even be necessary in the case of purchases of warlike stores where the agency of the procuring organisation was not used, it was not usual in the case of non-warlike stores. It was further admitted that in regard to the supplies of mechanical transport spares, the practice has always been to place indents on the procurement organisations. It was only in regard to this deal that a deliberate exception was made.

21. *The sub-Committee would like to invite attention to the observations of the Public Accounts Committee in para 34 of their 9th Report (1st Lok Sabha) and para 50 of the 15th Report (1st Lok Sabha), where they have commented adversely on the practice of the indenting Authorities having any direct contact with suppliers, or even of indicating a source of supply. They regret to observe that the above recommendations, which were accepted by Government have not been complied with in this case.*

22. The Secretary, W.H. & S., has stated in evidence that his Ministry agreed to a departure from the normal procurement procedure and to a single negotiated contract only on the consideration that it was to be a barter deal and the intention was not merely to procure spares required but also to dispose of unwanted spares in a single transaction. Otherwise, he added, the advice of his Ministry would have been to go in for open tender. But the barter aspect which was one of the important considerations in this single negotiated deal was ultimately given up. It was also admitted that

in response to the tenders issued on earlier indents by I.S.M., this firm had also quoted and supplied, but had not been able to meet the full range required. Though the largest supplier, it had also defaulted. In such circumstances the sub-Committee find no justification for entering into single negotiated contract with this firm in contravention of the prescribed procedure of inviting competitive tenders.

#### *Exorbitant Prices*

23. Although the importance of obtaining prices through I.S.M. had been stressed earlier by both the Financial Advisers, Defence Services and Ministry of W.H. & S., no action was taken in this regard. Nor was the capacity of the firm to supply the full range of spares verified before the negotiations commenced. It was decided by the Ministry of Defence to rely on such material as was available with them for negotiating the prices. In evidence, it was disclosed, however, that the Ministry of Defence had in their possession price indications only in regard to about 25% of the items in the indent and in respect of some of the items, the prices quoted by the firm were higher by 5 to 50 times. As regards the remaining 75% of the items, the Ministry had to rely on old price lists and/or calculations made by Depots or Technical Officers.

24. The sub-Committee were given to understand that a suggestion was made in October, 1956 by the Ministry of Finance (Defence Division) that the firm be given a list of spares both to be purchased and disposed of so that a price indication could be obtained from it for the purpose of negotiating the sale of surplus stores. This would have been a valuable yardstick of comparison and would have enabled the Negotiating Committee to determine prices of the surplus stores to be sold to the firm. The sub-Committee regret to learn that this suggestion was not acted upon.

25. It was brought to the notice of the sub-Committee that the Negotiating Committee had itself recorded as follows regarding the prices quoted by the firm:

"This scrutiny revealed that in regard to over 100 items, while the quotations to I.S.M., Washington, were about 280% of our estimated prices, the rates quoted to us for the same items were 544% of our estimated prices. In regard to other items, quotations tendered to the I.S.M. and to us were uniformly 269% of our estimated prices."

It was also brought to the notice of the sub-Committee that on a subsequent open tender issued by the I.S.M., this firm had quoted

prices much lower than the prices approved by the Negotiating Committee on this occasion.

*Thus, although the negotiating committee was aware that the quotations were inflated, it could only effect reduction of the order of 10% in the prices for non-armoured vehicles.*

26. In this connection, it will not be out of place to refer to the development in regard to supply of wireless equipment by this firm. As against the price of Rs. 20 lakhs negotiated with this firm for the wireless equipment, an Indian supplier agreed to meet the full requirements at a cost of Rs. 14.7 lakhs. When quotations were invited from U.K. for the supply of these equipments, an offer of Rs. 14.88 lakhs was obtained. Before the deal was finalised, it was reported that by cannibalising some of the sets, the requirements could be largely met and a balancing order for Rs. 62,000 would only be necessary. *But for the offer of the Indian firm and the review in its wake, unwanted stores to the extent of Rs. 19 lakhs would have been ordered from the foreign firm.*

#### *Non-Disposal of Surplus Spares*

27. As mentioned earlier in para 13 above at one stage (June, 1957) the sale aspect of the unwanted spares was considered so important, that it was held that it should be proceeded with even if government decided not to purchase spares from this firm. However, steps were afoot in July, 1957 to give up the idea of sale to the firm on the plea that other higher offers had been received. In examination, however, it transpired that there was only a single offer and enquiries from two other firms. The single offer was from a local firm for purchase at Rs. 700 per ton and not in dollars and subject to certain conditions.

28. The sub-Committee enquired whether the financial standing of this firm and its ability to purchase such a large tonnage of automobile spares were investigated. They were informed that during the period 1954—57 this firm had purchased surplus army automobile spares of the value of Rs. 1,15,000 only. The sub-Committee also understand that the Defence Secretary had expressed his misgivings about the genuineness of this offer and wanted to have a report after enquiries. It appears, however, that no such report was submitted to him.

*The sub-Committee feel, therefore, that dropping the provisions for the sale of spares on the plea that better offers had been received lacked justification. Even this so-called better offer was neither processed nor accepted. On the other hand, it was decided on*

September 17, 1957, that the surplus should be declared to the D.G.S. & D. who should invite global tenders for its disposal. If global tenders could throw up competitive prices for sales, they could equally do so in the case of purchases.

29. It was stated in extenuation before the sub-Committee that, on the advice received from the Chief of the General Staff in November, 1957, it was decided to withhold the disposal of armoured vehicle spares pending review of requirements on the basis of a contemplated second "strip and rebuild" programme for such vehicles. Pending decision on the repair programme of non-armoured vehicles, disposal action on surplus vehicle spares was also suspended. *It is strange that even between September and November, 1957, no action was taken to follow up the decision to dispose of surpluses through the D.G.S. & D. It is also inexplicable that while, on the one hand, disposal action was suspended in November-December, 1957, on the other, in March, 1958, cancellation to the extent of 45 per cent of the order originally placed on the firm in December, 1957 had been communicated. The two decisions are, in the sub-Committee's opinion, irreconcilable.*

30. The Additional Secretary informed the sub-Committee that he did not like the sale of surplus vehicle spares at a low price and he had at the back of his mind an idea to get Government out of this part of the deal if he could. When his attention was drawn to a note recorded by himself to the effect that Government should proceed with the sale of surplus vehicle spares according to the letter of intent, even if the purchase of spares by Government did not go through, he observed that the note was written for obtaining legal opinion as to whether the two parts of the contract could be considered as separate. He added that his intention was to 'resile from this deal retaining the other part of the deal'. *If this was the intention, it is not clear why stress has been laid on the sale to the firm in the note seeking legal opinion. The sub-Committee feel, therefore, that what was stated in evidence by the Additional Secretary is in conflict with his recorded views. Again, when the firm wanted more than the stipulated time (three months) for the removal of the material, the Additional Secretary noted on 24th June, 1957 "as the whole object of this deal is to clear our godowns of the surplus stock as quickly as possible to make space available for our essential requirements, we cannot agree to the relaxation asked for". Even this note by the Additional Secretary does not go to support his contention.*

31. The sub-Committee enquired whether the non-execution of the contract for the sale of surplus to the firm was not a material

deviation from the terms of the letter of intent, more particularly, as in all earlier notings the barter aspect had been repeatedly stressed and it had been stated "both the transactions are to be treated as one and if one of them does not come through, the second also automatically falls off". They were informed that the firm itself had agreed on September 4, 1957 not to insist on the sale. Earlier, it had been mentioned in para 14 that on the 2nd September, it had protested against Government negotiating with other parties. The sub-Committee were shown a subsequent letter of December 19, 1957 from this firm which reads as follows:

"We wish to confirm that as requested by the Government of India we have withdrawn our offer to purchase the above-mentioned spares and if this fact is found not to be true, we will be willing to accept the deal as agreed to with the Government of India".

No document, however, was made available to the sub-Committee to indicate when and in what terms Government requested the firm to withdraw its offer to purchase surplus spares.

32. The sub-Committee would also like to draw attention to the fact that the barter aspect of the deal was one of the important considerations for deciding upon a single tender negotiated contract with this firm. Later, in September, 1957, it was decided not to dispose of the army surplus spares to the firm. The sub-Committee are surprised why this material deviation from the terms of letter of intent was not specifically brought to notice in December, 1957 when final orders for entering into a contract with the firm were sought.

#### *Defect in Provisioning*

33. As regards the preparation of the list of spares, the sub-Committee wanted to know how such a large reduction (45 per cent of the original indent) in the firm demand of spares was discovered within a brief period of three months when the Defence authorities had more than 18 months to consider the matter. They were informed that the list which was supplied was based on the annual provisioning review undertaken from March, 1956, to cover the requirements of 1956-57. No annual provisioning review was undertaken in 1957 as was required under the rules. The sub-Committee were given to understand by the Director of Ordnance Services (D.O.S.) that this review in 1957 was not undertaken as these negotiations were in the offing. The sub-Committee, on the other hand, feel that this only stressed the urgency of up-to-date reviews



*of requirements, so that the scope of the demand could be correctly ascertained. It was urged in extenuation that as the Director of Mechanical Engineering (D.M.E.) had no scaling cells located in the depots and workshops, the requirements of spares had been calculated on the basis of 'strip and view' and not on the basis of 'strip and rebuild'. In the case of armoured vehicles, however, the D.M.E. communicated to D.O.S. revised scales except for one type between August and December, 1957, before the conclusion of the contract. But it is not clear to the sub-Committee why even these new scales were not translated into items and quantities, and necessary adjustments not effected in the list already supplied to the firm. In the case of non-armoured vehicles, the D.M.E. stated that the new scales have not yet been established on the basis of 'strip and rebuild', but that this was in hand. He also mentioned that some amendments were issued in April, 1956 and April, 1957, but they related to only three or four types of vehicles out of a large number of types. It was only in February, 1958, after the contract had been signed, that a special provisioning review was ordered by the M.G.O. with the direction to complete it within a period of four weeks. The cancellations which were communicated in March, 1958 were the result of this special provision review. The sub-Committee enquired as to why this urgent provision review was undertaken after the contract had been concluded when its importance was totally overlooked at a time when it could have been effective. It was explained that the M.G.O. was under the impression that as these cancellations had been communicated within 90 days of the date of conclusion of the contract, they could have been effected. The sub-Committee are surprised to be told that the M.G.O. who was a member of the Negotiating Committee was not aware of the implications of this particular clause of the letter of intent and that he was still under the mistaken belief that he could have communicated cancellations within 90 days of the signing of the contract. It is also strange that though he had a copy of the contract, he had not noticed that the provision in the letter of intent regarding reductions/cancellations required incorporation of a list in the final contract.*

34. As desired by the sub-Committee, they were furnished with a copy of a letter dated 7th December, 1957 from the Master General of Ordnance Branch to I.S.M., Washington. In para 3 of this letter it had been observed that a scrutiny of the latest list furnished by the firm of spares required by the Army revealed that the firm had omitted 535 items from that list although the items in question appeared in the list of requirements as furnished by the Army Head-

quarters. The I.S.M. were therefore asked to ensure that every single item included in the list furnished by the Army Headquarters less those since deleted was indented when the contract was finalised. But while endorsing copies of that letter to the Army Depots, it had been observed as follows:—

“You may like to re-examine whether or not any of the 535 items referred to in para 3 above can now be cancelled as not required”.

In the endorsement to the Ministry of Defence, it was stated that the Ministry should ensure that the contents of para 3 were brought to the notice of I.S.M. at the time they were advised to finalise the contract. *It is clear that the M.G.O. was in two minds about these 535 items. The sub-Committee are amazed how the M.G.O. can ask the I.S.M. to include the 535 items in the final contract as a firm demand and at the same time entertain a doubt about the demand, as his endorsements to the Depots indicated.*

#### *Balanced Shipments*

35. The sub-Committee would now turn to the question of balanced shipments. *One of the considerations on which the offer of the other firm mentioned earlier was not considered was that this firm could not give any undertaking that each shipment would be balanced even though it agreed to make the total supplies a balanced one. Though the same objection was made by the first firm and the letter of intent issued did not make any provision for each shipment being balanced; subsequently, as it was considered that this condition was the essence of the contract, it was provided in the contract that “each . . . . . shipment should constitute balanced supply so as to provide a complete range of spares proportionately balanced in quantity in respect of each item for the applicable vehicle section. (For instance, Ford Section, Chevrolet Section and so on).” It was held that “this condition was the essence of the contract”.*

36. In evidence it was admitted to the sub-Committee that it was extremely difficult to ensure that each shipment was balanced in items and quantities. Nor, indeed, was any arrangement made to ensure the enforcement of this condition of the contract which was considered its ‘essence’. *It seems to have been no more than a paper provision but was yet invoked as a justification for not considering the alternative offer received.*

37. The sub-Committee were given to understand by the D.O.S. that not a single shipment of spares despatched conformed to this condition. But they were accepted by the I.S.M. as balanced on the strength of a certificate given by the suppliers themselves and payments were made accordingly.

#### *Over-Provisioning*

38. An important clause in the letter of intent was that Government would have the right of reducing, increasing or cancelling items and quantities within 90 days of the signing of the contract, the underlying intention being that as the list given to the supplier was a rough list based on 1956 review, there should be elbow room in the contract to adjust items and quantities in the financial interest of Government and to prevent acquiring of unwanted spares.

In evidence, the Joint Secretary (Defence) who was the Chairman of the Negotiating Committee stated that in his view, it was an important clause. He had deliberately put it in because he was very familiar with the fluctuations in the M.G.O.'s indent. He, therefore, wanted to reserve this right and put in a lot of items in the list so that if Government wanted to withdraw certain items, they could do so. The final contract, however, did not secure this right to Government as a result of which, the firm repudiated in March, 1958 the cancellation of 45% of the stores (\$5,73,000) indented for, but accepted only cancellation of stores to the extent of \$86,000.

39. The sub-Committee would like to point out in this connection that there had been a number of cases in the past wherein indents placed on the basis of provision reviews had to be cancelled either wholly or partially as a result of subsequent reviews [vide paras 47—52 and 56—60, 19th Report (First Lok Sabha); paras 14-15, 6th Report (Second Lok Sabha); paras 23—25, and 26—28, 17th Report (Second Lok Sabha)]. The Public Accounts Committee of 1955-56 in para 53 of their 19th Report (First Lok Sabha) had suggested that the system of provision review called for a thorough and detailed investigation of the bases on which the provision reviews were made and the estimates of requirements were acted upon. The sub-Committee regret to find that the position in regard to provision reviews has not improved since.

40. To summarise, it appears to the sub-Committee that the three most important considerations in this agreement were:

- (a) It was in the nature of a barter deal which would conserve India's foreign exchange and clear the army depots of unwanted spares;

- (b) *that each shipment would be balanced, so that the spares as and when received could immediately be utilized in the overhaul programme completing the required number of vehicles to be overhauled; and*
- (c) *that Government would have the right of reducing, increasing or cancelling items and quantities within 90 days of the signing of the contract.*

*The sub-Committee are constrained to observe that none of these vital conditions was in fact observed or realised in the fulfilment of the contract.*

41. *Execution of the contract.*—The Comptroller and Auditor General made available to the sub-Committee a long pseudonymous complaint about the execution of the contract. The Auditor General had earlier informed the sub-Committee that he had made a copy of this letter available both to the Defence Secretary and Financial Adviser, Defence Services, so that they could make necessary enquiries in the matter. While the sub-Committee understand that this investigation is yet to be completed, both the F.A. and D.O.S. admitted in evidence that some of the allegations had already been established to be correct. For example, one complaint was that orders for a number of small canvas bags which are used as cover for the gun muzzle had been ordered from this supplier, though this item could have been easily indigenously produced. The price paid for this item was under this contract, after rebate, \$14.6. In a subsequent contract, as a result of the endeavours of the I.S.M., the price was reduced to \$10.28. The opinion expressed before the sub-Committee by the D.O.S. was that a bag like that could have been manufactured in India at 1/10 of the price paid. It was also mentioned that the quality of canvas was not up to specification and was inferior to the sealed sample. *The sub-Committee are alarmed to find that the price of this item, which fell also within the scope of the negotiations conducted, was so completely out of line with the intrinsic worth and the cost of such an article. They apprehend that a similar price differential might also have been allowed, though unknowingly, in the case of some major items.*

42. The sub-Committee were also informed that one of the complaints in the letter mentioned above that the suppliers had substituted Rzeppa joints for Bendix joints was correct. When these arrived at the depot, the D.O.S. refused to accept the substituted items as, in his opinion, these two types of joints were not interchangeable. This opinion was supported by the expert opinion of General Motors—the manufacturers. The M.G.O. accepted the contention of D.O.S. and even wrote to the Military Attache of the Mission concerned to say that this substitution of an inferior lower priced unsuitable spare would not be acceptable to Government. It was stated in evidence

that after this rejection the representative of the suppliers came to India with certain documents and convinced the army authorities about the interchangeability of these parts. Accordingly, the discrepancy report raised earlier was cancelled under instructions of the M.G.O. The Additional Secretary, Defence Ministry, informed the sub-Committee that the Ministry did not know that the part had been accepted as interchangeable by the military authorities, and that when they came to know of it, they thought that they still had a legal claim and referred the matter to the Law Ministry. The Law Ministry advised that in view of the commitments made by the M.G.O. there was no claim.

43. Though in the letter of intent it had been stipulated that supplies must be strictly according to specification, in the final contract (clause 15) a modification had been made and the suppliers were given the freedom to substitute interchangeable parts provided they were so indicated in the packing notes and invoices. *It came to notice in the examination of the witnesses that the firm had not indicated that Rzeppa joints were being substituted for Bendix joints and given a certificate that they were interchangeable. The complainant had even stated that in the case of switches, Dodge and G.M. switches were labelled with Ford part numbers. When questioned whether similar wrong numbering might have happened to Rzeppa joints supplied in lieu of Bendix, the D.O.S. could neither confirm nor contradict. The sub-Committee thought that this point could not have been overlooked at the time of the examination at the depot and desired that this should be immediately ascertained and reported. This is a serious charge needing full investigation.*

44. When the Additional Secretary was asked whether in seeking legal advice, he had drawn the attention of the Law Ministry to the fact that the contractor had not given any intimation of the substitution as required in terms of the contract, he stated that this aspect of the question had not been earlier considered. He promised, however, to put this aspect before the Law Ministry and seek their advice again. *The sub-Committee find it disturbing that, as a result of the acceptance of a substituted part Government have spent \$72,600 in acquiring spares of which they themselves were carrying a number much in excess of the indented number, the number in stock being 1869 against 1000 indented.*

45. The sub-Committee were also interested to ascertain the extent to which the surplus spares acquired from the supplier valued at \$4,40,000 have so far been utilized in the overhaul programme. They were informed by the Additional Secretary that up-to-date spares costing roughly \$69,000 had been so far utilised. *So, if the rate of utilization does not improve it would indeed take several years before the surplus is consumed.* The sub-Committee were also

informed that only a third of the total spares purchased from the suppliers had been utilized from April, 1958 till the end of February, 1960. The demand for the spares was considered urgent as it was stated that the repair and overhaul programme had to be completed by March, 1960. *Considering the rate of utilization of spares up-to-date, the sub-Committee are inclined to question the urgency of the demand which was one of the main considerations for departing from normal procurement procedure leading to the irregularities noticed and involving Government in financial loss.*

46. *Conclusion.*—In conclusion, the sub-Committee would like to observe that they are far from happy at the manner in which the contract had been concluded and executed. They, therefore, consider that the case required an impartial investigation with reference to the following aspects:—

- (i) The justification for negotiating with the firm without inviting open tenders;
- (ii) The safeguards taken to protect the interest of Government against the risk of high prices inherent in a single negotiated contract;
- (iii) The reasons for the failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract;
- (iv) The reasons that led to the cancellation of the sale of surplus spares to the firm;
- (v) The performance of the contract with reference to its terms and conditions;
- (vi) Fixation of responsibility on individuals for lapses, if any, and introduction of remedial measures for future.

NEW DELHI;

*The 14th April, 1960.*

*Chaitra 25, 1882 (Saka)*

*Chairman,  
Sub-Committee of the Public Accounts  
Committee.*

## ANNEXURE

### Para 13 of Audit Report (Defence Services), 1959

#### *Contract for supply of Mechanical Transport spares*

In April, 1956, a foreign firm offered to supply the full range of spare parts required for war time Army vehicles of North American origin and to purchase all surplus spares of such Army vehicles held by the Government. Enquiries, pending at that time, both in London and Washington for the purchase of the spares were thereupon suspended but no action was taken (as urged by the Ministry of Finance) to ascertain from the India Supply Mission whether any other dealer could make a competitive offer for the complete range of needed spares. Instead, direct negotiations were commenced with this firm in February, 1957 as it was thought that the firm's offer to purchase all the surplus vehicle spares lying with the Army would release valuable storage accommodation and result in a considerable saving in dollar exchange. A "letter of intent" was accordingly issued to the firm on May 4, 1957, which contained the following heads of agreement:—

- (a) The list of spares and the dollar prices at which they would be supplied by the firm to be drawn up.
- (b) The right to vest in Government to delete, reduce or increase the quantities demanded against any item, within three months from the date of placing of the formal contract, provided that the Government furnished along with the contract a list of items that might be thus deleted, reduced or increased in quantity.
- (c) The firm to purchase Government's surplus vehicle spares upto a quantity not exceeding 4250 tons, at a flat rate of \$ 110 per ton.

After the India Supply Mission had been authorised to place a formal contract on the firm on the above lines in September, 1957, another foreign firm offered on October 18, 1957 to supply the entire range of spares at rates which were 10% lower than those offered by the first firm with the further offer that 50% of the price could be paid in rupees\*. This offer could not, however, be accepted as Government was bound by the "letter of intent" issued in May, 1957. A contract for \$ 12,63,324 was finally concluded with the first firm on December 18, 1957.

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\*The final offer of the other foreign firm was lower by 6.6% only i. e. Rs. 4.71 lakhs in value, with agreement to accept 25% of the payment in rupees.

Subsequently, it was found that the quantities stipulated in the contract were over-estimated and four amendments were proposed by the Government to the firm between December 18, 1957 and March 17, 1958, for the cancellation of quantities valued at \$ 5,73,952. The firm, however, agreed to the cancellation of items costing \$ 86,744 only on the following grounds:—

- (a) A list of the items on which Government reserved the right of subsequent deletion or reduction was not appended as stipulated to the formal contract in terms of the "letter of intent";
- (b) Arrangements had already been made for the manufacture or procurement of the items in question and some of the cancelled items had already been shipped on urgent requisitions from the Defence authorities themselves.

The failure on the part of the Government to include in the formal contract a list of spares which could be cancelled or reduced has presumably resulted in the unnecessary acquisition of spares valued at \$ 4,87,000 approximately (Rs. 23,19,000). It has been explained by the Ministry that at the time of assessing their requirements initially, they had no reliable scales of spares for these vehicles and that their initial assessment was based on an examination of the worn-out parts of a few selected vehicles in 1955. Subsequently, when the actual "wastage returns" were received by about December, 1957 from the workshops, the requirements were more scientifically assessed and were found to be much less than what was originally computed.

Since 8,600 Army vehicles had been overhauled in Defence workshops between October, 1952 and May, 1955, it appears that the requirements of spares could have been reasonably estimated on the basis of past experience. Moreover, although the "letter of intent" of May, 1957 definitely contemplated the execution of a concurrent contract by the firm for the purchase of Army surplus spares not exceeding 4250 tons, at a price of \$ 110 per ton, no such contract was eventually concluded. Only a negligible quantity of 5 tons of some selected items appears to have been actually purchased by the firm at \$ 230 per ton. The major consideration, which prevailed with Government in accepting this negotiated single tender contract *viz.*, release in storage accommodation and saving in foreign exchange has thus failed to materialise. No explanation has been offered to audit in this matter.



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## **APPENDICES**

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## APPENDIX I

*Proceedings of the Sixtieth sitting of the Public Accounts Committee held on Monday, the 18th April, 1960*

The Committee sat from 10:00 to 10:30 hours.

### PRESENT

Shri Upendranath Barman—*Chairman*

### MEMBERS

2. Shri T. Manan
3. Shri Shamrao Vishnu Parulekar
4. Shri Radha Raman
5. Shri Rameshwar Sahu
6. Shri T. Sanganna
7. Shri Vinayak Rao K. Koratkar
8. Shri Jaipal Singh
9. Shri Shraddhakar Supakar
10. Shri Rohit Manushankar Dave
11. Shri Surendra Mohan Ghose
12. Shri Jaswant Singh.

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

Shri G.S. Rau, *Addl. Dy. Comptroller and Auditor General.*

Shri P.K. Basu, *Director of Audit, Defence Services.*

### SECRETARIAT

Shri V. Subramanian, *Deputy Secretary*

Shri Y.P. Passi, *Under Secretary.*

The Committee considered and approved the undermentioned Reports:

- (i) Draft Twenty-seventh Report of the Public Accounts Committee on the Excesses over charged Appropriations disclosed in the Appropriation Accounts (Defence Services), 1957-58; and
- (ii) Report of the sub-Committee of the P.A.C. on the case referred to in para 13 of the Audit Report (Defence Services), 1959, *re. Contract for supply of Mechanical Transport spares.*

*The Committee then adjourned sine die.*

## APPENDIX II

### *Summary of the Conclusions/Recommendations*

Serial No.	Para No.	Ministry or Department concerned	Conclusions/ recommendations
1	2	3	4
1	20-21	Defence	In reply to a question as to why the supplier approached the M.G.O. and not the procuring agency, it was explained that it was not unusual for suppliers to approach officers of the Defence Ministry or of the Defence Headquarters with offers for supplies. The Committee would like to invite attention to the observations in para 34 of their 9th Report (First Lok Sabha) and para 50 of their 15th Report (First Lok Sabha) where they have commented adversely on the practice of the indenting authorities having any direct contact with suppliers, or even of indicating a source of supply. They regret to observe that the above recommendations which were accepted by Government have not been complied with in this case.
2	22	Do.	The barter aspect which was one of the important considerations in this single negotiated deal was ultimately given up. It was also admitted that in response to the tenders issued on earlier indents by I.S.M. this firm had also quoted and supplied, but had not been able to meet the full range required. Though the largest supplier, it had also defaulted. In such circumstances the Committee find no justification for entering into single negotiated contract with this firm in contravention of the prescribed procedure of inviting competitive tenders.

1	2	3	4
3	23	Defence	Although the importance of obtaining prices through I.S.M. had been stressed earlier by both the Financial Advisers, Defence Services and Ministry of W.H.&S., no action was taken in this regard. Nor was the capacity of the firm to supply the full range of spares verified before the negotiations commenced.
	24	Do.	(i) A suggestion was made by the Ministry of Finance (Defence) in October, 1956, that the firm be given a list of spares both to be purchased and disposed of by the Army as it would have been a valuable yardstick of comparison and would have enabled the negotiating committee to determine prices of the surplus stores to be sold to the firm. The Committee regret to learn that this suggestion was not acted upon.
	25	Do.	(ii) Although the negotiating committee was aware that the quotations of the firm were inflated, it could only effect reduction of the order of 10% in the prices for non-armoured vehicles.
5	26	Do.	But for the offer of the Indian firm to meet the full requirements of wireless equipment at a cost of Rs. 14.7 lakhs and the review in its wake, unwanted stores to the extent of Rs. 19 lakhs would have been ordered from the foreign firm.
6	28	Do.	The Committee feel that dropping the provisions for the sale of spares on the plea that better offers had been received lacked justification. Even the so-called better offer from a local firm was neither processed nor accepted. On the other hand, it was decided on September 17, 1957, that the surplus should be declared to the D.G.S. & D. who should invite global tenders for its disposal. If global tenders could throw up competitive prices for sales, they could equally do so in the case of purchases.
7	29	Defence	It is strange that even between September and November, 1957, no action was taken to follow up the decision to dispose of surpluses through the D.G.S & D. It

1	2	3	4
			is also inexplicable that while, on the one hand, disposal action was suspended in November-December, 1957, on the other in March, 1958, cancellation to the extent of 45 per cent of the order originally placed on the firm in December, 1957 had been communicated. The two decisions are, in the Committee's opinion, irreconcilable.
8	30	Defence	If the intention was to resile from the sale of surplus vehicle spares to the firm retaining the other part of the deal, it is not clear why stress has been laid on the sale to the firm in the note seeking legal opinion. The Committee feel, therefore, that what was stated in evidence by the Additional Secretary is in conflict with his recorded views. Again, when the firm wanted more than the stipulated time (three months) for the removal of the material, the Additional Secretary noted on 24th June, 1957 "as the whole object of this deal is to clear our godowns of the surplus stock as quickly as possible to make space available for our essential requirements, we cannot agree to the relaxation asked for." Even this note by the Additional Secretary does not go to support his contention.
9	31	Do	No document was made available to the Committee to indicate when and in what terms Government requested the firm to withdraw its offer to purchase surplus spares.
10	32	Do Finance (Defence)	The Committee would also like to draw attention to the fact that the barter aspect of the deal was one of the important considerations for deciding upon a single tender negotiated contract with this firm. Later, in September, 1957, it was decided not to dispose of the army surplus spares to the firm. The Committee are surprised why this material deviation from the terms of letter of intent was not specifically brought to notice in December, 1957, when final orders for entering into a contract with the firm were sought.

1	2	3	4
11	33	Defence	<p>(i) The Committee were given to understand by the D.O.S. that the review in 1957 was not undertaken as these negotiations were in the offing. The Committee on the other hand, feel that this only stressed the urgency of up-to-date reviews of requirements, so that the scope of the demand could be correctly ascertained.</p> <p>(ii) It is not clear to the Committee why even the new scales in respect of the armoured vehicles communicated by the D.M.E. to the D.O.S. between August and December, 1957 were not translated into items and quantities and necessary adjustments not effected in the list already supplied to the firm.</p> <p>(iii) The Committee are surprised to be told that the M.G.O. who was a member of the Negotiating Committee was not aware of the implications of paragraph 3 of the letter of intent and that he was still under the mistaken belief that he could have communicated cancellations within 90 days of the signing of the contract. It is also strange that though he had a copy of the contract, he had not noticed that the provision in the letter of intent regarding reductions/cancellations required incorporation of a list in the final contract.</p>
12	34	Do.	<p>It is clear from a letter dated 7th December, 1957 from the M.G.O. to the I.S.M. and its endorsements to the Ministry of Defence and Army Depots that the M.G.O. was in two minds about 535 items, which had been omitted by the firm from the list of requirements furnished by the Army Headquarters. The Committee are amazed how the M.G.O. can ask the I.S.M. to include the 535 items in the final contract as a firm demand and at the same time entertain a doubt about the demand, as his endorsements to the Depots indicated.</p>
13	35	Defence	<p>(i) One of the considerations on which the offer of the other firm was not considered was that this firm could not give any undertaking that each shipment would</p>

1	2	3	4
			be balanced even though it agreed to make the total supplies a balanced one.
	36		(ii) It was admitted to the Committee that it was extremely difficult to ensure that each shipment was balanced in items and quantities. Nor, indeed, was any arrangement made to ensure the enforcement of this condition of the contract which was considered its 'essence'. It seems to have been no more than a paper provision but was yet invoked as a justification for not considering the alternative offer received.
14	38	Defence	An important clause in the letter of intent was that Government would have the right of reducing, increasing or cancelling items and quantities within 90 days of signing of the contract, the underlying intention being that as the list given to the supplier was a rough list based on 1956 review, there should be elbow room in the contract to adjust items and quantities in the financial interest of Government and to prevent acquiring of unwanted spares. In evidence, the Joint Secretary (Defence) who was the Chairman of the negotiating committee stated that in his view, it was an important clause. He had deliberately put it in because he was very familiar with the fluctuations in the M.G.O.'s indent. He, therefore, wanted to reserve this right and put in a lot of items in the list so that if Government wanted to withdraw certain items, they could do so. The final contract, however, did not secure this right to Government as a result of which, the firm repudiated in March, 1958, the cancellation of 45% of the stores (\$ 5,73,000) indented for, but accepted only cancellation of stores to the extent of \$ 86,000.
15	39	Do.	The Committee would like to point out in this connection that there had been a number of cases in the past wherein indents placed on the basis of provision reviews had to be cancelled either wholly or partially as a result of subsequent

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reviews [*vide* paras 47-52 and 56-60, 19th Report (First Lok Sabha) ; paras 14-15, 6th Report (Second Lok Sabha) ; paras 23-25, and 26-28, 17th Report (Second Lok Sabha)]. The Public Accounts Committee of 1955-56 in para 53 of their 19th Report (First Lok Sabha) had suggested that the system of provision review called for a thorough and detailed investigation of the bases on which the provision reviews were made and the estimates of requirements were acted upon. The Committee regret to find that the position in regard to provision reviews has not improved since.

16      40      Defence      To summarise, it appears to the Committee that the three most important considerations in this agreement were :

- (a) It was in the nature of a barter deal which would conserve India's foreign exchange and clear the army depots of unwanted spares;
- (b) that each shipment would be balanced, so that the spares when received could immediately be utilized in the overhaul programme completing the required number of vehicles to be overhauled ; and
- (c) that Government would have the right of reducing, increasing or cancelling items and quantities within 90 days of the signing of the contract.

The Committee are constrained to observe that none of these vital conditions was in fact observed or realised in the fulfilment of the contract.

17      41      Do.      The Committee are alarmed to find that the price of the canvas bag, which also fell within the scope of the negotiations conducted, was so completely out of line with the intrinsic worth and the cost of such an article. They apprehend that a similar price differential might also have been allowed, though unknowingly, in the case of some major items.



1	2	3	4
18	43	Defence	It came to notice in the examination of the witnesses that the firm had not indicated that Rzeppa joints were being substituted for Bendix joints and given a certificate that they were interchangeable. The complainant had even stated that in the case of switches, Dodge and G.R. switches were labelled with Ford part numbers. When questioned whether similar wrong numbering might have happened to Rzeppa joints supplied in lieu of Bendix the D.O.S. could neither confirm nor contradict. The Committee thought that this point could not have been overlooked at the time of the examination at the depot and desired that this should be immediately ascertained and reported. This is a serious charge needing full investigation.
19	44	Do.	<p>(i) When the additional Secretary was asked whether in seeking legal advice, he had drawn the attention of the Law Ministry to the fact that the contractor had not given any intimation of the substitution as required in terms of the contract, he stated that this aspect of the question had not been earlier considered. He promised, however, to put this aspect before the Law Ministry and seek their advice again.</p> <p>(ii) The Committee find it disturbing that, as a result of the acceptance of a substituted part (Rzeppa joints) Government have spent \$ 72,600 in acquiring spares of which they themselves were carrying a number much in excess of the indented number, the number in stock being 1869 against 1000 indented.</p>
20	45	Do.	<p>(i) If the rate of utilization of the surplus spares does not improve it would indeed take several years before the surplus is consumed.</p> <p>(ii) Considering the rate of utilization of spares up-to-date, the Committee are inclined to question the urgency of the demand which was one of the main considerations for departing from normal</p>

1	2	3	4
			<p>procurement procedure leading to the irregularities noticed and involving Government in financial loss.</p>
21	46	Defence	<p>In conclusion, the Committee would like to observe that they are far from happy at the manner in which the contract had been concluded and executed. They, therefore, consider that the case required impartial investigation with reference to the following aspects :</p> <ul style="list-style-type: none"> <li>(i) The justification for negotiating with the firm without inviting open tenders;</li> <li>(ii) The safeguards taken to protect the interest of Government against the risk of high prices inherent in a single negotiated contract;</li> <li>(iii) The reasons for the failure to undertake special review for assessing the firm requirement of spares before the final conclusion of the contract;</li> <li>(iv) The reasons that led to the cancellation of the sale of surplus spares to the firm;</li> <li>(v) The performance of the contract with reference to its terms and conditions;</li> <li>(vi) Fixation of responsibility on individuals for lapses, if any, and introduction of remedial measures for future.</li> </ul>

**LIST OF AUTHORISED AGENTS FOR THE SALE OF PARLIAMENTARY PUBLICATIONS OF THE LOK SABHA SECRETARIAT, NEW DELHI—1**

Agency No.	Name and address of the Agent	Agency No.	Name and address of the Agent	Agency No.	Name and address of the Agent
1.	Jain Book Agency, Connaught Place, New Delhi.	26.	The International Book Service, Deccan Gymkhana, Poona-4.	50.	Chanderkant Chimman Lal Vora, Gandhi Road, Ahmedabad.
2.	Kitabistan, 17-A, Kamla Nehru Road, Allahabad.	27.	Bahri Brothers, 188, Lajpat Rai Market, Delhi-6.	51.	S. Krishnaswamy & Co., P.O. Teppakulam, Trichinapalli-1.
3.	British Book Depot, 84, Hazratganj, Lucknow.	28.	City Booksellers, Sohan-ganj Street, Delhi.	52.	Hyderabad Book Depot, Abid Road, (Gun Foundry) Hyderabad.
4.	Imperial Book Depot, 268, Main Street, Poona Camp.	29.	The National Law House, Near Indore General Library, Indore.	53.	M. Gulab Singh & Sons (P) Ltd., Press Area Mathura Road, New Delhi.
5.	The Popular Book Depot (Regd.), Lamington Road, Bombay-7.	30.	Charles Lambert & Co., 101, Mahatma Gandhi Road, Opp. Clock Tower, Fort, Bombay.	54.	C.V. Venkatachala Iyer, Near Railway Station, Chalakudi, S.I.
6.	H. Venkataramaiah & Sons, Vidyanidhi Book Depot, New Statue Circle, Mysore.	31.	A. H. Wheeler & Co. (P) Ltd., 15, Elgin Road, Allahabad.	55.	The Chidambaram Provision Stores, Chidambaram.
7.	International Book House, Main Road, Trivandrum.	32.	M.S.R. Murthy & Co., Visakhapatnam.	56.	R.M. Agarwal & Sons, Railway Book Stall, Udaipur (Rajasthan).
8.	The Presidency Book Supplies, 8-C, Pycroft's Road, Triplicane, Madras-5.	33.	The Loyal Book Depot, Chhipi Tank, Meerut.	57.	The Swadesamitran Ltd., Mount Road, Madras-2.
9.	Atma Ram & Sons, Kashmere Gate, Delhi-6.	34.	The Good Companion, Baroda.	58.	The Imperial Publishing Co., 3, Faiz Bazar, Daryaganj, Delhi-6.
10.	Book Centre, Opp. Patna College Patna.	35.	University Publishers, Railway Road, Jullundur City.	59.	The High Commission of India, Establishment Department Aldwych, London, W.C.-2.
11.	J. M. Jaina & Brothers, Mori Gate, Delhi-6.	36.	Students Stores, Raghunath Bazar, Jammu-Tawi.	60.	Current Book Stores, Maruti Lane, Raghunath Dada Street, Bombay-1.
12.	The Cuttack Law Times Office, Cuttack-2.	37.	Amar Kitab Ghar, Diagonal Road, Jamshedpur-1.	61.	International Consultants Corporation, 4F-C, Marredpally (East), Secunderabad, (A.P.)
13.	The New Book Depot, Connaught Place, New Delhi.	38.	Allied Traders, Motia Park, Bhopal.	62.	K. G. Asceervandam & Sons, Cloughpet, P.O. Ongoli, Guntur Distt. (Andhra).
14.	The New Book Depot, 79, The Mall, Simla.	39.	E.M. Gopalkrishna Kene, (Shri Gopal Mahal), North Chitrai Street, Madura.	63.	The New Order Book Co. Ellis Bridge, Ahmedabad.
15.	The Central News Agency, 23/90, Connaught Circus, New Delhi.	40.	Friends Book House, M.U., Aligarh.	64.	The Triveni Publishers, Masulipatnam.
16.	Lok Milap, District Court Road, Bhavnagar.	41.	Modern Book House, 286, Jawahar Ganj, Jabalpur.	65.	Deccan Book Stall, Ferguson College Road, Poona-4.
17.	Reeves & Co., 29, Park Street, Calcutta-16.	42.	M. C. Sarkar & Sons (P) Ltd., 14, Bankim Chatterji Street, Calcutta-12.	66.	Jayna Book Depot, Chapparpwala Kuan, Karol Bagh, New Delhi-5.
18.	The New Book Depot, Modi No. 3, Nagpur.	43.	People's Book House, B-2-829/1, Nizam Shahi Road, Hyderabad Dn.	67.	'Bookland', 663, Madar Gate, Ajmer (Rajasthan).
19.	The Kashmir Book Shop, Residency Road, Srinagar, Kashmir.	44.	W. Newman & Co. Ltd., 3, Old Court House Street Calcutta.	68.	Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi.
20.	The English Book Stores, 7-L, Connaught Circus, New Delhi.	45.	Thacker Spink & Co. (1938) Private Ltd., 3, Esplanade East, Calcutta-1.	69.	Makkala Pustaka Press, Balamandira, Gandhinagar, Bangalore-9.
21.	Rama Krishna & Sons, 16-B, Connaught Place, New Delhi.	46.	Hindustan Diary Publishers, Market Street, Secunderabad.	70.	Gandhi Samriti Trust, Bhavnagar.
22.	International Book House Private Ltd., 9, Ash Lane, Bombay.	47.	Laxmi Narain Aggarwal, Hospital Road, Agra.	71.	People's Book House, Opposite Jaganmohan Palace, Mysore-1.
23.	Lakshmi Book Store, 42, M. M. Queensway, New Delhi.	48.	Law Book Co., Sardar Patel Marg, Allahabad.		
24.	The Kalpana Publishers, Trichinopoly-3.	49.	D. B. Taraporevala & Sons. Co. Private Ltd., 210, Dr. Naoroji Road, Bombay-1.		
25.	S. K. Brothers, 15A/65, W.E.A., Karol Bagh, New Delhi-5.				

**LIST OF AUTHORISED AGENTS FOR THE SALE OF PARLIAMENTARY PUBLICATIONS OF THE LOK SABHA SECRETARIAT, NEW DELHI-1—Contd.**

Agency No.	Name and address of the Agent.	Agency No.	Name and address of the Agent.	Agency No.	Name and address of the Agent.
72.	'JAGRITI' Bhaagalpur-2. BIHAR.	79.	Universal Book Company, 20 Mahatma Gandhi Marg, Allahabad.	87.	Dhanwantra Medical & Law Book House, 1522, Lajpat Rai Market, Delhi-6.
73.	The New Book Company (P) Ltd., Kitab Mahal, 188-90, Dr. Dadabhai Naoroji Road, Bombay.	80.	Madhya Pradesh Book Centre, 41, Ahilya Pura, Indore City (M.P.)	88.	The United Book Agency, 48, Amritkaur Market, Paharganj, New Delhi.
74.	The English Book Depot, 78, Jhoke Road, Ferozepore Cantt.	81.	Mittal & Co., 85-C, New Mandi, Muzaffar Nagar (U.P.).	89.	Pervaje's Book House, Book Sellers & News Agents, Koppikar Road, Hubli.
75.	Minerva Book Shop, 9, Jor Bagh Market, New Delhi-3.	82.	Firma K. L. Mukhopad- yay, 6/1A, Banchharam Akrur Lane, Calcutta-12.	90.	B. S. Jain & Co., 71, Abupura, Muzaffarnagar (M.P.).
76.	People's Publishing House, Rani Jhanai Road, New Delhi-1.	83.	Freeland Pblications (P) Lt., 11-A/16, Lajpat Nagar, New Delhi.	91.	Swadeshi Vastu Bhandar, Booksellers, Jamnagar.
77.	Shri N. Chaoba Singh, Newspaper Agent, Ramlal Paul High School Annexe, Imphal, Manipur.	84.	Goel Traders, 100-C, New Mandi, Muzaffar Nagar (U.P.).	92.	Bhogilal L. Fanna, Book- stall Contractor, Railway junction, Rajkot.
78.	Minerva Book Shop, The Mall, Simla-1.	85.	Mehra Brothers, 50-G, Kalkaji, New Delhi. 19.	93.	Sikh Publishing House (P), Ltd., 7-C, Connaught Place, New Delhi.
		86.	The Krishna Book Depot, Publishers, Booksellers, Stationers & News Agents, Main Bazar, Pathankot, (E.F.)		

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