

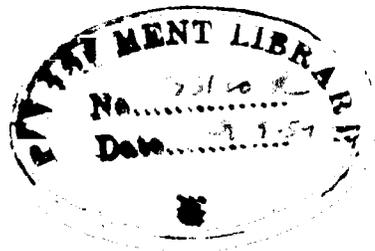
# PUBLIC ACCOUNTS COMMITTEE

1953-54

## NINTH REPORT

[APPROPRIATION ACCOUNTS (DEFENCE SERVICES) 1949-50 AND 1950-51]

### VOL. I—REPORT



LOK SABHA SECRETARIAT  
NEW DELHI

1954

## CONTENTS\*

	PAGES
Composition of the Public Accounts Committee (1953-54) . . . . .	ii
<b>Part I</b>	
Chapter I—Introduction. . . . .	iii
Chapter II—Financial Working of the Grants relating to the Defence Services . . . . .	1—3
Chapter III—Store Accounts . . . . .	4—6
Chapter IV—Policy and Procedure regarding Purchase of Stores by the India Stores Department, London. . . . .	7-8
Chapter V—Purchase of Stores in Foreign Countries. . . . .	9—18
Chapter VI—Works Expenditure—Military Engineer Services . . . . .	19—24
Chapter VII—Pay and Allowances. . . . .	25-26
Chapter VIII—Defence Installations and Factories etc. . . . .	27—29
Chapter IX—Miscellaneous . . . . .	30—33
<b>Part II</b>	
Proceedings of the meetings of the Public Accounts Committee relating to the consideration of Defence Accounts, 1949-50 and 1950-51. . . . .	35—95
<b>Part III</b>	
Report of the sub-Committee to investigate into the case referred to in Para. 8 of the Audit Report, Defence Services, 1951—Payments relating to settlement of the cases out of Court. . . . .	97—101
<b>Part IV</b>	
Proceedings of the meetings of the sub-Committee appointed by the Public Accounts Committee to consider the notes and memoranda furnished by the Ministry of Defence etc., on the points arising out of the Appropriation Accounts (Defence Services), 1949-50 and 1950-51 and Audit Reports thereon. . . . .	103—121
<b>Appendix</b>	
Summary of the principal observations/recommendations made in the Ninth Report. . . . .	123—133

---

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

**Composition of the Public Accounts Committee, 1953-54**

Shri B. Das—*Chairman.*

*Members*

2. Shri Ranbir Singh Chaudhuri.
3. Shri Hari Vinayak Pataskar.
4. Dr. Mono Mohon Das.\*
5. Shri Tribhuan Narayan Singh.
6. Shri M. L. Dwivedi.
7. Pandit Munishwar Dutt Upadhyay.
8. Prof. Shriman Narayan Agarwal.
9. Shri Shree Narayan Das.
10. Shri B. Ramachandra Reddi.
11. Shri Uma Charan Patnaik.
12. Pandit Krishna Chandra Sharma.
13. Shri K. M. Vallatharas.
14. Shri V. P. Nayar.
15. Shri G. D. Somani.

SECRETARIAT

Shri M. N. Kaul—*Secretary.*

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

Shri V. Subramanian—*Deputy Secretary.*

---

\*Resigned on the 24th December, 1953.

## I

### INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee to submit the report on their behalf, present this Ninth Report on the Appropriation Accounts (Defence Services), 1949-50 and 1950-51 and Audit Reports thereon.

2. The Appropriation Accounts (Defence Services) 1949-50 and 1950-51 and Audit Reports thereon were laid on the Table of the House on the 9th April, 1953 and 12th May, 1953 respectively.

3. The Committee appointed the following sub-Committees:—

(i) sub-Committee to investigate into the case referred to in para. 8 of the Audit Report (Defence Services), 1951—payments relating to settlement of cases out of Court.

(ii) sub-Committee to consider notes/memoranda furnished by the Ministries of Defence, Finance (Defence) and Works, Housing and Supply on the points arising out of the examination of the aforementioned Accounts.

The Report of the first sub-Committee which has been approved by the Committee has been embodied in this Report as Part III.

A brief record of the proceedings which constitute the report of the second sub-Committee is contained in Part IV.

4. The Committee could not take up examination of the accounts relating to the Hindustan Aircraft Ltd. and the Defence Factories and Installations for want of time. They hope to examine these accounts in detail at the time of consideration of the Defence Accounts for the subsequent year.

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

6. A statement showing the summary of the principal recommendations of the Committee is also appended to the Report (*Appendix*).

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

## II

### FINANCIAL WORKING OF THE GRANTS RELATING TO THE DEFENCE SERVICES

8. The following table compares the original and final grants and charged appropriations with the actual expenditure of the years 1949-50 and 1950-51:—

(In lakhs of Rupees)

	Original grant or Appropriation		Final Grant or Appropriation		Actual Expenditure	
	1949-50	1950-51	1949-50	1950-51	1949-50	1950-51
Total expenditure met from Revenue—						
(Voted)	1,68,39	1,79,76	1,84,71	1,96,31	1,66,54	1,81,83
(Charged)	.02	.04	.04	.04	.05	.05
Total expenditure met from Capital—						
(Voted)	3,20	2,15	3,20	6,79	1,95	4,19
(Charged)	—	—	—	—	—	—
Grand Total :						
(Voted)	1,71,59	1,81,91	1,87,91	2,03,10	1,68,49	1,86,02
(Charged)	.02	.04	.04	.04	.05	.05

There was thus a saving of Rs. 19.42 and 17.08 lakhs or 10.3 and 8.4 per cent. over the final grant during 1949-50 and 1950-51 respectively against an excess of Rs. 7.36 lakhs or 2.8 per cent. during 1948-49.

9. *Savings on voted grants.*—Savings occurred under all the voted grants during the years under review and were the highest namely, 39 and 38.3 per cent. respectively in Grants—Defence Capital Outlay.

*Excess over charged appropriation.*—In the following cases, actual expenditure exceeded the charged appropriation:

Year	Name of appropriation	Final approp- riation.	Actual • expenditure.	Excess
1949-50	79-Defence Services, Non-Effective.	4,000	4,555	555
1950-51	78-Defence Services, Non-Effective.	4,000	4,832	832

As in the case of Appropriation Accounts for 1948-49, no formal regularisation of the excess in respect of the year 1949-50 is called for by Parliament. The Committee recommend that the excesses relating to the year 1950-51 be regularised in accordance with the provisions of Article 115 of the Constitution.

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

(a) *Excessive supplementary grants.*—The bulk of the two supplementary grants obtained during each of the two years remained unutilised as shown below :—

(In lakhs of Rupees)

Year	Number and Name of Grant	Supplementary Grant	Final savings
1949-50	76-Defence Services, Effective Army	15.69	14.62
	79-Defence Services, Non-Effective	63	33
1950-51	75-Defence Services, Effective Army.	16.55	10.56
	107-Defence Capital Outlay	4.64	2.60

(b) *Irregular reappropriation.*—Reappropriations under the various sub-heads of a number of grants relating to the two years under report proved excessive or unnecessary.

(c) *Surrenders.*—Surrenders of savings made at the time of the final grant were either inadequate or no surrenders were made at all, as will be borne out by the following statement :—

(In lakhs of Rupees)

Year	Number and Name of Grant.	Amount surrendered	Final savings
1949-50	76-Army	4.68	14.62
	77-Army	90	1.76
	78-Air Force	—	1.46
	79-Non-Effective	—	33
	103-Defence Capital Outlay	80	1.25
	Total :	6.38	19.42
1950-51	75-Army	8.90	10.56
	76-Navy	44	94
	77-Air Force	2.64	2.94
	107-Defence Capital Outlay.	63	2.60
	Total :	12.61	17.04

(d) The following instances of defective budgeting have also been noticed in the Accounts under review:

1949-50

- (i) Under Sub-Head 'H' of Grant No. 76-Army, a sum of Rs. 1,05,60,000 was provided for twice for the same stores.

1950-51

- (ii) (a) A payment of Rs. 107.72 lakhs made in March, 1951, and adjusted under Sub-Head 'H' of Grant No. 75-Army —was omitted to be provided for in the final estimate.

Further, a sum of Rs. 2.58 lakhs was surrendered in March, 1951.

- (b) Under Sub-Head 'D' of Grant No. 78-Defence Services—Non-Effective, a saving of about Rs. 4 lakhs was mainly due to incorrect estimation of expenditure in respect of certain categories of pensions.

11. *General conclusions.*—The savings were mainly caused by the following factors:—

- (a) Non-procurement of stores to the extent anticipated, non-receipt of bills from supplying agencies, and inter-services adjustments for supply of stores not fully carried out.
- (b) Delays in execution of certain works and submission of bills by the contractors, and non-surrender of unspent balances of works expenditure in time.

The Committee note that the standards of budgeting for the Defence Services during the years under review are not still very satisfactory. They reiterate the recommendations made in this behalf in para. 2 of their Second Report on the Defence Accounts, 1948-49 and trust that the need for closer estimating would be impressed on all the Branches of the Defence Services. The Committee desire that over-estimating should be scrupulously avoided. They would also urge that a strict watch should be maintained upon the observance of these instructions.

The Committee would further draw the attention of the Ministry of Defence to the recommendations made in Para. 14(a) and (b) of their Seventh Report and emphasise that provision made on account of stores or supplies indented should be reviewed periodically especially during the closing months of the year concerned so that funds not required are surrendered in time to avoid lapse of grants. A close liaison should also be maintained with the Supplying Department to achieve this object.

---

### III

#### STORE ACCOUNTS

**Para. 7, A. A. 1949-50, Para. 16, Audit Report, 1951 and Para. 22, Audit Report, 1952 (See also Para. 17 of the Audit Report, 1951)**

12. The Committee observe with regret that the Financial Adviser. Defence has had to make reservations in his certificate with regard to the attaining of satisfactory standard of store accounting, especially in the Ordnance and Air Force Store Depots, and has stated that in several cases, stores had not in practice been linked with the goods actually received by them with the particular consignments.

The Committee also note that the Audit Reports have called attention to serious defects in the Store Accounts of almost all the three Services and large deficiencies of stores continue to be recorded in the loss statements appended to the Appropriation Accounts. Some of the recorded losses have been attributed to errors in accounting of issues in previous years rather than to actual loss of stores and considerable surpluses, sometimes exceeding the value of the deficiencies, have also been recorded.

The Committee are concerned to find that, even so long after the end of the war, Store Accounts should still be inadequate for their primary purpose of ensuring that the quantity and location of stocks available to meet the requirements of the Services are known with reasonable accuracy. Needless to say, this knowledge is essential for the efficient administration of the Services.

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

13. *Stock Verification in Air Force Units.*—With reference to the comments made in para. 22 of the Audit Report, 1952, the Committee desired to know from the Ministry of Defence whether a cent per cent check had been made of at least the security stores in the three Equipment Depots of the Indian Air Force. From the notes submitted by the Ministry in this behalf, the Committee find that the stock-verification of valuable items in these Depots has since been completed by the third week of April, 1953.

The Committee hope that in future the periodical stock verification will be carried out scrupulously and any laxity in this respect will be severely dealt with.

**Para. 17 (iii) (a), Audit Report, 1952**

14. *Stock verification in units and formations (other than factories)—recording of wrong certificate of cent. per cent. stock-verification in Engineer Park, Allahabad.*—With reference to the comments made in para. 17(iii)(a) of the Audit Report, 1952, that in this Engineer Park, stock was only partially verified in 1950-51 although a certificate of 100 per cent. verification was recorded, the Engineer-in-Chief informed the Committee that they had called for an explanation from the Officer concerned and his reply was that such a certificate had not been given. At the instance of the Committee, he undertook to take disciplinary action against that Officer for making a statement which was in contradiction of the facts stated in the Audit Report. In the note submitted to the Committee subsequently (*Appendix IV*), the Ministry of Defence have stated that no certificate of cent. per cent. stock verification during 1949-50 and 1950-51 was recorded, as only 90 per cent. check was done during the year, and the Chief Engineer, Eastern Command, had, in fact, applied for condonation of the failure to carry out 100 per cent. stock-verification which was duly accorded by the Ministry with the concurrence of the Ministry of Finance (Defence). The Committee are, however, unable to reconcile this statement made by the Ministry with the following fact stated in the Audit Report:

“Stock verification sheets containing the book and ground balances of all items verified were not on record, nor any entries have been made in the ledgers to correct balances”.

Even if 90 per cent. check was carried out, the documents referred to above could not be produced before Audit. The Committee consider that it is of the utmost importance that correct facts are given to the Audit authorities and no occasion for conflicting statements of facts between the Executive and the Audit should arise.

**Para. 21, Audit Report, 1952**

15. *Delay in stock verification—Navy.*—The Committee note that in three Departments of the naval dockyard, stock verification was delayed over a long period of two to three years allegedly due to paucity of staff. The Committee emphasise that keeping of Store Accounts is an important factor in maintaining the efficiency of the Navy.

**Para. 53, Audit Report, 1952**

16. *Irregularities in the Naval Stores Depot.*—The Committee were apprised of the conclusions arrived at by the Board of Inquiry set up to determine the cause of fire that occurred in the Naval Stores Depot on the 2nd June, 1949, while the audit of the accounts of the Depot was in progress, which *inter alia* indicated various possibilities including sabotage. Incendiarism was not also ruled out altogether. Stores worth Rs. 30.02 lakhs were lost by fire.

In the circumstances, the investigation of the cause of the fire should not have been left to the departmental officers. It should have been conducted by a Board of Senior Officers not connected with the Naval Stores Organisation and the Police should have been called in, if necessary. The failure to make this investigation calls for serious admonition. Those who resisted Audit Inspection should also be suitably dealt with.

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

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

---

#### IV

### POLICY AND PROCEDURE RE: PURCHASE OF STORES BY THE INDIA STORES DEPARTMENT, LONDON

17. For some time past, there has been some obscurity in defining the exact scope of powers and functions of the High Commissioner for India *vis-a-vis* the India Stores Department, London, in the matter of purchase of stores etc. When the Committee took up consideration of the contracts for the purchase of jeeps and other Defence Stores etc. entered into by the High Commissioner for India in London, reference to which has been made in the following Chapter, they pursued this question with the representatives of the Ministries of External Affairs and Works, Housing and Supply. From a statement showing the various Departments of the High Commission of India in London and their controlling authorities in India furnished by the Ministry of External Affairs (Appendix V), the Committee note that the Ministry of Works, Housing and Supply are the controlling authority of the India Stores Department. It will perhaps be relevant in this connection to reproduce the following extract from para. 2 of the Memorandum accompanying the above statement:

\*\* \* \* \* \*

It will be seen that, although the High Commissioner for India in London is under the general administrative control of the Ministry of External Affairs, the financial as well as the general control of the various technical and specialist departments of the High Commission vests in the respective Ministries and Departments of the Government of India and not in the Ministry of External Affairs."

The India Stores Department, London makes purchases of Stores against cross-mandates placed on the Department by the Director-General, Supplies and Disposals.

18. During the course of evidence given before the Committee on the 4th July, 1953, the Secretary, Ministry of Works, Housing and Supply stated that according to the information made available to him, neither his Ministry nor the Director-General, India Stores Department, London were at any stage brought into the picture as both the contracts relating to the purchase of jeeps and Defence Stores were entered into by the High Commissioner for India *without* the knowledge of the D.G., I.S.D. The Secretary, Ministry of Defence, however, pointed out that the D.G., I.S.D., functioned under the High Commissioner for India in London who as the head of the Organisation was competent to give him any instructions he considered appropriate.

The Committee note that the Ministry of Works, Housing and Supply have since promulgated revised Rules regulating the policy and procedure to be observed by the India Stores Department, London, in the purchase of stores and the engagement of freight to

India [*vide* their letter No. PII-201(i) dated the 29th October, 1952]. These rules crystallize the whole procedure of purchases of stores from abroad and also define the exact powers and functions of the two authorities *viz.*, the High Commissioner and the D.G., I.S.D., London. The Committee hope that there would not be any confusion in future in the matter of fixing of responsibility for the purchases of Stores made through the agency of the India Stores Department, London.

19. *Inspection.*—As the above Rules did not make any mention about the arrangements that existed in the India Stores Department, London, for the inspection of Defence Stores, such as arms and ammunition, purchased in the U.K. and the Continent, an enquiry on that point was made by the Committee from the Ministries of Defence and Works, Housing and Supply. In reply, the latter Ministry has stated 'that the arrangement for the inspection of various categories of Defence stores, is not always uniform. There are no technical officers on the staff of the I.S.D., London, with knowledge of modern weapons. \* \* \*'. The Committee desire that Government should consider the question of adequately equipping the I.S.D., London for carrying out the inspection of such stores as well.

20. *Procurement of common-user items in India.*—From para. 11 of Chapter III of the Report of the India Stores Department, London, for the year 1951-52, the Committee note that the various service Departments in India forward indents to the I.S.D., London, for such items as are quite easy to procure in India and were in fact, in production during the last war. The Committee could not examine the Ministries of Defence and Works, Housing and Supply on the comments made in this para. (reproduced below for ready reference) for want of time:

"In conclusion the desirability of establishing manufacture of common-user items must again be emphasised. \* \* \* There appears to be no doubt that if these stores are produced in India the cost will be much less. Indents for some of the items under this category were referred back to the Indentors to investigate local purchase and in some cases the items were withdrawn. It is, therefore, considered most desirable that all defence demands, before being transferred to U.K. for procurement should be carefully screened with a view to omitting those items which can be manufactured in India."

The Committee would like to know in due course the comments of the above Ministries in this behalf. In the meantime, they would stress the desirability of procuring the common-user items for the use of Defence Services in India as such a course would not only give a fillip to the indigenous industries but also conserve our foreign exchange resources.

---

## V

### PURCHASE OF STORES IN FOREIGN COUNTRIES

21. The Audit Reports on the Defence Services for the years 1951 and 1952 have referred to certain irregularities and losses incurred in the purchase of stores in foreign countries. They relate to the following:—

- (1) Jeep contracts;
- (2) Two contracts for the purchase of certain Defence Stores in a European Country;
- (3) Purchase of aviation stores; and
- (4) Procurement of blankets in the United Kingdom.

All the above contracts were entered into in London.

#### **Para. 53, Audit Report, 1951**

22. *Jeep Contracts.*—In para. 10 of the Second Report of the Public Accounts Committee, the Committee expressed dissatisfaction over the manner in which this transaction was conducted. The Committee were then informed that the Government of India had entered into a new contract in March, 1951 with a new firm S. C. K. (Agencies) Ltd. This contract provided for the purchase of 1,007 new Jeeps by Government @ £458-0-10 per jeep and for the new contractor giving a credit to Government for a sum of £143,162 being the loss incurred on the first contract with Anti-Mistants.

The Government of India on their part accepted the position that they will not enforce any claims for damages against Anti-Mistants in the event of the contract being completed by the new firm. The extent to which the losses under the first contract would be made good was dependent on the satisfactory and complete performance of the new contract. It may be mentioned here that all liabilities and obligations of the first contract with Anti-Mistants were assigned to the S. C. K. (Agencies). The new Jeeps were to be delivered at the rate of 68 per month commencing from June, 1951 and the entire contract for 1,007 Jeeps should have been completed by the end of August, 1952. This time-schedule was subsequently revised providing for deliveries to be made at the rate of 12 units per month up to January 1952 and 120 Jeeps a month thereafter the entire supply being completed by September, 1952. The Committee regret to note that contrary to all promises and in violation of the terms of the new contract only 49 Jeeps have so far arrived in India, one Jeep being held in Belgium as a specimen to guide inspection. The present position seems to be that the new firm is not willing to supply any further Jeeps at the contracted rate and the Committee have been informed that Government are contemplating a civil suit for recovery of the losses incurred by them.

23. It has been accepted by the Ministry that under the first contract with Anti-Mistants for the purchase of 2,000 secondhand Jeeps, Government had incurred a loss of £1,43,162 (approximately Rs. 19 lakhs). With the supply of 49 Jeeps, the loss may be said to have been reduced by only £7,100 (approximately Rs. 94,667) only. The new firm has repudiated its liability to indemnify the Government against the damages for the breach of the contract and have stated that the contract was at an end.

24. The various irregularities in regard to this contract may be summarised as follows:—

The entire trouble arose from non-observance of the terms of the contract with Anti-Mistants Ltd. Payments were made without proper inspection. The matter was further complicated when the relevant clause of the contract was modified to require certificate for 10 per cent. inspection only. It was due to the above two factors that £1,60,000 were wrongly paid to Messrs. Anti-Mistants and the bulk of this money has not been recovered either in cash or in the shape of goods. The Committee fail to understand as to how the new contract improved the position. As a matter of fact in para. 10 of their Second Report, the Committee felt that it was entirely a new transaction requiring scrutiny and fresh sanction of the Government of India, but the Committee observe that neither was any scrutiny made nor any fresh sanction sought or given. The Committee had also asked for monthly Reports about the progress of supply of the Jeeps under this new contract. No monthly reports could be submitted as after the first batch of 50 Jeeps, no supplies were made.

25. The Committee would like to draw attention to the following objectionable features of the first contract.

- (i) Short-circuiting of the normal procedure which lays down that the D.G., I.S.D., London assisted by his Legal and Financial Advisers should deal with such contracts.
- (ii) Failure to invite tenders.
- (iii) Even if (ii) above is over-looked for special reasons, the fact remains that a newly formed private limited company which was not an established firm dealing in Jeeps and whose antecedents and financial standing were not known was selected.
- (iv) Failure to obtain the necessary Bank references and securities for the performance of the contract and for advance payments made.

In connection with (iv) above, the Defence Ministry submitted a document purporting to be a bank reference. It runs as follows:—

“We consider both to be respectable although we are not fully conversant with their financial resources, in our opinion, they are men who can be relied upon to fulfil their undertaking in connection with a business contract.”

In the Committee's view, any one conversant with banking and business procedures will unhesitatingly refuse to accept the above as a bank reference particularly in the context of a transaction which involved crores of rupees.

- (v) Unjustified revision of the contract which made large payments possible without proper inspection certificates.
- (vi) Payment of the second instalment of £ 81,575 without any certificates of inspection for 502 Jeeps.
- (vii) Failure to proceed against Anti-Mistants Ltd. for the recovery of such damages on account of the non-performance of the contract as might have been possible.

26. The Committee think that it was most desirable that in the case of the new contract, the High Commission before entering into negotiations should have obtained reliable information from the Government of the country, the trade or other reliable sources about the commercial and financial standing and capacity of S.C.K. (Agencies) as well as of its individual members especially as personal guarantee of these members was being accepted. The offer of S.C.K. (Agencies), a new firm, to make good the loss of £1,43,162 suffered by Government in their deal with the Anti-Mistants Ltd., without a *quid pro quo* should not have been so readily accepted at its face value.

27. The Committee would like to observe that although the comments on this deal were made known to the Government through the Defence Audit Report, 1950 and Para. 10 of the Second Report of the Public Accounts Committee (1951-52), yet no effective action has been taken by Government against persons who were responsible for transacting such an unbusinesslike deal in disregard of the administrative and financial rules.

#### **Para. 54, Audit Report, Defence Services, 1951**

28. *First Contract for the Purchase of Defence Stores.*—This relates to the procurement of certain types of defence stores manufactured in a continental country by the High Commission for India in the U.K. through an intermediary. It was entered into on the 24th July, 1950 and was valued at £24,86,423/10/-. The types of stores required under this contract were to be manufactured according to designs and specifications submitted by the Ministry of Defence, Government of India. The High Commission for India in London took the initiative in informing the Ministry of Defence, Government of India on the 8th June, 1950 that it might be possible to arrange the production of these stores in a continental country through a group of manufacturers. The factories in that country were inspected by the Ordnance Consulting Officer attached to the Indian High Commission in London and his report was that they had some drawings but not all of them and that unless something more was given to them it might be difficult for them to manufacture these types of stores. Subsequently, the firm offer for the supply of these stores was received from a British firm, Messrs. Sir James Marshall Cornwall and Partners who claimed to speak on behalf of a group of continental factories. It may be noted that all processes of manufacture were not to be done by private factories and at least some of them were to be manufactured in Ordnance Factories of that country. Certain prices were quoted by the manufacturers but before they were finalised the Secretary, Ministry of Defence, Government of India, who happened to be in U.K. at that time, visited that country on his return journey to negotiate the price. It was only at this stage that our Ambassador in that country was brought into the

picture and then the Defence Minister of that country wrote to the former assuring him of all possible assistance in the matter of inspection of these stores. Though the negotiations at this stage were conducted at Governmental level, the contract was actually entered into with a group of firms through the media of the British firm mentioned above.

The supplies were to be completed between November, 1950 and December 31, 1951 but it was only in October, 1952 that the last shipment arrived in India.

29. The Committee endorse the observations contained in para. 54 of the Audit Report, 1951 in respect of this contract and record their conclusions as follows:

(a) A direct contract between the Government of India and the manufacturers was possible with the assistance of the foreign Government concerned.

(b) The appointment of intermediaries, especially those who came in at a later stage and did not have regular agency contract with the manufacturers resulted in the payment of higher price to cover the intermediaries' margin.

(c) The contract was concluded without necessary financial concurrence in regard to the reasonableness of price.

(d) Within a week of the opening of Letter of Credit, payments to the extent of 50 per cent. of the entire contract price were made on production of certificates from the manufacturers that raw materials required for the manufacture had been acquired for the equivalent value. These payments resulted in considerable sums being in fact advanced to the contractors long before the supplies were forthcoming.

(e) The contract conditions did not specify the method of payment for supplies but provided only for the opening of Letters of Credit for such amount and on such other terms as may be agreed upon and embodied in the Letter of Credit. It is only the Letter of Credit which specified the method of payment. This is an unusual procedure and the payment conditions should have been incorporated in the contract itself and the Letter of Credit authorising the Bank to open credits and make payments therefrom should have been in accordance with the terms and conditions of the contract. As stated in the Audit Report, Defence Services, 1951 'it appears somewhat extraordinary for a Government such as the Government of India to have to offer security in the form of Letters of Credit in favour of contractors who are just intermediaries involving locking up of foreign currency worth crores of rupees. The Government of India have ample financial and banking resources and can pay sums of any magnitude throughout the world at a moment's notice for meeting their contractual obligations'.

30. *Second Contract for Purchase of Defence Stores.*—In this case also, the High Commission for India in London informed the Government of India on the 9th October, 1950 about the availability of these stores. The original quotation from the manufacturers as communicated to the Government of India was over £ 6 per unit (exclusive of packing etc.) It appears that in order to finalise the

contract, the Ordnance Consulting Officer attached to the High Commission in London was sent to India for on-the-spot discussions. No record of the discussions that took place between the Secretary, Ministry of Defence, Financial Adviser, Defence and the O.C.O. has been kept. In the indent as it was given out by the Government of India, instead of showing the unit price, a total figure was quoted which worked out at £7-17-0 per unit. It is not known as to why the original quotation by the continental firm of £6 was exceeded at this stage and the indent specified a price higher by £1-17-0. No assistance was sought of the foreign Government where these stores were to be manufactured nor was the Indian Ambassador in that country kept informed in the initial stages. It was only on the 17th November, 1950 that the High Commission was telegraphed to keep our Ambassador in that country informed about the proposed purchases. Even then, it appears no formal or written information was sent to our Ambassador in that country from the High Commission in London. The requirements of the Government of India were communicated to the High Commission in London on the 22nd December, 1950. Within eight days of this communication, viz. on the 30th December, 1950 the S.C.K. (Agencies) Ltd., London became intermediaries for the negotiation of this contract. When questioned by the Committee as to when the S.C.K. (Agencies) Ltd. became the agents of the manufacturers, a letter was produced by the Defence Ministry which showed that Messrs. S.C.K. (Agencies) Ltd. were appointed on the 30th December, 1950 to negotiate for the supply of the same quantities of Defence Stores to India as stated in our indent sent to the High Commission for India on the 21st December, 1950. This firm was constituted as a private company only on the 20th June, 1950.

The Committee's observations in Para. 29 *supra* apply *mutatis mutandis* in this case. It is amazing how the exact military requirements of the Government of India which are of a confidential character became known to a private firm within eight days of their communication by the Defence Ministry to the High Commissioner for India in London. An independent enquiry into the circumstances under which the information leaked out to a foreign private firm would appear desirable.

31. The Committee also hold that other irregularities connected with this contract are:

- (i) lack of necessary financial concurrence in regard to the reasonableness of the price;
- (ii) opening of Letters of Credit involving payments to the extent of 50 per cent. of the entire contract price merely on production of certificates from the manufacturers that raw materials required for the manufacture had been acquired for the equivalent value. This is an unusual procedure and payment conditions should be incorporated in the contracts themselves; and
- (iii) no contemporaneous record of the secret conversations and discussions, that took place between the Ordnance Consulting Officer attached to the Office of the High Commissioner for India in London and the Secretary, Ministry of Defence or the Financial Adviser, Defence

Services, when the former came to India, had been kept, although the discussions involved huge financial commitments by the raising of the price of the stores in question by £1-17-0 per unit. This becomes all the more necessary in cases where a deal has to be entered into on a non-competitive basis.

**Para. 14, Audit Report, 1952**

32. *Loss on purchase of aviation stores without proper verification of the financial status of a firm.*—In response to an urgent demand from the Air Headquarters, India for certain aircraft stores, an order to the value of £8,115 was placed by the India Stores Deptt., London with Messrs. Aircraft Instrumentation Ltd. (U.K.) in September, 1949. In order to secure the 5 per cent. discount offered by the firm for settlement of their claim within 7 days of its presentation, payment of the full contract amount was made after the firm had furnished the necessary certificates of inspection of the stores as required by the contract and signed the usual undertaking, in the event of failure to deliver, to refund the advance payment made. Repeated shipping instructions for the delivery of the stores, however, were not complied with, and in April, 1950 the shortfall in deliveries amounted to approximately £5,800. Meanwhile, the above firm had been taken over by another which, on being approached by the India Stores Department to fulfil the balance of the contract, supplied a few of the outstanding items valued at £1,169 but pleaded inability to complete the supply of the remaining items on the ground that they had not been informed on taking over the old Company of any outstanding contracts with the India Stores Department and that they were themselves in financial difficulties as a result of their having advanced large amounts on the basis of a false balance sheet and fraudulent misrepresentations. The question of legal proceedings is stated to be under consideration by the High Commissioner for India in London.

33. The Committee are distressed to note that in this case no steps were taken by the D.G., I.S.D., London, before placing the order to the value of £8,115 or making the advance payment, to verify the credentials and financial standing of the firm Messrs. Aircraft Instrumentation Ltd. which was a private company with nominal capital of £2,000. During the evidence given before the Committee, the representative of the Ministry of Works, Housing and Supply admitted that when this transaction took place, the D.G., I.S.D., London did not maintain a list of approved contractors of the U.K. Ministry of Supply and apparently, the certificate of the Air Registration Board of the U.K. produced by the above firm was a fraud. The Committee observe from a note submitted to them by the Ministry of Works, Housing and Supply that 'the name of the firm was recommended by the Air Adviser to the High Commissioner based on past experience, and unless firms are known to the Air Adviser on account of previous transactions, he obtains the names of the firms by reference to the U.K. Air Ministry and/or U.K. Ministry of Supply'.

34. The Committee are not satisfied that in this case the methods of procurement of stores adopted by the Air Adviser and the D.G.,

I.S.D., London were businesslike. It is surprising to note that the firm, Messrs. Aircraft Instrumentation Ltd., were neither manufacturers nor agents of the manufacturers but were stated by the Air Adviser to hold stocks of the items required. The Committee express their disapproval of the action of the Air Adviser in London in having gone out of his way to suggest the name of a particular firm not even on the list of approved contractors. The Committee think that if the Air Adviser recommended some firm which was unsuitable and which failed to execute the job, he cannot escape responsibility. The Committee desire that the Ministry of Works, Housing and Supply should, in consultation with the Ministry of Defence, fix the responsibility on the person or persons responsible for placing the order with the above firm and take action against those responsible. The Committee should like to know, in due course, the action taken in the matter.

#### **Para. 12 of Audit Report, 1952**

35. *Procurement of blankets in the United Kingdom.*—In October, 1948, the Ministry of Defence enquired from the India Stores Deptt., London regarding the possibility of supply of various items of Military clothing including 300,000 white blankets. On 3rd November, 1948 the Army Requirements Branch of the High Commissioner's Office intimated to the Ministry of Defence that there was no prospect of such a supply from sources in England before July, 1949. This communication was presumably made after an enquiry from the U.K. Ministry of Supply. On or about the 5th November a representative of Messrs. Watson & Son Ltd. appears to have called at the office of the Army Requirements Branch as a result of which an intimation was sent to the Ministry of Defence in India that 50,000 part-worn blankets had been located in the United Kingdom. In a letter dated the 24th November, 1948, the U.K. Ministry of Supply informed the Army Requirements Branch that 300,000 blankets as against the 50,000 ordered could be delivered over the period March to September, 1949. In view of the urgency of the demand, the feasibility of obtaining supplies from the Ministry of Supply, U.K. for delivery during the spring of 1949 was not pursued. In the meantime, the Director-General of Stores who had already taken the initial steps with a view to obtaining these blankets from the trade (as distinct from the United Kingdom Government sources) received on the 18th December, 1948 telegraphic instructions to place an order for 50,000 blankets in accordance with the information given by the High Commissioner's Office to the Ministry of Defence on the 5th November, 1948. After inspecting a sample of the blankets stated by Messrs. Watson & Son Ltd., to be held by their principals, Messrs. S. Pentel & Sons Ltd., the order for 50,000 blankets was placed. At the request of Messrs. Watson & Son Ltd., a formal contract was entered into with Messrs. S. Pentel & Sons Ltd. and from that point there is no reference to the former firm in the papers shown to the Auditor of Indian Accounts in London. The contract was in the usual form and subject to the usual standard conditions, which provided that the contractor would be held responsible for the stores being sufficiently and properly packed so as to ensure their being free from loss or injury on arrival at the destination.

36. *Inspection.*—Although the Army Requirements Branch was of the view that 100 per cent. inspection was essential, the Director-General, I.S.D. made it clear that this would be an impossible task for his Department.

37. The supply was demanded by the 31st December, 1948 and when it did not materialise, the Director General, Supplies and Disposals in India, through whom the order was placed, was reminded on 14th February, 1949. No reply having been received, another reminder was sent by the Defence Ministry on 5th March, 1949. The D.G., S. & D. intimated on 8th March, 1949 that the stores were awaiting shipment. The first consignment was received by the end of March, 1949.

When the blankets arrived in the receiving Ordnance Depot in India between May and July, 1949, it was found that the blankets were infested and unserviceable. The matter was reported by the Defence Ministry to the late Ministry of Industry and Supply on the 5th July, 1949. A Court of Inquiry held in September, 1949 confirmed that the blankets were unserviceable and unfit for issue to the Army. The proceedings of this Court were sent in January, 1950 to the Ministry of Industry and Supply (now Works, Housing and Supply) who in February, 1950 forwarded the same to the India Stores Department, London. The matter was then taken up with the United Kingdom firm by the D.G., I.S.D., London. At first, the firm was willing to refund £0-6-0 per blanket as against the purchase price of £0-9-0 provided freight both ways was paid by the Government of India. Finally, the High Commissioner for India in London informed the Ministry of Defence that the firm was willing to take back the blankets on a reduction of 20 per cent. of the purchase price if the blankets were delivered to them in the U.K. This, however, was not acceptable to the Ministry of Defence who decided to sell the blankets in the Indian market. The blankets were ultimately sold by public auction for Rs. 2,95,000.

38. When questioned about the failure to carry out the 100 per cent. inspection of the blankets, the Ministry of Works, Housing and Supply stated that the purchase of these blankets involved sudden and heavy rush on the Inspection staff (textiles) and, in view of the urgency of the matter, it was not possible to depute staff from India or to make temporary appointments locally.

39. Apart from the overall loss caused to the Government on this transaction which comes to Rs. 1,34,599 (including Rs. 93,000 as Customs Duty and Rs. 2,000 being the commission paid to the auctioneer), serious irregularities, procedural and technical, were committed by the authorities handling it in India as well as in London.

The Committee regret to point out the following irregularities that took place in this transaction:

- (1) No serious attempt to procure these blankets from the trade in North India was made by the Ministry of W.H. & S. before cross-mandating the indent to D.G., I.S.D., London.
- (2) The part-worn blankets from the United Kingdom were accepted by the Defence Ministry in the belief that they will be delivered before the end of 1948 and

supplies from India were not possible before April, 1949. Actually the second-hand blankets reached the receiving Depot in India in May, 1949 only and the main object of getting early delivery which was to supply to our Forces in Kashmir in the winter of 1948-49 was defeated.

- (3) Contact with the U.K. firm of Messrs. S. Pentel and Sons Ltd., was made through an intermediary, Messrs. Watson and Son Ltd.
- (4) No enquiry about the commercial and financial standing of these two firms was made by the authorities in London. Messrs. S. Pentel & Sons had a registered capital of £5,000 only and Messrs. Watson & Son Ltd. of £1,000.
- (5) The D.G., I.S.D., London should not have dispensed with the stamping of blankets without obtaining the prior permission of the Ministry of Defence.

The practice of stamping seems to have been discontinued because in a certain case damage was done to the cloth. But some alternative proof of inspection should have been devised by the London authorities. In the absence of stamping, there was no proof that the inspected blankets were included in the consignment. In this connection, the failure to make a check on the commercial standing of the firm is regrettable.

- (6) Although the Court of Enquiry held on 14th September, 1949 pronounced that the blankets were unserviceable and unfit for issue to the Army, the Report was received by the D.G., I.S.D., London in March 1950, i.e., 12 months after the shipment of the blankets. This time-lag enabled the firm to repudiate its liability.

40. As the unserviceable blankets could be disposed of in India by public auction, the actual loss sustained by the Government is not heavy. But the Committee are constrained to refer to another aspect of this problem which is of great importance from the point of view of Defence. In matters of stores which are urgently required, their supply within the stipulated time is absolutely essential. In this case, the blankets arrived long after the stipulated date at a time when summer had set in and the blankets were of no use for issue to our troops till winter came. The matter becomes serious still if the stores received are found unfit for issue to the Army. The Committee take a very serious view of:

- (a) the very late arrival of these blankets; and
- (b) of their being unfit for the use of our Army.

It appears that no disciplinary action was possible against the persons responsible for procuring supplies of unserviceable blankets. The reason was that the inspected blankets had not been stamped which made it impossible to hold that they had been substituted. The Committee are of the opinion that both the Ministry of W.H. & S. and the D.G., I.S.D., London have been neglectful in their duty to

enforce proper standard of inspection and observance of the contract by the firm concerned. The Committee now learn that it has been decided to resume the old practice of suitably stamping inspected materials.

41. *Destruction of Departmental files.*—The Committee noted with concern the admission of the departmental officials that the departmental files regarding the purchase of blankets in the United Kingdom referred to in para. 12 of the Audit Report, 1952 had been destroyed. The files regarding purchase transactions should be kept for longer periods so that Government could be in a position to resist any claims from suppliers at a later date. The Committee recommend that the existing instructions regarding destruction of files should be carefully examined and modified to ensure that Government interests are not jeopardised by premature destruction of files.

42. The Committee view with concern that elementary and commonsense precautions in the matter of a series of important contracts involving large sums of money as well as well-known business and financial procedure and established practices were ignored. The Committee cannot also overlook the fact that intermediaries were interposed without justification in most of the cases, and it is not possible to hold that the lapses were merely procedural or due to defects in rules. The Committee are not in a position to say anything further in view of the limitations under which a Committee like theirs function. The question of the extent of individual responsibilities can be assessed only by a high level Committee consisting of one or two High Court Judges.

43. *General.*—Before concluding this Chapter on the purchase of stores in foreign countries, the Committee wish to lay down for the guidance of various Ministries in future that no contract should be negotiated through intermediaries having little or no standing or which appear to have been formed a few months before the contracts are negotiated. It is also essential that in all cases where contracts or transactions are entered into with private firms, every care should be taken to verify their financial position through Banker's reference or by consultation with the Government concerned. It is always desirable when dealing with private firms in a foreign country to take both our Ambassador in that country as well as the Government concerned into confidence particularly as in these days supplies of Defence stores are not possible from a foreign country without the concurrence and co-operation of the Government of that country.

**VI**  
**WORKS EXPENDITURE—M.E.S.**

**Para. 6, Audit Report, 1951**

44. *Delay in the clearance of advances paid to former Indian States for execution of Defence works.*—During the War certain Indian States were entrusted with the execution of Defence works in their territories on behalf of the Government of India. The arrangement entered into was that the States should be advanced 25 per cent. of the estimated cost of the work before commencement, further instalments of advances being given to them on submission of statements of expenditure actually incurred to date duly certified by the State Accountant General. The advances were to be so regulated that the unspent balance with the State Government did not at any time exceed anticipated expenditure during the next month. On completion of the works, the States were to furnish to the Engineer-in-Chief final statements of accounts for his acceptance.

Advances aggregating to about Rs. 2·3 crores were still outstanding on November, 1951 in the books of the various Controllers of Defence Accounts due either to non-receipt of final statements of expenditure from the States concerned or to statements rendered not having been finally accepted by the Engineer-in-Chief. The bulk of the outstandings relate to payments made during the years 1947 to 1949.

The Committee were informed that the outstandings related to the States of Jodhpur, Bikaner, Gwalior and Hyderabad and one or two of these States had not yet furnished final statements of expenditure due to certain difficulties facing them. The Jodhpur State against whom there was the largest outstandings had prepared final statements of expenditure and they were being verified by the Accountant-General, Rajasthan.

In order to expedite settlement of the outstandings referred to above, the Committee recommend that a team consisting of an Officer each of the M.E.S. and the Defence Accounts Department should be deputed to undertake some kind of visual audit or local inspection with a view to seeing on the spot that there was reasonable evidence of the expenditure having been incurred, and, if such evidence was forthcoming, the matter could be treated as settled.

**Para. 6, Audit Report, 1952**

45. *Fictitious financial adjustments in Works Accounts to avoid lapse of grant.*—The Committee noted the instances quoted in the Audit Report where fictitious adjustments of the cost of stores held in Engineer Stores Depots were made in the accounts of certain works without their physical movement to the sites of the projects. These adjustments were made late in the year with a view to avoid lapse of funds allotted to the projects.

The Engineer-in-Chief admitted that according to rules on the subject, adjustment of stores should not have been made until the stores had arrived on the site. These irregularities, he stated, had happened because the Officers employed on the works were relatively inexperienced and in their enthusiasm to ensure the completion of the various jobs within the financial year, they forgot to comply with the rules.

The Committee were assured that there was no loss or uneconomic expenditure caused to Government in this case and that such mistakes would not be repeated in future. They would, however, observe that it is of great importance that in administering public funds, the risk of loss through hasty or inadequately justified payments in the closing days of the financial year should be avoided.

**Para. 8, Audit Report, 1951.**

46. *Payments relating to settlement of cases out of Court.*—Para. 8 of the Audit Report disclosed that this case had caused Government additional expenditure to the tune of about Rs. 1.75 lakhs as the payments were made over and above the contractual amount already paid to the contractors on completion of the work contracted for and for which Government obtained no return.

The Committee appointed a sub-Committee to investigate into this case. The Committee approve the Report of the sub-Committee (Part III) and observe that the Advocate General should not have made a compromise in the case under report at Rs. 1,59,000 plus interest without first having obtained the approval of the Government of India. The Committee endorse the recommendation made by the sub-Committee that a rule similar to Law Officers Rule No. 173 of the Government of Bombay which provides that "no suit or other civil proceeding is to be settled out of Court or compromised in the Court without the express orders of Government" should be adopted by the Government of India in order to avoid recurrence of such cases in future.

**Para. 9, Audit Report, 1951.**

47. *Wrong pricing as a result of amendments to a contract.*—During the course of construction (under three contracts for a total sum of Rs. 18,51,780) of store plinths for a Reserve Base Supply Depot in 1944, it was considered necessary for technical reasons to omit the construction of *valley gutters* which had been originally provided for in the contract. The work was omitted by making amendments to the contracts and, instead of pricing the omissions at the same rates as the contractors would have been paid for had they carried out the work, these omissions were priced by a different method which resulted in an extra payment to the contractors of about Rs. 94,500.

The Committee were informed that in this case there were two different opinions. The Technical Adviser was of the view that the change involved a 'deviation' in contract; whereas the Engineer concerned opined that since there was a big change, it amounted to an 'alteration' of the contract and once it became an 'alteration' in the contract, it had to be agreed to by the contractor. The Engineer-in-Chief, during his examination by the Committee, stated that the change amounted in fact to an 'alteration' in the contract and not

'deviation' and he maintained that the view expressed by the Technical Adviser was incorrect.

The Committee observe that there was something paradoxical in this contract because it appears to them that if the contractor had been asked to do 10 per cent. less work, this would have been treated as a 'deviation' and he would have been paid 90 per cent. of the contract amount, whereas in this case he was asked to do 12 per cent. less work but was paid 93 per cent. of the contract amount. The Committee are surprised that a contract should contain clauses which would justify paying a contractor more for doing less work. They, therefore, recommend that the Ministry of Defence should examine the conditions of contracts in the Military Engineer Services in consultation with audit authorities and amend them suitably to ensure that such anomalies will not recur.

**Para. 43, Audit Report, 1951 read with Para. 40, Audit Report, 1952.**

48. *Arrears in rent recoveries.*—The Committee note that a sum of Rs. 14,35,147 is now outstanding for recovery as against the sum of Rs. 33,24,647 reported in the Audit Report (Appendix VI). The Committee desire that the question of recovery of the outstanding amount from the State Governments concerned should be vigorously pursued by the Ministry of Defence. and the Committee informed, in due course, of the results achieved.

**Para. 7, Audit Report, 1952**

49. *Collection of stores for unsanctioned works without allotment of funds.*—The representative of the Ministry of Defence admitted that the procedure followed in this case was not correct. The Committee hope that in future a stricter observance of the orders that stores for any work should be collected only after necessary funds have been allotted will be enforced.

**Para. 8, Audit Report, 1952**

50. *Clearance of outstanding bills of contractors in the M.E.S.*—The Committee note with concern that Government had to appoint special billing teams for the clearance of outstanding contractors' bills even for the year 1951-52. In their view, these bills should have been dealt with in the normal course by the Officers of the Military Engineer Services. The Committee hope that the Military Engineer Services Organisation should ensure that they perform their task adequately and that there will be no necessity for any billing teams in future.

The Committee were informed by the Controller-General of Defence Accounts that the number of outstanding bills pertaining to the year 1952-53 was 6,100 (*viz.*, 4,300 were under check and the remaining 1,800 were returned for one reason or another). The Committee express concern over this increase in the number of outstanding bills and feel that the element of delay in the settlement of a contractor's bill not only leads to corruption and other malpractices but also serves as an incentive towards the raising of the contractor's rates which means loss of public money.

The Committee desire that some effective measures should be taken by the Ministry of Defence to tone up the working of the

M.E.S. Organisation and instructions should be issued to all Commands/Formations etc., that contractor's bill should be dealt with promptitude.

**Para. 9, Audit Report, 1952**

51. *Military Credit Notes issued to contractors.*—The representative of the Ministry of Defence informed the Committee that the irregularity reported in Para. 9 of the Audit Report 1952, where in a M.E.S. Division a large number of Military Credit Notes had been issued to the contractors but the cost whereof had not been debited to their accounts in the contractors' ledgers, related to the war period when a great many laxities had crept in and that such Credit Notes were not being issued to the contractors at present.

In order, however, to prevent any malpractices in the issue of the Military Credit Notes to the contractors the Committee desire that a cent. per cent. check of all Credit Notes issued by the M.E.S. to the contractors should be conducted by the Defence Accounts Department.

52. *Setting up of Arbitration Tribunals to decide cases of disagreement under Works contracts.*—The Committee enquired from the Ministry of Defence about the action taken by them to implement the recommendation made in the second sub-para. of Para. 6 of their Report on the Appropriation Accounts, 1947-48 (post-partition) which *inter alia* stated as below:—

“\*\*\*that in the matter of arbitration and appointment of arbitrators, the arbitration clause should provide for arbitration by a tribunal of not less than three persons one of whom should be a high ranking judicial officer\*\*\*”

The Committee considered the Memorandum furnished by the Ministry of Defence in this connection (Appendix VII) and pointed out that it did not answer the point raised by the Committee as it referred to the appointment of an Umpire in cases where there was disagreement between the Joint arbitrators. They, therefore, pursued the matter further with the Ministry of Defence who have now stated as below [cf. O.M. No. 59(14)/53/E187-E-/D(Eng.) dated the 26th September, 1953]:—

“\*\*\*the intention of the previous memorandum was to acquaint the Public Accounts Committee with the present position regarding alternatives to the present system and procedure of settling disputes between the Government and the contractors. It will be noticed that the Government have sought to adhere to the existing system of appointments of Engineering Officers as arbitrators. The question of settlement of disputes by 'Arbitration Tribunals' is being examined in consultation with the Ministries of Works, Housing & Supply and Finance (Defence) in the light of the report of the Committee of the Ministry of Works, Housing and Supply on the 'Rationalisation of contracts in the Central Public Works Department'”.

The Committee, therefore, desire that an early decision should be taken in the matter and the Committee apprised of it in due course.

**Para. 47, Audit Report, 1952**

53. *Irregular disposal of Engineer stores.*—Para. 47 of the Audit Report, 1952 disclosed a loss of Rs. 78,801 suffered by Government as a result of irregular disposal of a Saw Mill with two Prime Movers valued at Rs. 1,54,050 which was found to be surplus a year after its receipt from the Middle East.

The facts of this case briefly are that the Saw Mill with two Prime Movers was offered to a party at cost price plus 10 per cent. which was accepted by the party in his letter dated the 20th July, 1945. The party had agreed to pay on this basis after the price had been ascertained and communicated, and in the meantime, the plant was treated as on loan. The delay in closing the deal was apparently due to the delay in ascertaining the actual cost price of the two Prime Movers and the Unit Accountant sent to the party a Receivable Order for Rs. 38,120 being the cost of two Prime Movers which he readily paid in February, 1947. This fact was not communicated to the Disposals Organisation. Subsequently, when it became known, the Director-General, Supplies and Disposals asked the party to adhere to the original terms of the sale, but the latter resiled from it. The legal opinion obtained by the Government in the matter was that the party could be compelled to adhere to the original terms and the Ministry of Works, Housing and Supply accordingly asked the party in June, 1949 to pay the balance of Rs. 1,31,335 or return the plant. This decision was reversed by the Ministry on the 2nd July, 1949 and the plant was sold to the party at Rs. 52,534 in conformity with the then Government policy of selling surplus plant and machinery to industrial users at 40 per cent. of the market value.

The Committee raised the following points and asked the Ministry of Defence to furnish information in this respect:

- (i) Why no hire charges were recovered from the party from July, 1945 to August, 1949 during which period the plant was in possession of the party?
- (ii) Why did Government waive the recovery of the hire charges amounting to Rs. 61,005?
- (iii) Why was no security deposit of the approximate value of the plant taken from the party?

After considering the Memorandum furnished by the Ministry of Defence in this connection (*Appendix VIII*), the Committee feel that this case reveals ignorance of the canons of financial propriety on the part of the authorities handling this unbusinesslike transaction. The Committee regret to observe that when the party was committed to the sale at cost price plus 10 per cent. and Government had after taking legal opinion decided to enforce the terms of the agreement, it was not correct on their part to have released these stores at 40 per cent. of the book value on the ground that it was in pursuance of a new policy decided by Government to sell surplus plant

and machinery to industrial users in order to speed up disposals and encourage rehabilitation and expansion of Industry.

In view of what has been stated above, the Committee are of the opinion that Government should pursue the matter further with a view to fixing responsibility on the persons who did not safeguard the public interests.

#### **Item 14 of the Statement of Outstanding Recommendations**

54. *Errors in letting out and operation of contracts—Alleged irregularities committed in the 'Term Contract'.*—The Committee considered the note furnished by the Ministry of Defence setting forth the decision arrived at by the Ministry of Defence, as also the views expressed by the Ministry of Finance, in regard to the case reported in para. 4(b) of the Audit Report (Defence Services), 1950 which disclosed the circumventing of the restrictions laid down in the rules for concluding a 'Term Contract'.

The Committee regret to note that the disciplinary proceedings against the delinquent officer in this case could not be instituted under the Army Act on the ground that the transactions were more than three years old. The Committee consider that in certain cases any irregularity may not come to notice within three years, or the enquiry may take a long time and it should not be possible for delinquent Officers to escape punishment on account of this technical loophole. The delay in convening a Court of Enquiry and/or delay in taking action on their recommendation defeats the very object of such an enquiry. The Committee, therefore, recommend that the Ministry of Defence should examine this aspect of the matter and amend the Army Act, if necessary, to ensure that adequate disciplinary action is taken in all cases against Officers who have been guilty of financial irregularities and they do not escape by taking shelter under the 'time limit' clause.

---

## VII PAY AND ALLOWANCES

### **Para. 26, Audit Report, 1951**

55. *System of Accounting of pay of troops.*—This para. reveals that a net debit balance of Rs. 4 crores for which no details are available, was outstanding in the accounts for March, 1950 and that the amount at credit in the suspense head "Field Deposits" was not being reconciled with the total of the balances in the Individual Running Ledger accounts. The Committee desire that special steps should be taken to clear off these outstandings and to effect reconciliation as any further delay might put Government to a loss.

### **Para. 27, Audit Report, 1951 and Para. 23, Audit Report, 1952**

56. *Debtor Balances in Army Other Rank's Accounts.*—A soldier's account is in debt when he has drawn pay and allowance over and above those he is entitled to. The main causes for the existence of Dr. Balances in the accounts of a soldier are:

- (i) Issue of advances of pay and allowance to the soldiers proceeding on leave.
- (ii) Payment of certain miscellaneous personal allowances in anticipation of their credit in the individual's pay account.
- (iii) Issue of advances over and above the entitlements of the individuals.

The Committee asked the Ministry of Finance (Defence) to furnish them a note stating the machinery devised by that Ministry to guard against over-issues of advances and consequent losses to Government. From a perusal of this note (*Appendix X*), the Committee observe that the position of Debtor balance had considerably improved. The total debtor balance at the end of February, 1953 was only Rs. 40 lakhs as compared to about Rs. 100 lakhs on the 31st August, 1950. Out of the debtor balance of Rs. 40 lakhs, Rs. 10 lakhs represent payment of advances to men proceeding on leave, and are accordingly permissible debtor balances, which are easily recoverable through the pay accounts of the soldiers affected in subsequent months as and when pay etc. fall due.

The Committee would stress that efforts should be made to clear off the balances in the Soldiers' Accounts. In the meantime, they would like to watch the effects of the remedial measures taken by the Ministries of Finance and Defence to ensure a progressive reduction in the debtor balances.

### **Item 16 of Statement of outstanding Recommendations and Para. 29 of the Audit Report, 1951**

57. *Periodical verification of cash balances with the Imprest Holders.*—The Committee understand from Para. 2 of the note

(Appendix XI) submitted to them pursuant to action taken on item 16 of the Statement of outstanding recommendations that the Imprest and cash balances of the Units are checked quarterly by an Audit Board consisting of senior Officers of different units. In addition, periodical surprise checks of cash balances by senior administrative/ executive officers are also carried out and irregularities, if any, are reported to the Station Commander. The Committee, however, desire that the local Audit Officers of the Defence Accounts Department should also carry out surprise checks of cash with the Imprest Holders and the Defence authorities should render them all necessary facilities to carry out such checks.

58. *Losses of cash etc.*—The Committee note that despite the existence of the Quarterly Regimental Boards cases of defalcations, misappropriation of cash etc. were not infrequent as disclosed in the Accounts for the years under report. The representative of the Ministry of Defence stated that there had been a steady improvement in this respect and he assured the Committee that the defects would disappear gradually.

The Committee, however, desire that the Ministry of Defence should examine the adequacy of the various internal checks including checks by the Defence Accounts Department, on the cash accounts in consultation with the Controller General of Defence Accounts, the Ministry of Finance (Defence) and Comptroller and Auditor General and suggest improvements, if necessary.

**Para. 33(3), Audit Report, 1951**

59. *Pension payments.*—The Secretary of State for Commonwealth Relations is authorised to approve increases to pensions in accordance with the British Royal Warrant, provided that in applying the regulations he is guided by the practice of the appropriate Service Department of the U.K. Government. The Committee were informed that the Auditor of Indian Accounts, London, had advised that the action of the Commonwealth Relations Office in sanctioning the pension increases was not in conformity with the procedure followed by the British War Office. The Committee recommend that all the pensionary increases sanctioned by the Commonwealth Relations Office of the nature referred to in para. 33(3) of the Audit Report, 1951, may be reviewed and steps taken to recover overpayments, if any.

**Paras. 32 and 33, Audit Report, 1952**

60. *Higher pension awards by the Commonwealth Relations Office.*—The Committee would draw the attention of Government to Para. 153 of their First Report and urge that they should arrive at an early decision for taking over the work relating to the payment of Military pensions from the U.K. Government with a view to entrusting it to the High Commissioner for India in London. This will also enable the Government of India to save the payment of agency fees on the pensions paid by the Commonwealth Relations Office on their behalf. The Committee should like to know, in due course, the decision arrived at in the matter.

## VIII

## DEFENCE INSTALLATIONS AND FACTORIES

61. As stated elsewhere, the Committee could not take up detailed examination of the Accounts relating to the various Defence Factories and Installations. The Committee deal here with some of the more important irregularities only that came to their notice in the Accounts under report.

**Para. 49, Audit Report, 1951**

62. *Short recoveries on account of outside work executed in a dockyard.*—The Committee note the statement made by the Ministry of Defence that there was a *bona fide* mistake in this case as the Officers responsible for the use of the terminology 'basic labour' were under the impression that others who would have to apply the orders would not find any difficulty in correctly interpreting the terminology (*Appendix XII*). The Committee enquired from the Ministry of Defence whether the original proposals on the basis of which Government issued orders in December, 1948 directing *inter alia* that an *ad hoc* overhead charge of 140 per cent. on basic labour should be added to direct costs were submitted through the Controller of Defence Accounts (Navy) and whether the statement showing the calculations of actual labour charges included dearness and other allowances. After considering the reply furnished by the Ministry (*Appendix XIII*) and in view of the assurance held out earlier by the Financial Adviser (Defence) that there had been no financial loss to Government, the Committee do not want to pursue the matter any further. They would, however, recommend that Government orders involving financial implications should be worded in clear and precise terms and should not be vague and ambiguous and thus be susceptible of different interpretations by the subordinate authorities.

**Para. 52, Audit Report, 1952**

63. *Absence of control over production costs in Naval Dockyards.*—The Committee note with concern the non-preparation of estimates in respect of jobs executed in the Naval Dockyards and consequent absence of control over production costs. The Committee are informed that a proposal to sanction the appointment of a Cost Accounts Adviser is receiving Government's consideration (*Appendix XII*). While the Committee recognise that at present there is an acute shortage of personnel trained in the Cost Accounting work in the country, they would recommend that Government should take steps to train sufficient manpower in Cost Accounting and estimating work not only for the Naval Dockyards but also for employment in other Governmental Industrial Undertakings.

The Committee are further of the view that if the initial accounts are kept on sound lines, things cannot go wrong at a later stage. According to them, Cost accounting is very necessary in cases where jobs are executed for outside parties and cost has to be recovered from them. It is also necessary for watching economy in the Department itself, as a kind of index or barometer to see how

the business is being done. The absence of estimates provides opportunities for all kinds of evils. The Committee should like to know in due course, the action taken by Government to implement their recommendation.

**Para. 6 of the Audit Report on the Commercial Appendix to the Appropriation Accounts (Defence Services), 1949-50.**

64. *Amounts due to factories on account of work done for or stores supplied to private individuals.*—The Committee note that a sum of Rs. 12.51 lakhs on account of stores supplied or services rendered to private individuals by Ordnance and Clothing Factories during the years 1944 to 1948 has been outstanding for a long time. The Committee desire that Government should take all possible steps to enforce recoveries of the existing heavy outstandings.

**Para. 7, Audit Report, *ibid.***

65. *Alleged unfinished M.E.S. Works in a factory.*—The Committee were informed that in view of the incomplete nature of the construction accounts that were maintained during the War years, it had not been found possible to link up at this stage the figures of expenditure incurred on the project for the erection of a Factory at a certain station with those in the block accounts in the normal manner. The Ministry had, therefore, decided to make a survey of the existing buildings to arrive at a valuation at rates which prevailed during the period the project was executed. The Committee recommend that the question of allocation of the unaccounted expenditure in this case should be settled and necessary adjustments made as early as possible.

**Para. 2 of the Audit Report on the Commercial Appendix to the Appropriation Accounts (Defence Services), 1950-51.**

66. *Heavy rejections in a certain Ordnance Factory.*—The Committee note that the value of rejections in this factory has increased again in the year under review from Rs. 3,96,909 in the previous year to Rs. 6,55,554 i.e., an increase from 6.44 per cent. to 12.32 per cent. of the total cost of production of the respective years.

The reasons assigned for the rejections are the same as those for the previous years, viz., dearth of skilled labour and want of proper quality of sand, steel, etc. During the evidence given before the Committee, the representative of the Ministry of Defence admitted that although it was known when the experiment began that proper quality of sand was not available, the experiments had to be proceeded with only 'to keep the skill alive' viz., the technical men who had been trained and engaged had to be retained. When it was known that proper quality of sand was not available, the Factory authorities should have either made arrangements for getting sand of the precise quality or proceeded with some other work for the time being. The Committee are now informed that the proper quality of sand has been located. They would observe that with a little more energetic action on the part of the Technical Officers of the Director-General, Ordnance Factories, the defect could have been remedied much earlier and a considerable position of the loss of Rs. 6½ lakhs avoided.

67. *Accounting of stores supplied by the Ordnance Factories to the M.G.O. Branch.*—The Committee enquired from the Ministry of Defence whether the Ordnance Factories-debited to the M.G.O.'s Branch the cost of all stores supplied to them. In reply, the Ministry has stated that 'for purposes of accounting, Ordnance Factories are considered part of the Army Establishments. The cost of stores supplied to the M.G.O. Branch, is therefore, not separately debited to that Branch' (*Appendix XIV*). The Committee observe that as the question of pricing and debiting of the cost of stores manufactured in the Ordnance Factories to the M.G.O.'s Branch involves major changes in the budgetary and accounting system of Defence Services, they shall have to leave it over for further examination till next year when they hope to consider in detail the Accounts of the various Ordnance Factories etc.

---

**IX**  
**MISCELLANEOUS IRREGULARITIES ETC.**

**Para. 10, Audit Report, 1952**

68. *Uneconomical purchase of stores for military works.*—At the instance of the Committee, the Ministry of Works, Housing and Supply furnished to them a note stating the facts of the case referred to in the Audit Report as also the disciplinary action taken against the Executive Engineer concerned for (i) ignoring the codal rules in not having called for tenders or quotations for the supply of grass poolas though the total cost far exceeded his powers; and (ii) causing loss of Rs. 34,900 to Government by paying very excessive rate for the supply i.e. Rs. 30 per 100 instead of Rs. 37 per 1000. The Committee regret to point out that it took about two years for the Ministry to institute disciplinary proceedings against the Executive Engineer. During the course of the evidence given before them, the representative of the Ministry admitted that there did occur some delay in the Office of the Chief Engineer, C.P.W.D. in dealing with this case. The Committee deprecate the delays that generally occur in the subordinate Offices to proceed with the disciplinary matters. The Committee would once again draw the attention of Government to the recommendations contained in Para. 27 of their Seventh Report and emphasise that top-priority should be accorded in all Offices to the disposal of the disciplinary cases. In the present case, the Committee are informed that the matter has been referred to the U.P.S.C. They would like to know, in due course, the action taken by the Ministry against the Executive Engineer on receipt of the advice of the U.P.S.C. In the meantime, the Committee would re-affirm the oft-repeated important principle that contracts should be placed after tenders have been openly invited.

**Para. 44, Audit Report, 1952**

69. *Sale of buildings to a private individual.*—The Committee consider that the sale of buildings, the original book value of which was Rs. 1.09 lakhs, for Rs. 20,000 to the widow of a deceased Secretary of the Government of India was not concluded in the interest of the State especially when these buildings were required for residential purpose by the Defence Forces. The Committee are told that the team of Officers deputed by the Ministry of Defence for carrying out the valuation of the buildings was headed by a Joint Secretary in that Ministry. They desire that in the matter of evaluation of buildings, the assistance of 'expert valuers' should be obtained.

**Para. 42, Audit Report, 1951 and Para. 42, Audit Report, 1952**

70. *Compensation Rayments.*—The Committee observe that as the matter of recovery and the clearance of outstanding audit objections have already been considerably delayed, the Government of West Bengal should be urged to expedite it.

**Para. 48, Audit Report, 1952**

71. *Cannibalisation of post-war vehicles.*—In April, 1950, orders were issued by the M.G.O. for dismantling 25 per cent. of the repairable load-carrying mechanical transport vehicles of the post-war type held by Depots with a view to provide spares, which were

in short supply for the maintenance of the rest of the load-carrying post-war vehicle fleet. This scheme was technically termed as "Cannibalisation of post-war model 'B' vehicles". The scheme was intended to be given trial for a year subject to a review by Army Headquarters after three months or as soon as detailed and reliable data on the working of the scheme became available.

The Committee enquired why this scheme was not suspended immediately in October, 1950 when it was known that it was not yielding the results expected. The representative of the Ministry explaining the circumstances stated that by the time instructions were issued to suspend the scheme on 3-1-51, as many as 2,667 vehicles had already been cannibalised.

The Committee regret to note from the Audit Report that the object for which the scheme had been launched *viz.*, to meet the shortage of spares was not fulfilled to any appreciable extent. Financially, the measure involved a loss of over Rs. 13 lakhs representing the difference between:—

- (i) the estimated value at which the 2,667 vehicles could have been sold (Rs. 53,34,000) plus the expenditure incurred on cannibalisation (Rs. 1,33,350), and
- (ii) the estimated value of the products of the scheme *viz.*, spares, usable engines and assemblies, steel bodies, scraps, etc. (Rs. 41,34,670).

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

#### **Para. 49, Audit Report, 1952**

72. *Loss due to heavy condemnation of Batteries.*—The Committee note that of the various types of batteries valued at about Rs. 55.93 lakhs imported from the U.K. for providing power for Army Wireless Sets, a number of them valued at Rs. 29 lakhs had been condemned in an Ordnance Depot. The representative of the Ministry stated that the losses were due either to defective supply by the U.K. authorities or to over-provisioning.

The Committee regret that the U.K. War Office who arranged the supply of these batteries when asked to replace the defective batteries refused to do the needful on the following ground which does not appear to carry much weight:

"We appreciate that these batteries have not stood up as they should have done, but this has been the same for all our customers as indeed it has been for ourselves".

The representative of the Ministry of Defence could not also explain to the Committee why an inspection of the stuff had not been conducted before its shipment to India.

The representative of the Ministry of Defence admitted that the financial loss on account of over-provisioning was due to an error

of judgment in fixing the scale of supply of batteries to the Units the result of which was that the batteries became unserviceable while in storage. He assured the Committee that adequate steps had since been taken to safeguard against the recurrence of losses due to wastage or over-provisioning in future.

In reply to a question put by the Committee, the Ministry of Defence have stated that all requirements of the type of batteries referred to above are now obtained indigenously. In view of this, the Committee do not want to pursue the matter further.

**Para. 39, Audit Report, 1951**

73. *Remittance Account*.—The Committee were informed of the following latest position in regard to the claims outstanding against the U. K. Government as reported by the Auditor of Indian Accounts, London:—

- (a) Freight on vouchers alleged to cover War Office earmarked stores—Rs. 13,39,000.
- (b) Freight on general stores—Rs. 2,44,57,000.
- (c) Freight on personal effects—Rs. 1,72,000.

The Committee understand that the claims preferred by the Defence Accounts authorities here were rejected by War Office in their present form on the ground that the information supplied on the supporting vouchers was insufficient to enable them to identify the stores or to confirm that they were earmarked for specific disposal outside India and so on.

Further, as in accordance with the terms of the Plan Settlement, the liability of the Government of India in regard to freight on personal effects was fully discharged on a capitation rate basis, the payments made to shipping companies on this account by the Government of India were correctly recoverable from the War Office.

The Committee asked for a statement showing the outstanding claims against the U.K. Government. From the information furnished to them by the Ministry of Finance (Defence) [*Appendix XV*], they note that the balances outstanding for adjustment in the Remittance Account to the end of March, 1953 amount to £3,788,100 which includes claims in connection with the despatch of stores referred to in Para. 39 of the Audit Report, 1951. The Committee suggest that the High Commissioner for India in London should be asked to pursue the matter at a high level with the War Office and ensure an early settlement of the outstandings, as any further delay is likely to complicate matters.

**Para. 55, Audit Report, 1952**

74. *Clearance of outstanding audit objections*.—The Committee desire that the Ministry of Defence should, in consultation with the Ministry of Finance (Defence) and Audit, evolve a method to clear off the back-log of unimportant audit objections which are outstanding since long.

The Committee also desire to draw attention to the recommendation made in Para. 84 of their Seventh Report and express the hope that the next year's Audit Report will exhibit a better picture in this respect.

**B. DAS,**  
CHAIRMAN,  
PUBLIC ACCOUNTS COMMITTEE.

*Dated, the 29th June, 1954.*

## **PART II**

---

---

**Proceedings of the Meetings of the Public Accounts  
Committee relating to the consideration of the Defence  
Accounts, 1949-50 and 1950-51.**

---

---

**Proceedings of the First Meeting of the Public Accounts Committee  
held on Tuesday, the 30th June, 1953.**

---

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri T. N. Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. Shriman Narayan Agarwal  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar  
Shri Shree Narayan Das

Shri G. S. Rau, *Officer on Special Duty, Comptroller and Auditor-General's Office.*

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

Shri S. Gupta, *Accountant-General, Food, Rehabilitation and Supply.*

Shri P. C. Padhi, *Accountant-General, Central Revenues.*

**SECRETARIAT**

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

*Witnesses*

Shri H. M. Patel, *Secretary, Ministry of Defence.*

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

Major-General J. M. Chaudhuri, *Adjutant-General.*

Shri M. K. Vellodi, *Secretary, Ministry of Works, Housing and Supply.*

Shri S. Ratnam, *Joint Secretary, Ministry of Finance.*

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

Shri A. Shama Rao, *Deputy Financial Adviser, Ministry of Finance (Defence).*

Shri Shiv Charan Singh, *Director of Co-ordination, Directorate General of Supplies and Disposals.*

*Defence Services*

## MINISTRY OF DEFENCE

75. The Committee took up consideration of the Appropriation Accounts (Defence Services) 1949-50 and 1950-51 and the Audit Reports thereon.

**Para. 28, Audit Report on the Appropriation Accounts (Civil) 1949-50—Provident Fund Accounts, Indian Naval Dockyard's Workmen.**

76. In this case, a sum of about Rs. 32,000 had been over-credited as interest during the period from 1942-43 to 1949-50. It had been found in the course of audit that the amount of interest allowed on the Government contribution (which was only 75 per cent. of the subscriptions) was equal to the amount of interest earned on the subscriptions made by the depositors and the Committee, therefore, desired to know as to how this mistake occurred. Explaining the position, the representative of the Ministry of Finance stated that the mistake occurred due to some ambiguity in the Provident Fund Rules pertaining to the Dockyard workers which were framed on the basis of similar rules that existed for the Ordnance Factory workmen. He informed the Committee that steps had already been taken to rectify the defect in the rule by amending it from April, 1951. He further stated that as recommended by the Kalyanwala Committee, the Government contribution had now been fixed at 8-1/3 per cent. instead of 6½ per cent. and this would mean that the workers would continue to earn interest on their own contribution and Government contribution as this had been provided in the revised rules. The representative of the Ministry of Finance, however, pointed out that in the case of these accounts which had now become non-effective, a certain amount had become irrecoverable. He promised\* to apprise the Committee of the total amount that would become non-recoverable by reason of persons having demitted service, as the details were not available at the moment. The Committee desired to be furnished with a detailed note clarifying the whole position as to whether the overpayment was due to any defects in the rules or their wrong interpretation or due to negligence of someone.

**Para. 31 of the Appropriation Accounts (Civil), 1949-50—Profit and Loss Account and Balance Sheet of the Hindustan Aircraft Limited.**

77. In regard to the Balance Sheet of the Hindustan Aircraft Limited as on the 31st March, 1952, furnished by the Ministry of Defence, the Committee observed that it had not been signed either by the Manager/Directors of the Company or by the Secretary/Joint Secretary of the Ministry and decided to take it up sometime in the next week. In the meanwhile, they desired that the copies of the authenticated Balance Sheet and of the Memorandum and Articles of Association of the Company should be circulated to the Committee.

**Para. 10, Audit Report (Defence Services), 1952—Uneconomical purchase of Stores for Military works.**

78. In regard to the supply of 1,31,950 grass *poolas* which resulted in extra expenditure of about Rs. 34,900 the Committee desired

\*See Appendix XVI.

to know what action had been taken against the Executive Engineer concerned for overlooking the disparity in rates and neglecting the financial interests of Government. Explaining the position the representative of the Ministry of Works, Housing and Supply stated that the explanation furnished by the Executive Engineer was being examined and his case might be referred to the Union Public Service Commission for disciplinary action. Since the factual position was not readily available, the Committee desired the representative of the Ministry to furnish a note covering *inter alia* information on the following points:—

- (i) Date on which the case was brought to the notice of the Ministry.
- (ii) Date on which Government took cognisance of the matter.
- (iii) Period during which the supply was made and whether the entire supply was made by the same person.

The representative of the Ministry promised to furnish a detailed note on this case.

**Paras. 26 and 27 of Audit Reports, 1951 and 23 of Audit Report, 1952 respectively—System of accounting of Pay of troops and Debtor Balances in Soldiers' Accounts.**

79. In regard to para. 26 of Audit Report 1951, the Committee desired to know as to what was the present position about the heavy outstandings amounting to Rs. 4 crores under the head 'Advances—Depot Accountants' and what reforms had since been introduced. The Controller-General of Defence Accounts stated that according to the new accounting system in vogue from the 1st July, 1949 the entitlements of a particular soldier were being charged to the service head and a credit was being taken simultaneously to a suspense account *viz.*, 'Field Deposits'. He informed the Committee that since January 1952 further improvements had been effected for a thorough reconciliation of the totals in the Deposit heads and the totals in the individual ledger accounts.

As to the outstandings of 4 crores, the Controller-General of Defence Accounts stated that these had since been cleared and at present there was a small credit balance of about Rs. 36 lakhs which was due to some classification errors. These were also being pursued.

80. In regard to the Debtor balance in Army Other Ranks' Accounts referred to in para. 27 of the Defence Audit Report 1951, the Committee desired to know whether any machinery had been devised by the Ministry to guard against over issues, and consequent losses to Government. The representative of the Ministry stated that the steps taken to reduce future indebtedness were those specified in sub-para. (2) of para. 23 of the Defence Audit Report, 1952. Elaborating the position, he stated that normally a soldier would not be paid anything more than what was to his credit *plus* one month's pay that accrued to him.

81. The Committee were informed that the practice in vogue was to bring to the notice of the administrative authorities such unusual advances as had not been covered by rules and if mistakes were of

a serious nature, suitable action was taken against the delinquent Officers.

82. The representative of the Ministry of Finance informed the Committee that there was no ambiguity about the rules governing the payment of advances to soldiers, but the cause of overpayments could be attributed to (1) errors of fact, (2) payment of leave advances, (3) genuine mistakes on the part of Imprest Holder and (4) favouritism to some persons. The irregularities were, however, pursued by the Central Office.

83. As to the Committee's enquiry about the writes-off of Rs. 92.5 lakhs during 1946-47 to 1948-49 and Rs. 11.14 lakhs during the period from the 1st April, 1949 to 30th September, 1950, the representative of the Ministry of Finance stated that these amounts represented the irrecoverable debtor balances in respect of 1½ million soldiers who had been demobilised after the War and from whom no recoveries were possible. Any adjustment that had to be made between the British Government and the Government of India on this account had already been made, and it was a mere technical write off to remove the outstandings from the books.

**Para. 29 of Audit Report, Defence Services, 1951 — Imprest Holders' Accounts.**

84. The Committee desired to know how the amount of imprest was fixed, and they were informed that imprest amount of troops depended largely on the number of men to whom the Imprest Holder had to make payment. It was a rough sum and no limit was fixed. In addition there were Fixed Imprests for contingencies. The defalcation of Rs. 14,631 referred to in para. 29(i) of the Audit Report was due to a deliberate attempt on the part of an individual who violated the rules, by diverting the money to himself instead of paying it to soldiers. This man had been summarily tried and discharged from service on the 16th May, 1951.

The representatives of the Ministries of Defence and Finance stated that steps were always taken to see whether the money defalcated by an individual could in any way be recovered from him before a write off was actually sanctioned.

The Committee adjourned to meet again at 10 A.M. on Wednesday, the 1st July, 1953.

---

**Proceedings of the Second Meeting of the Public Accounts Committee  
held on the 1st July, 1953.**

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

**PRESENT**

Shri B. Das—*Chairman*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. Shriman Narayan Agarwal  
Shri Shree Narayan Das  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar

Shri V. D. Dantiyagi, *Additional Deputy Comptroller  
and Auditor-General.*

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

**SECRETARIAT**

Shri S. L. Shakdher, *Joint Secretary.*

*Witnesses*

Shri H. M. Patel, *Secretary, Ministry of Defence.*  
Air Commodore Arjan Singh, *Administrative Officer Incharge,  
Personnel and Organisation, Air Headquarters.*  
Captain M. K. Hable, *Chief of Administration, Naval Head-  
quarters.*  
Commodore M. R. Billimoria, *Indian Navy.*  
Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of  
Finance (Defence).*  
Shri R. Jagannathan, *Controller-General of Defence Accounts.*  
Shri A. Shama Rao, *Deputy Financial Adviser, Ministry of  
Finance (Defence).*

**MINISTRY OF DEFENCE—contd.**

**Item 16 of the Statement of outstanding recommendations—periodi-  
cal verification of cash balances with the Imprest Holders.**

85. The Committee desired to know whether surprise checks of the cash imprests held by Imprest Holders attached to the various Units were being conducted by Administrative/Executive Officers

and if so, whether such checks had revealed any cases of defalcation. The representative of the Ministry of Defence stated that information was not readily available and promised to collect it. His own view was that the existing arrangements for audit were satisfactory and that cases of defalcation were few. He further stated that a maximum limit in regard to the amount of money that an Imprest Holder could draw had been fixed on an *ad hoc* basis. The Controller-General of Defence Accounts informed the Committee that the recommendations of the Public Accounts Committee that the use of emergency cash requisitions should not be resorted to had been accepted and that the rules had been amended accordingly.

86. As to the surprise check of cash balances the Controller-General of Defence Accounts explained some difficulties which made such checks inefficacious, as they, under the existing system, were required to give timely notice to the Officers Commanding of their impending visit and thus the surprise element in such check could not be ensured. He informed the Committee that such surprise checks were conducted by the Regimental Audit Boards which visited the Units quarterly. The Controller-General of Defence Accounts did not, however, have any objection to surprise checks being conducted by his Officers should it be insisted upon. On his part, the representative of the Defence Ministry promised to make available all facilities to the Audit authorities for carrying out such checks.

87. The Committee noted that despite the existence of the Quarterly Regimental Board, cases of defalcations, misappropriations etc. were not infrequent. The representative of the Defence Ministry, however, contended that these might be due to depleted strength of experienced officers in the Services after Independence. He further stated that there had been a steady improvement in this respect and hoped that these defects would disappear gradually.

The Committee desired the Ministry of Finance (Defence) to examine the efficacy of the various checks—internal and external—on the cash accounts in consultation with Audit and suggest improvements.

**\*Para. 30, Audit Report, 1951—Non-recovery of proportionate outfit allowance.**

88. The Committee desired to know as to why it had not been possible to recover proportionate refund in respect of renewal outfit allowance from the Officers who had been released from service, even shortly after receipt of the allowance. The representative of the Defence Ministry stated that usually retrospective effect was not given to recover payments which Government themselves authorised. He contended that since Government had taken a different view it could not be said that a loss had occurred.

**Para. 34, Audit Report, 1951—Adjustment of pensionary charges in respect of Indian Military Pensioners of Hong Kong, Singapore Royal Artillery granted pensions by War Office, London.**

89. The Committee desired to know the present position of outstandings against the War Office, London. The Controller-General

• See also Appendix XVII.

of Defence Accounts stated that the work of adjustment of pensionary charges in respect of Indian Military Pensioners of Hong Kong, Singapore Royal Artillery who were granted pensions by the War Office, London has been practically completed. Regular debits were being raised from the 1st April, 1950 except for a small sum of about Rs. 3,000. He informed the Committee that whenever any amounts were due from the War Office, London, the recoveries were invariably enforced. In regard to payment of pensions to Pakistani nationals, the representative of the Ministry of Finance (Defence) stated that payments upto a certain date would be compiled in the books of the undivided Government, and subsequent adjustment made with the Pakistan Government with regard to their portion of the liability.

The Committee desired to know whether the estimated outstanding as on the 1st April, 1953, amounting to £21,512 had since been cleared, and were informed that for the period prior to Partition, the amounts to be debited in respect of payments in India was Rs. 3,700 and those in Pakistan Rs. 2,21,000. The figures for India for the period after Partition was Rs. 3,421.

**Para. 33(2), Audit Report, 1951—Pension Payments.**

90. The Committee desired to know whether Government had accepted the interpretation of the term "re-employed" put by the British War Office in regard to payments of pensions to widows of retired officers re-employed in a national emergency. The representative of the Ministry of Defence replied that this point had since been clarified and the Government's view was that the widow of a retired re-employed Officer was eligible to pension only if the Officer had been re-employed by the Government of India. If he had been re-employed by the U. K. Government, the pension would have to be borne by that Government. The Commonwealth Relations Office, London, had been informed accordingly, but their reply was awaited.

91. Referring to Sub-para. (3) of paragraph 33 *ibid.* the Committee desired to be apprised of the present position and they were informed that the Indian Audit Officer, London had advised that the action of the Commonwealth Relations Office in sanctioning the pension increases was not in conformity with the procedure followed by the War Office. Accordingly, the High Commissioner for India in U.K. had been instructed to check this practice and take steps to recover the erroneous payments already made.

**Para. 39, Audit Report, 1951—Remittance Account.**

92. The Committee enquired of the representative of the Ministry of Defence about the present position regarding the outstanding recoveries from the U.K. Government and they were informed that certain difficulties were being experienced in collecting the records and convincing the War Office about the details, as the War Office would not accept any debits unless they were supported fully by the requisite vouchers. The Ministry and the High Commissioner's Office in U.K. were now collecting and sorting out all the relevant papers to meet this objection. Whenever any debit was raised by the War Office against the India Government, the latter also insisted on proper proof. The Deputy Comptroller and Auditor-General

stated that the latest position in regard to outstanding claims as reported by the Auditor of Indian Accounts, London was as follows:

	Rs.
(a) Freight on vouchers alleged to cover War Office earmarked stores ...	13,39,000
(b) Freight on general stores ...	2,44,57,000
(c) Freight on personal effects ...	1,72,000.

As the Government of the U.K. were liable for freight charges in respect of all consignments despatched on their behalf irrespective of whether the stores were issued out of their 'earmarks' or from the Government of India stocks, the War Office was asked as to why they wanted to differentiate between the two categories of stores. The representative of the Ministry of Defence, however, promised to pursue the matter with the War Office.

**Para. 25, Audit Report (1) 1952—Loss of public money by fraud.**

93. In reply to a question, the representative of the Ministry of Defence stated that the Courts Martial were composed of Army Officers who were fairly trained in the Law of Evidence. The Committee wanted to know if an Officer of the Accounts Department could be associated with a Courts Martial as an Assessor when cases of financial irregularities and defalcations were being tried. The representative of the Ministry of Defence stated that all Court Martial proceedings were reported to the Adjutant-General, with a view to seeing that the Courts Martial had functioned properly. In his opinion any defect that might be present in the Court Martial procedure, was due to lack of experienced officers and would disappear in due course. He, however, stated that there was definite improvement in this regard.

**Para. 32, Audit Report, 1952—Higher Pension award to an Officer.**

94. The Committee desired to know whether the competent authority to sanction pension award was the Commonwealth Relations Office or the High Commissioner for India or the Government of India and they were informed by the representative of the Ministry of Finance (Defence) that the rules that were applicable to the British Officers serving in the Indian Army were based on the rules which were applicable to British Officers of the British Army. At the time of transfer of power, the Government of India gave an assurance to the U.K. Government that all the rights and privileges which the British Officers of the Indian Army enjoyed in the matter of pensions and other emoluments would be respected by the India Government. In such cases the proper agency for dealing with the matter was the Commonwealth Relations Office acting in consultation with the War Office as they were in a better position to interpret the regulations made by the U.K. Government in this regard.

In the case of the Officer referred to in the Audit paragraph, the Committee observed that if the Officer had retired sometime before the 16th August, 1947 the pension admissible to him would have been different and that it appeared that the Commonwealth Relations Office had been delaying the retirement of the Officer concerned in order to take cover later under a technicality which would render the India Government liable to pay the Officer more. He, however,

contended that instances of such cases had since become rare and added that the question of taking over of such pension disbursements by the Indian High Commissioner in the U.K. was considered once but it was realised that the amount of additional work that it would involve in the office of the High Commissioner would not be worthwhile, as the set of Officers who were being paid pensions on behalf of India would be gradually disappearing. The matter was, however, still under consideration.

**Para. 51, Audit Report, 1952—Delay in disbandment of a hill depot.**

95. The Committee desired to be apprised of the grounds that led the Government to regularise the extra expenditure of Rs. 20,769 incurred on the Establishment of a hill depot in Darjeeling for which no sanction existed. The representative of the Defence Ministry stated that though all hill depots had been closed down from the 1st April, 1946, the Darjeeling depot continued to exist due to lack of knowledge about the rules on the part of the Station Staff Officer who considered it to be part of his establishment. The existence of the hill depot without any formal sanction came to light in June, 1949 but the depot could not be wound up earlier than the 3rd September, 1950 as some staff had to be retained for the disposal of large quantities of stores and for guarding the premises and stores. The payments from July, 1949 till September, 1950 were made by drawing money on emergency cash requisition, despite the audit objection\*. The representative of the Ministry of Defence promised to take up the question of fixing the responsibility for the irregularity though he felt that at such a late stage it might be difficult.

95-A. The Committee were informed that a large number of British Officers had left the Indian Army between 1948 and 1951 and that the vacancies were partly filled by cadets passing out of the Defence Academy and partly by promotion from the ranks of the J.C.Os. The question about the V.C.Os. was discussed by the Defence Committee of the Cabinet and a decision was taken to continue them as J.C.Os. The Committee desired to be furnished with a note showing the number of British Officers who left India, the number of V.C.Os. promoted as Commissioned Officers, the number of V.C.Os. who were made J.C.Os. and the number of vacancies filled by promotion from the ranks.†

**Para. 28, Audit Report, 1952—Irregular payment of Ration Allowance.**

96. The Committee were informed that the balance of Rs. 36,489 had since been recovered and that action had been taken against the Officer concerned. It was further stated by the representative of the Ministry of Defence that the Accounts Officers in the Air Headquarters and the Naval Headquarters had been instructed to comply with audit objection as soon as a payment was questioned. In the Army, however, the payments were made by the Controller General, Defence Accounts who would stop payments as soon as Audit raised objections.

---

\*See also Appendices XVII and XVIII.

†Since furnished.

**Appropriation Accounts (Defence), 1949-50 (page 16) and Appropriation Accounts (Defence), 1950-51 (page 24).**

97. The Committee wanted to know why the expenditure on Pay and Allowances of the regular Army had increased in 1950-51 as compared to 1949-50, while that on Territorial Army it had decreased by about half during the same period. As the information was not readily available, the representative of the Ministry of Defence promised to furnish a note on the subject.

98. The Committee desired to be informed whether any arrangements had been made to see that the demobilised personnel of the State Forces were given preference in the recruitment of new men to the Indian Army. It was stated in reply that as far as the demobilised Officers were concerned they were required to be passed by a Selection Board for retention and that some of them had been retained as permanent Officers and some as short-term Officers. The same procedure was adopted with regard to other ranks also.

99. The Committee adjourned to meet again at 10 A.M. on Thursday, the 2nd July, 1953.

---

**Proceedings of the Third Meeting of the Public Accounts Committee  
held on the 2nd July, 1953.**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. Shriman Narayan Agarwal  
Shri Shree Narayan Das  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar  
Shri Uma Charan Patnaik.

Shri V. Narahari Rao, *Comptroller and Auditor-General  
of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and  
Auditor-General of India.*

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

Shri S. Gupta, *Accountant-General, Food, Rehabilitation and  
Supply.*

**SECRETARIAT**

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

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

Air Commodore Arjan Singh, *Air Officer I/C, Personnel &  
Organisation, Air Headquarters, New Delhi.*

Air Commodore R. H. D. Singh, *Air Officer I/C, Technical  
& Equipment Services, Air Headquarters.*

Major-General H. Williams, C.B.E., *Engineer-in-Chief, Army  
Headquarters.*

Col. K. N. Dube, *Deputy Director, Engineer-in-Chief's  
Branch, Army Headquarters.*

Shri T. C. Puri, I.C.S., *Joint Secretary, Ministry of Works,  
Housing and Supply.*

Shri K. Bhawani Shankar Rao, *Financial Adviser, Ministry  
of Finance (Defence).*

Shri A. Shama Rao, *Deputy Financial Adviser, Ministry of  
Finance (Defence).*

Shri M. K. Hariharan, *Deputy Financial Adviser, Ministry of Finance (Defence)*.

Shri R. Jagannathan, *Controller-General of Defence Accounts, New Delhi*.

Shri V. Subramanian, *Under Secretary, Ministry of Finance*.

MINISTRY OF DEFENCE—contd.

100. The Committee resumed consideration of the Defence Appropriation Accounts, 1949-50 and 1950-51 and the Audit Reports thereon.

**Para. 49, Audit Report, 1951—Short recoveries on account of outside work executed in a dockyard.**

101. The Committee desired to know whether Government had recovered any portion of the outstanding dues amounting to Rs. 2,84,399 from the parties concerned on whose behalf the contracts were executed. The representative of the Ministry of Defence stated that the word 'basic' prefixed to the word 'labour' used in the Government orders was intended to distinguish 'direct labour' from 'indirect labour'. For assessing the amounts to be recovered from private bodies, the administrative authorities framed estimates based on pay and allowances of labour plus 40 per cent. only on basic pay whereas the Controller of Defence Accounts (Navy) prepared claims based on pay and allowances of labour plus overheads at 140 per cent. on basic pay. In working out the additional charges, the term 'basic labour' used in the Government orders was interpreted to mean 'basic pay' only after excluding all allowances, but audit pointed out that the term 'basic labour' should be interpreted to mean 'direct wages' which should include all pay and allowances paid to workmen. The mistake was that the term 'basic labour' was not construed to cover indirect labour and this was subsequently rectified and the outside parties paid the charges on correct basis. The representative of the Ministry admitted that it was wrong to have used the word 'basic pay' when the Government orders stipulated 'basic labour'.

The Financial Adviser, however, assured the Committee that there had been no financial loss to the Government inasmuch as the overhead charges of the naval dockyards were less than 140 per cent. of the basic labour, as revealed by subsequent calculations.

**Para. 52, Audit Report, 1952—Absence of control over production costs in Naval Dockyard.**

102. The Committee desired to be informed as to why instances of non-preparation of estimates in respect of jobs executed in Naval Dockyard and consequent absence of control over production costs continued to recur and what action Government had taken to introduce the cost accounting system. The representative of the Ministry of Defence stated that pricing and estimating which were discontinued during the War could not be resumed thereafter due to the immense increase on the load of the dockyard, lack of adequate estimating staff and the integration, in 1949, of three major departments viz., Engineering, Construction and Electrification. Since then an Expert Cost Accounts Officer had been appointed and his recommendations were being implemented. Instructions had also been issued that the preparation of estimates should commence from the 1st April, 1952 and that the Captain Superintendent of

the Dockyard should not undertake any work for which proper estimates had not been prepared and accepted by the party concerned. The representative of the Ministry of Defence could not say definitely whether the estimates were being prepared only in respect of works undertaken for outside bodies or also for works executed for the Navy itself.

To an enquiry as to whether there was any regular co-operation between the Navy and the Fisheries Department in finding out potentialities of fishing, off-shore fishing and in loaning vessels to scientists, the representative of the Ministry of Defence stated that wherever practicable, the Navy were assisting the State Fisheries Department.

**Para. 16, Audit Report, 1951—Regularisation of irregularities etc. relating to the Accounts of Air Force Units and Para. 22, Audit report, 1952 regarding stock verification in Air Force Units and formations.**

103. The Committee desired to be informed as to why Government found it necessary to waive the accounting irregularities relating to disbanded Units or Units now situated in Pakistan. The representative of the Ministry of Defence stated that the waiver had been necessitated by the lack of trained Accounts Staff. The huge arrears of work relating to store accounting had been largely cleared up. In regard to the disposal of vehicles which could not be checked or verified, the Committee was informed that at the time these vehicles were taken over from the Royal Air Force, the log books and inventories from which the vehicles could be checked, were all missing. This fact, coupled with the shortage of staff and the storage of the vehicles in the open for years together which resulted in the loss of many parts, made it difficult to exercise a proper check. The disposal of these articles could not, therefore, be as speedy as it should have been. Though the present position in regard to the checking of all such stores and disposal of the unwanted and surplus stores was not still very satisfactory, much progress had been made in this regard. So far as the new arrival of stores etc. were concerned, they were being properly checked up and accounted for.

**Para. 14, Audit Report, 1952—Loss on purchase of aviation stores in the United Kingdom.**

104. The Committee enquired of the representative of the Ministry of Works, Housing and Supply as to why an order had been placed without proper verification of the financial standing of the firm. He stated that neither the Ministry nor the India Stores Department, London was aware of the removal of the name of this particular firm from the approved list of suppliers to the U.K. Government, as the list of approved suppliers was not kept up-to-date. The advance payment was made with a view to getting the benefit of the 5 per cent. rebate, which the firm had offered. Apparently, the certificate of the Air Registration Board of the U.K. produced by the firm to the India Stores Department, London, was a fraud. Repeated reminders for the early delivery of the stores produced no effect on the firm.

Explaining the role of the Air Adviser to the High Commissioner for India in the U.K., the representative of the Defence Ministry

stated that certain types of stores were obtained from the War Office, the Admiralty and the Air Ministry in the U.K. It was only when they failed to supply the stores, that orders were placed with the India Stores Department, London. The Air Adviser, in this case, might have suggested the name of the particular firm because it had supplied certain stores to the I.A.F. prior to this deal. The Committee expressed dissatisfaction with the way in which the whole deal had been transacted *viz.*, the non-verification of the credentials of the firm before placing the final order and the Air Adviser's going out of his way to suggest the name of the particular firm. The representative of the Defence Ministry, however, pleaded that the blame could not be thrown on the Air Adviser as he was not competent to ascertain the financial standing of the firm he recommended. The representative of the Works, Housing and Supply Ministry promised to go into the matter thoroughly and fix the responsibility on the person responsible for placing the orders. The Committee desired to be furnished with a copy of the note sent by\* the Air Adviser to the I.S.D., London recommending the name of the firm concerned as also the original file of the I.S.D. relating to the deal with the firm.

In reply to an enquiry, the representative of the Defence Ministry assured the Committee that the Air Force was not losing money by the consumption of fuels of higher octane value.

**Para. 47, Audit Report, 1952—Irregular disposal of Engineer Stores.**

105. This case related to the loss suffered by Government as a result of irregular disposal of a Saw Mill with two Prime Movers, which was found to be surplus a year after its purchase. The Engineer-in-Chief informed the Committee that the proposal to issue the plant was originally made when it was intended that the contractor was to manufacture packing cases for the Army for which the plant was to be supplied on loan. Towards the end of the War it became obvious that the packing cases would not be required and the contractor made a formal offer to buy over the plant and other stores. The Engineer-in-Chief further stated that the Unit Accountant had acted rightly in issuing a Receivable Order which he would have normally done, once he discovered that the stores had been handed over to the firm. The sale was made in 1949 by the Director-General, Supplies and Disposals in accordance with the rules then in vogue. When the plant was made over to the Director-General, Supplies and Disposals for disposal he was not aware that the party had agreed to purchase the plant at cost price plus 10 per cent. Subsequently, when it became known he asked the party to stick to the original terms of sale, but the latter resiled from it. The legal opinion was that the party could be compelled to adhere to the original terms and the Ministry of Works, Housing and Supply accordingly asked the party either to pay the balance of Rs. 1,31,335 or to return the plant. This decision was subsequently reversed by the Ministry and the plant was sold to the party at a lower price in conformity with the then Government policy of selling surplus plant and machinery to industrial users at 40 per cent. of the market value.

---

\*Since furnished.

The Committee desired to\* know:

- (a) Why no hire charges were recovered from the party from July 1945 to August 1949 during which period the plant was in possession of the party?
- (b) Why did Government waive the recovery of the hire charges amounting to Rs. 61,005? and
- (c) Why was no security deposit of the approximate value of the plant taken from the party?

The Engineer-in-Chief stated that the original intention was to erect the plant in the party's premises but the plant was never assembled i.e., it was never put into use. The Committee, however, decided to take up the matter in greater detail with the Ministry of Works, Housing and Supply after further information on the above points had been supplied by the Ministry of Defence.

106. The Committee then adjourned to meet again at 10 A.M. on the 3rd July, 1953.

---

\*See Appendix VIII.

**Proceedings of the Fourth Meeting of the Public Accounts Committee  
held on Friday, the 3rd July, 1953.**

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

**PRESENT**

Shri B. Das—*Chairman*

*Members.*

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. Shriman Narayan Agarwal  
Shri Shree Narayan Das  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of  
India, New Delhi.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and  
Auditor-General of India, New Delhi.*

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

**SECRETARIAT**

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

*Witnesses*

Shri H. M. Patel, *Secretary, Ministry of Defence.*

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

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of  
Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Ac-  
counts.*

Shri A. Shama Rao, *Deputy Financial Adviser, Ministry of  
Finance (Defence).*

*Defence Services*

**MINISTRY OF DEFENCE—contd.**

107. The Committee resumed consideration of the Appropriation Accounts (Defence Services), 1949-50 and 1950-51 and the Audit Reports thereon.

**Para. 6, Audit Report, 1951—Delay in the clearance of advances paid to former Indian States for execution of Defence Works.**

108. The Committee desired to be apprised of the present position with regard to the adjustment of outstanding advances paid to former Indian States as referred to in the paragraph. Explaining the position, the Engineer-in-Chief stated that the outstandings related to the States of Jodhpur, Bikaner, Gwalior and Hyderabad and one or two of these States had not yet furnished final expenditure statements of accounts due to certain difficulties. The Jodhpur State having the largest outstandings had prepared final expenditure statements which were under verification by the Accountant General, Rajasthan. Such statements before being passed on to the Defence accounts authorities would be certified by the Engineer-in-Chief that the work had been carried out in accordance with the requirements of the Defence Services. The advances outstanding in their books would then be cleared by the Defence Accounts authorities to the extent of the actual expenditure. The representative of the Ministry of Defence stated that some progress had been made in this respect as a result of these matters having been taken up at Government level through the Ministry of States.

In order to expedite settlement of the outstandings, the Comptroller and Auditor-General suggested that the Engineer-in-Chief Branch might undertake some kind of visual audit or local inspection to see on the spot that there was reasonable evidence of the expenditure having been incurred and if such evidence was forthcoming the matter could be treated as settled.

**Para. 8, Audit Report, 1951—Payments relating to settlement of cases out of Court.**

109. In regard to the additional claims aggregating to over Rs. 2,71,000 preferred by the contractors (over and above the lump sum contract for Rs. 1,93,327) for alleged losses due to late handing over of the site by Military Engineer Services, non-clearance of stores from sheds, failure to supply water connections and permits for controlled items of stores etc., the Committee desired to know whether any action had been taken against the person(s) at fault. The representative of the Ministry of Defence stated that Government had not accepted the contention of the contractors inasmuch as they (contractors) themselves had requested for the site to be handed over on a particular date and there was thus no delay on the part of Government and that Government was not contractually liable in regard to water connections or to issue of permit of stores. Further, the contractors themselves had asked for extension of the completion date of the contract and as such the claim for running of the contract in the monsoon period did not arise. The Government's case was that none of these grounds really had any validity.

As the claims were contested by the contractors, an Arbitrator (Lieutenant-Colonel of the Royal Engineers) had been appointed with the consent of the contractors as stipulated in the contract. The High Court had, however, passed some strictures on the legal conduct of the Arbitrator but no action could be taken against him

as by that time he had left the service. In regard to the compromise arrived at by the Advocate-General, Bombay outside the Court which resulted in a payment of Rs. 1.75 lakhs to the contractors, the representative of the Ministry of Defence stated that the matter had been referred to the Ministry of Law with a view to finding out whether the Advocate-General had the discretion to effect a compromise without consulting the Government, and that Ministry's view was that the Advocates in India had an implied authority to compromise out of Court on behalf of their clients. The Ministry of Law further opined that in this case the Advocate-General did not act improperly in agreeing to a compromise settlement and that in their view the settlement arrived at did not result in an infructuous expenditure. The Ministry of Defence were, however, not in agreement with the action that the Advocate-General had taken.

In order to have a proper appraisal of the whole matter the Committee desired to have\* :—

- (i) a list of Directors of the firm (viz., Messrs. New India Construction Co. Ltd.) which executed the contract,
- (ii) a copy of the Arbitrator's award;
- (iii) a copy of the High Court's Judgment (or atleast the relevant portions of it, and
- (iv) a note showing the basis on which the Advocate-General suggested the compromise.

It was decided that a sub-Committee consisting of Sarvashri H. V. Pataskar, K. M. Vallatharas and Pandit Krishna Chandra Sharma should go into this case and report to the Committee.

**Para. 9, Audit Report, 1951—Wrong pricing of amendments to contracts.**

110. This case resulted in an extra payment of about Rs. 94,500 to the contractors due to certain deviations from the original contract having been priced by a different method *instead* of their being priced at the contract rates. The Committee desired to know as to why the Engineering authorities differed from the views of the Technical Adviser, whose opinion was sought on this matter. Explaining the position, the Engineer-in-Chief stated that in a lump sum contract deviations upto a limit of 10 per cent. could be allowed and anything in excess of 10 per cent. would be a matter of negotiation with the contractor. In this case there were two different opinions. The Technical Adviser was of the view that the change in the contract was in fact a deviation whereas the Officer concerned opined that since there was a big change, it was an alteration of the contract. Once it became an alteration in the contract it had to be agreed to by the contractor.

The Engineer-in-Chief further stated that this matter had been argued at considerable length and finally it was agreed that the change amounted in fact to an alteration in the contract and he maintained that the view held by the Technical Adviser was incorrect.

---

\* See Appendix XIX.

The Comptroller and Auditor-General stated that it appeared that the contractor who did 10 per cent. less work because of deviation got 10 per cent. less, whereas if he did 20 per cent. less work due to alteration he was paid 93 per cent. or so. He accordingly suggested that rules might be suitably amended to prevent such an awkward situation arising in future. The representative of the Defence Ministry agreed to give due consideration to this suggestion to see whether the present system required any modification or alteration.

**Para. 15, Audit Report, 1951—Non-accounting of stores obtained from demolition.**

111. In regard to the irregularity in the non-accounting of the dismantled stores which was first pointed out in internal check in September, 1944 the Committee wanted to know:—

- (i) why there had been so much delay in appointing a Court of Enquiry; and
- (ii) why no disciplinary action other than administration of warning was taken against the Officer who was still in service?

Replying to these points the representative of the Defence Ministry stated that owing to the unprecedented rush of work and the inexperience of the staff, the stores obtained through dismantling were not brought on the demolition register as required under the rules. This matter remained in correspondence between the Garrison Engineer and the Regional Audit Officer for over two years. The Accounts could not, however, be reconstructed satisfactorily and eventually it was decided to convene a Court of Enquiry to discover the facts.

As a result of the Court's findings, a warning was administered to the Officer who was the juniormost and the only one who survived. The Engineer-in-Chief contended that during the War, the accounts could not be maintained properly.

**Para. 6, Audit Report, 1952—Fictitious financial adjustments in works accounts to avoid lapse of grant.**

112. The Committee desired to know as to what action had been taken against the officials responsible for the irregularities enumerated in this paragraph.

The Engineer-in-Chief admitted that according to the rules on the subject, adjustment of stores should not have been made until the stores had arrived on site and in respect of all the cases cited in this para. he entirely accepted that a wrong procedure had been followed and assured that such a mistake would not be repeated. The irregularities according to the Engineer-in-Chief happened because the Officers employed on the works were relatively inexperienced and they considered it their duty to finish the jobs within the financial year. In their enthusiasm, they forgot to comply with the rules. The Committee was, however, assured that there was no loss or uneconomic expenditure to Government.

113. The Committee adjourned to meet again on Saturday, the 4th July, 1953.

**Proceedings of the Fifth Meeting of the Public Accounts Committee held on Saturday, the 4th July, 1953.**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri H. V. Pataskar  
Dr. Mono Mohon Das  
Shri T. N. Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. S. N. Agarwal  
Shri S. N. Das  
Shri Uma Charan Patnaik  
Pandit K. C. Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General.*

Shri G. S. Rau, *Officer on Special Duty, Office of the Comptroller and Auditor-General of India.*

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

**SECRETARIAT**

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

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*  
Shri B. B. Ghosh, *Joint Secretary, Ministry of Defence.*  
Brigadier R. N. Mehra, *Director, Ordnance Services.*  
Shri M. K. Vellodi, I.C.S., *Secretary, Ministry of Works, Housing and Supply.*  
Shri B. F. H. B. Tyabji, I.C.S., *Commonwealth Secretary.*  
Shri S. Ratnam, *Joint Secretary, Ministry of Finance.*  
Shri K. Bhawani Shankar Rao, *Financial Adviser, Defence.*  
Shri R. Jagannathan, *Controller-General of Defence Accounts.*

**MINISTRY OF DEFENCE—Contd.**

114. The Committee resumed consideration of the Audit Reports, Defence Services, 1951 and 1952.

**Para. 11, Audit Report, Defence Services, 1952—Advance payments to the U.K. Government.**

115. The Comptroller and Auditor-General, pointing out the advance payments made to the U.K. Government for the supply of certain stores to the Government of India, observed that such advance payments should not normally be made. These arrangements, he added, should be on a reciprocal basis and in the past the U.K. Government had not advanced any sums to the Government of India for services rendered to the latter. This matter, it was suggested, should be taken up by the Ministry of Works, Housing and Supply with the U.K. Government in consultation with the Ministry of Defence.

116. The Chairman then informed the Committee that he had asked the representatives of the Ministries of External Affairs and Works, Housing and Supply to be present at the time they took up consideration of the Paras. of the Defence Audit Reports, 1951 and 1952 relating to the irregularities in regard to certain contracts entered into by the High Commissioner for India in the U.K. for the purchase of stores for the Defence Services. The representative of the Ministry of External Affairs stated that although the High Commissioner for India in London was under the general administrative control of that Ministry, the financial as well as the general control of the various technical and specialist departments of the High Commission vested in the respective Ministries and Departments of the Government of India and not in the Ministry of External Affairs. The Ministry of External Affairs, he added, directly controlled only the Central Departments of the High Commissioner, e.g., the Chancery and the Accounts etc. He promised to furnish to the Committee a statement showing the various departments of the High Commission of India in London and their controlling authorities in India\*.

Elucidating the matter further, the representative of the Ministry of Defence stated that certain arrangements had been agreed upon with the Ministry of W.H.&S. as to the types of stores for which they might place orders direct on the D.G., I.S.D., London and the India Supply Mission, Washington. He added that orders for certain types of stores, particularly military equipment were placed with the Service Ministries in the U.K. through Indian military representatives stationed in the U.K., and, in case they did not succeed in obtaining them, they passed on that order to the D.G., I.S.D., London, whose business it was to procure these stores in accordance with the orders issued by the Ministry of W.H.&S. from time to time. The D.G., I.S.D., London, functioned under the High Commissioner for India in London who as the head of the Organisation was competent to give him any instructions he considered appropriate. He pleaded that that had nothing to do with the Ministry of Defence.

Referring to the orders for the purchase of Jeeps, the representative of the Ministry of Defence pointed out that the position was slightly different in that, realizing the urgency of requirements and its importance, they sent a personal telegram direct to the High Commissioner requesting him to obtain the stores. He further informed the Committee that the Ministry of W.H.&S. had issued certain instructions in October, 1952 whereby the D.G., I.S.D., London

\* See Appendix V.

was required to obtain specific approval of that Ministry before placing the orders for stores beyond a certain monetary limit. The Secretary, Ministry of W. H. & S. undertook to furnish to the Committee a copy of the instructions on the subject issued by them.

117. The Committee then proceeded to take up consideration of Para. 53 of Defence Audit Report, 1951 relating to the purchase of Jeeps by the High Commissioner for India in U.K.

The Committee drew the attention of the representative of the Ministry of Defence to the remarks offered by that Ministry pursuant to action taken on the recommendations of the P.A.C. as set forth in item 13 of the Statement of outstanding recommendations (Appendix I) that 49 jeeps had arrived in India by the end of February, 1952 and one jeep was held up in Belgium as a specimen to guide inspection and wanted to know why the monthly report of the progress made in the supply of jeeps under the 'new contract' had not been submitted to them. He said that since no further consignment of jeeps had been received, they did not consider it necessary to send any monthly report. He, however, undertook to furnish to the Committee a note stating the reasons for the non-submission of such monthly progress reports.\*

Referring to the second contract for the supply of jeeps, the representative of the Ministry of Defence informed the Committee that it conformed to the standard conditions of contract laid down by the D.G., I.S.D., London and the main terms under the new arrangements were that the contract would be subject to confirmation by the Promoters of the Company viz., S.C.K. (Agencies) that they personally guaranteed the performance of the contract and offered to indemnify the Government of India against any claim of Anti-Mistants, Ltd. In reply to a question whether any bank references had been obtained in respect of the creditworthiness of the new suppliers, it was stated that it was not considered necessary to obtain fresh bank reference as the firm with whom the contract was placed was already holding other contracts placed by the D.G., I.S.D., and in that connection necessary bank references had been obtained. The Committee were further informed that the S.C.K. (Agencies) Ltd., later changed their name to General Sir James Marshall Cornwall and Partners. In reply to a question whether Government had agreed to the change in the name of the firm, the representative of the Ministry of Defence stated that he had no information on the subject. When asked to throw light on this aspect, the representative of the Ministry of W. H. & S. stated that according to the information made available to him, neither his Ministry nor the D.G., I.S.D., were at any stage brought into the picture as both the contracts were entered into without the knowledge of the D.G., I.S.D.

Intervening, the representative of the Ministry of Finance (Defence) stated that if they had known that the financial stability of the new firm was also questionable or that they would fail, then, of course, they would not have agreed to the second contract.

The representative of the Ministry of Defence, however, informed the Committee that as regards the second contract, the question of urgency was not there. But their need for jeeps as

---

\*See Appendix XXXII.

such remained. What they tried to do was to salvage some thing out of the old contract and thus retrieve the loss sustained as a result of the first contract. He further stated that it had now become clear that the purpose of the second contract, namely, supply of 1007 jeeps and at the same time the recovery of the amount due from Anti-Mistants was not likely to be fulfilled. He then apprised the Committee of the implications involved in the launching of legal proceedings for the breach of the new contract against the firm concerned and the views of the Law Ministry. He added that the High Commissioner in London had been asked to obtain advice from a competent counsel in that country on certain points arising out of the terms of the new contract and advise the course of action that the Government of India should adopt in the circumstances. He concluded by saying that further action in the matter would be taken in consultation with the Ministry of Law on receipt of the reply from the High Commissioner.

118. Explaining the procedure followed by the High Commissioner for India in London in regard to the verification of the financial standing of the firms before entering into contracts for the supply of stores, the representative of the Ministry of Defence stated that normally, the D.G., I.S.D., London made unofficial enquiries in the matter from the Ministry of Supply in the U.K. and the Board of Trade. He added that as a matter of procedure, the High Commissioner was always asked to make careful and discreet enquiries relating to the assets of the firm and of the individual members of the firm who had given personal guarantees also.

119. The Committee then adjourned to meet on Tuesday, the 7th July, 1953.

---

**Proceedings of the Sixth Meeting of the Public Accounts Committee  
held on Tuesday, the 7th July, 1953**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members.*

Shri Ranbir Singh Chaudhuri  
Shri H. V. Pataskar  
Dr. Mono Mohon Das  
Shri T. N. Singh  
Shri S. N. Agarwal  
Shri S. N. Das  
Shri Uma Charan Patnaik  
Pandit K. C. Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. D. Dantyagi, *Additional Deputy Comptroller and  
Auditor-General of India.*

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

**SECRETARIAT**

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

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

Major-General H. Williams, *Engineer-in-Chief.*

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of  
Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

Shri V. Subramanian, *Deputy Secretary, Ministry of Finance.*

**MINISTRY OF DEFENCE—contd.**

120. The Committee resumed consideration of the Appropriation Accounts (Defence Services). 1949-50 and 1950-51 and Audit Reports thereon.

**Para. 43 of the Audit Report, 1951 read with Para. 40 of the Audit Report, 1952—Arrears in rent recoveries.**

121. The Committee pointed out that the amount of rent recoverable in the audit area mentioned in Para. 43 had increased to over Rs. 27 lakhs by February, 1953, and wanted to know the reasons for this deterioration in the position of rent recoveries. The representative of the Ministry of Defence stated that it was mainly attributable to the fact that the outstanding amount was due from the State Governments on account of a large number of military buildings.

barracks and camps placed at their disposal for the housing of displaced persons. He added that the State Governments were not paying them any rent and, moreover, it was not found practicable to move the displaced persons out of these camps even where the State Governments were of the view that they ought to be moved out with the result that these outstandings went on mounting up.

In reply to a question whether the terms for the renting of buildings were settled with the State Governments concerned after these had been handed over to them, the representative of the Ministry of Defence replied in the affirmative. He further added that these buildings which were mostly rendered vacant after the war were proposed to be dismantled. The Committee desired to be furnished with a statement showing the amount of arrears of rent outstanding from the different States.\*

**Para. 7 of Audit Report, 1952—Collection of stores for unsanctioned works without allotment of funds.**

122. The Committee wanted to know the action that was proposed to be taken against the Officers who had caused infructuous expenditure to the State amounting to Rs. 65,000 by having acted in contravention of the rules in this case. The representative of the Ministry of Defence explained that it related to stores which were collected for the Air Force Project at a certain station. The original intention, he said, was to put up a Universal Equipment Depot at that station. The necessity of the project had been accepted by Government and funds had been sanctioned for it. The Engineers began to collect stores there from various places. Subsequently, the Air Headquarters gave that project a very low priority and in fact work had not been begun. As a result of that, it was decided to move the stores back again.

Elucidating the matter, the representative of the Ministry of Finance (Defence) stated that immediately after partition, the Air, Naval and Army Headquarters thought of embarking upon large programme of construction because many of the installations had been left in Pakistan, and that was done without taking into account the total sum of money that would be made available to meet the capital expenditure during the year 1949-50. Later, during the course of the year, in pursuance of a directive issued by the Cabinet to cut down expenditure under the Capital Budget, it was decided that the projects which had already begun and on which a large sum of money had been spent should be progressed rather than undertaking new works. In reply to a question, it was stated that administrative approval had not been accorded in this case. The representative of the Ministry of Defence admitted that the procedure followed in this case was not correct. He assured the Committee that such instances would not recur in future.

**Para. 8 of Audit Report, 1952—Clearance of outstanding bills of contractors in the M.E.S.**

123. The Committee wanted to know the action that had been taken to ensure the normal functioning of the M.E.S. Organisation. The representative of the Ministry of Defence stated that two Billing

---

\*See Appendix VI.

Teams were formed. One was in Southern Command where all the outstanding bills had been cleared. Another team was formed in Eastern Command which had cleared 210 bills and there remained only 70 bills in which the contractors had proposed arbitration. He added that the bulk of the objections related to transactions which took place during the War which had not yet been cleared. Explaining the reasons for the appointment of special teams for the clearance of outstanding bills pertaining to the year 1951-52, the representative of the Ministry of Defence stated that it did not mean that those bills were taken bodily away from the normal M.E.S. staff as they had to attend to a considerable amount of work relating to the settlement of old outstanding bills. He further stated that the problem could be tackled if whole-time billing teams were set up with adequate powers for settling quite a lot of points in dispute with the contractors. The Committee were further informed that instructions had since been issued by the Engineer-in-Chief laying down that the contractors should be asked to sign a completed bill without demur and such a procedure would obviate any element of delay in the settlement of bills.

The representative of the Ministry of Defence accepted the observations made by the Director of Audit, Defence Services that the continuance of the billing teams to cope with the bills relating to the post-war period reflected on the efficiency of the M.E.S.

The Committee then discussed some aspects of the system of 'Lump sum contracts' *vis-a-vis* 'rate contracts'.

**Para. 9 of Audit Report, 1952—Military Credit Notes issued to contractors.**

124. The Committee wanted to know the present position of recoveries on account of Military Credit Notes issued to contractors and also whether any disciplinary action had been taken against those found responsible for not effecting the recoveries at the time of payment of their bills. The representative of the Ministry of Defence stated that the issue of these Military Credit Notes was wrong because the bulk of the stores that were used in the construction of camps during the War was supplied by Government and not by contractors. As regards the question of taking disciplinary action, it was stated that the Officers who had failed to adjust the cost of these credit notes from the contractors' bills had since left the country on the termination of the last War. Explaining the action taken against the Officer responsible for conducting the internal check of these Military Credit Notes, the C.G., D.A. informed the Committee that adverse remarks had been given in his Confidential Report for not having risen to the occasion. The representative of the Ministry of Defence informed the Committee that such Military Credit Notes were not being issued to the contractors now. He assured the Committee that such irregularities which happened during the War years, when there were a great many laxities in following the prescribed procedure, would not be repeated now.

**Para. 17 (iii) (a) of Audit Report, 1952—Stock Verification in M.E.S. formations.**

125. The Committee pointed out that in the case mentioned in this para., the Officer concerned recorded an incorrect certificate of cent.

per cent. verification of stock as it was later on proved that only partial stock verification had been carried out. The representative of the Ministry of Defence stated that subsequent to the inclusion of this Para. in the Audit Report, the Engineer-in-Chief had called for the explanations of the Officer concerned and his reply was that such a certificate had not been given. At the instance of the Committee, he undertook to take disciplinary action against that Officer for making a statement which was in contradiction of the agreed facts stated in the Audit Report.

**Para. 45 of the Audit Report, 1952—Loan of stores to private bodies.**

126. The Committee wanted to know the reasons that weighed with the Ministry of Defence in not accepting the recommendation of the Engineer-in-Chief that the Officer found guilty of neglect of duty in this case should be reverted to the status of an Assistant Garrison Engineer. The representative of the Ministry of Defence stated that the Officer concerned really acted out of excessive zeal in issuing Military stores to the Managing Committee of the All India Swadeshi Exhibition, Kanpur on the recommendation of the local Additional District Magistrate, who also gave an understanding that he would try to make the Committee pay the costs in case of loss or damage. He added that they addressed the sponsors of the Exhibition to arrange for the payment of the cost of stores damaged viz., Rs. 1,57,000 but the latter represented that they had no funds and that the claim might be waived. The Ministry then approached the U.P. Government for assistance in effecting the recovery, but they recommended that as the Managing Committee, at whose instance the Exhibition was organised, had since been dissolved, and, that the sponsors had no funds, the amount involved should be written off. Thus, the write-off was sanctioned. He concluded by saying that though the Officer was guilty of the charge, Government came to the conclusion that there were certain circumstances which would justify them in not taking too drastic steps against him, and, therefore, it was decided that he should be transferred to another Command. The Officer concerned had since retired from service.

**Para. 46(b) of the Audit Report, 1952—Overpayments to Contractors.**

127. The representative of the Ministry of Defence stated that the contract commented upon in this Para was entered into by the S.E.A.C. in Assam in 1944 at a time when it was very difficult to get transport. He further informed the Committee that it was not possible at this distant date to state precisely the reasons for the execution of this contract and assured them that such a kind of contract would not now be executed. The Committee did not stress the point further.

128. The Committee then adjourned to meet again on the 8th July, 1953.

**Proceedings of the Seventh Meeting of the Public Accounts  
Committee held on Wednesday, the 8th July, 1953.**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

**Shri B. Das—Chairman.**

**Members.**

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Shri Shree Narayan Das  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. D. Dantyagi, *Additional Deputy Comptroller and  
Auditor-General.*

Shri P. C. Padhi, *Accountant-General, Central Revenues,  
New Delhi.*

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

**SECRETARIAT**

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

**Witnesses**

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

Major-General T. Mahadev Singh, D.S.O., *Quarter-Master-  
General.*

Shri Amar Singh, *Director, Lands, Hirings and Disposals.*

Shri M. K. Vellodi, I.C.S., *Secretary, Ministry of Works,  
Housing and Supply.*

Shri M. S. Mathur, I.S.E., *Chief Engineer, C.P.W.D.*

Shri S. Ratnam, *Joint Secretary, Ministry of Finance.*

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of  
Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

**MINISTRY OF DEFENCE—contd.**

**Para. 10 of Defence Audit Report, 1952—Uneconomical purchase of  
stores for Military works.**

129. The Committee considered the note submitted by the Ministry of Works, Housing and Supply\* stating the full facts of the case

---

\*Not printed.

referred to in this Para. as also the disciplinary action taken against the Executive Engineer concerned for (i) ignoring the codal rules in not having called tenders or quotations for the supply of grass *poolas* though the total cost far exceeded his powers and (ii) causing loss to Government by paying very excessive rate for the supply i.e. Rs. 30 per 100 instead of Rs. 3·7 per 100 thus causing a loss of Rs. 34,900 to Government. The Committee pointed out the delay that had occurred in this case in instituting the disciplinary proceedings against the Executive Engineer concerned. The Secretary, Ministry of Works, Housing and Supply informed the Committee that under the provisions of Civil Services (Classification, Control and Appeal) Rules, it was obligatory for them to consult the U.P.S.C. in all disciplinary matters affecting Class I Officers. He admitted that there did occur some delay in the Chief Engineer's Office in dealing with this case. He assured the Committee that appropriate disciplinary action would be taken against the Executive Engineer on receipt of the advice of the U.P.S.C. who were being referred to in the matter.

**Para. 44 of Defence Audit Report, 1952—Sale of buildings to a private individual.**

130. The Committee wanted to know the circumstances that led the Government to take over the two buildings on a repairing lease on the very next day these were released to the widow of the deceased Officer who owned them. Explaining the position, the representative of the Ministry of Defence stated that when the Government originally agreed to sell the two buildings to the owner, the price was not settled. It was to be determined later on the basis of the initial cost of the structures, original estimated life, normal depreciation, condition of structures and future estimated life. The sale could not, however, be effected before the owner's death. He added that the buildings were released to the widow 'on compassionate grounds'. He expressed his disagreement with the Audit comments that this transaction had resulted in a loss of Rs. 64,000 to Government and urged that the final evaluation of the buildings had been correctly made at Rs. 15,000 after an on-the-spot visit by a Joint Secretary in the Ministry of Defence along with the local Revenue and M.E.S. authorities and the Deputy Director, Lands, Hirings and Disposals.

The Director of Audit, Defence Services pointed out that the two buildings, which were put up by the Tatas as a part of their Aircraft Factory, were not war-time temporary structures, but were really of a *pucca* type estimated to last 25 years. This fact, he said, was corroborated by the report of the Deputy Director, Lands, Hirings and Disposals submitted in 1947. He further stated that it had recently come to their notice that Government had spent Rs. 5,000 and Rs. 3,000 during the years 1951-52 and 1952-53 respectively on major repairs and maintenance of the two buildings, though they could recover only one month's rent per year in respect of each of the buildings. Elucidating the point, the Financial Adviser, Defence stated that the rent fixed for each of the buildings viz. Rs. 180 p.m. was a fair one and it was arrived at by the District Collector after taking all factors into account.

**Item 7 of the Statement showing action taken or proposed to be taken on the recommendations of the Public Accounts Committee—Recovery of over-payments mentioned in para. 35 of Audit Report, 1950.**

131. The Committee desired to know the latest position with regard to the recovery of overpayments referred to in this para. The representative of the Ministry of Defence stated that the whole position had again been reviewed at a meeting held in June, 1952 which was attended by the Financial Adviser, Defence, Chief Commissioner, Manipur and other Officers. The Chief Commissioner, he said, had then pointed out that the payees themselves strongly objected to receiving payments in two instalments. Moreover, cent. per cent. payment would lessen clerical and other work. It was accordingly decided that the Chief Commissioner should be empowered to make payment in one instalment in future, and that he would take all reasonable care to ensure that overpayments were not made. He added that on the basis of that decision formal orders were issued in July, 1952 for making cent. per cent. payments. As regards the recovery of overpayments from the individuals concerned, he pointed out that it was out of question as according to the Chief Commissioner summary proceedings to enforce recovery were likely to encounter very widespread and determined resistance from the Manipuris. The Chief Commissioner, therefore, suggested that the amount should be written off. The representative of the Ministry of Defence concluded by saying that they had recommended to the Ministry of Finance (Defence) to sanction the write-off of such overpayments.

The Financial Adviser, Defence, expressed his agreement with the view-point put forth by the representative of the Ministry of Defence.

**Para. 41, Defence Audit Report, 1952—Payment of compensation for loss of property in a Tribal Area during the last World War.**

132. The Committee wanted to know whether Government were satisfied that, on the whole, payments had been made only to genuine sufferers and that no double relief had been given.

Explaining the position, the representative of the Ministry of Defence stated that the State Government had informed them that disbursements in the tribal areas of Assam were made to the village elders who had the status of Government Officers and it was not the practice to obtain authorisation from individual payees or receipts from them for payments made. In regard to the payment of compensation for damaged movable property, he informed the Committee that the State Government had reported that every case was carefully scrutinised by the Deputy Commissioner and payment was allowed by him only after satisfying himself that the withholding thereof would result in 'exceptional hardship'.

Referring to the audit comments contained in sub-para. (d), the representative of the Ministry of Defence pointed out that the 2851 houses in respect of which the State Government had proposed payment of compensation did not include the houses in regard to which relief was given by the Assam Relief Measures Organisation. He added that the sanction for the payment of compensation was given on an *ex-gratia* basis and payments had necessarily to be made on a rough and ready method.

**Para. 42—Defence Audit Report, 1952—Land Compensation payments for buildings acquired for Military use during the War under the Defence of India Rules.**

133. In reply to a question whether proper receipts for payments of such large sums were obtained by the Collectors from the payees, the representative of the Ministry of Defence stated that the details of the transactions referred to in this Para. were with the West Bengal Government who had reported that necessary particulars had been furnished to the Accountant-General, West Bengal for carrying out necessary adjustments and clearing of the outstanding objections.

**Para. 42. Defence Audit Report, 1951—Compensation payments.**

134. The Committee enquired the present position regarding the recovery of the balance of Rs. 18,407 from the firm. In reply, the representative of the Ministry of Defence stated that there was no possibility of effecting the recovery as the firm concerned had gone into liquidation. He added that the matter of recovery was under consideration of the West Bengal Government.

As regards the payment to the firm of a recurring compensation of Rs. 500 p.m. for the period from 31st January, 1942 to 31st December, 1946 and a lumpsum of Rs. 3,625 as the cost of removal of its stock, although the actual cost of removal was only Rs. 400, the Committee were informed that it was fixed by the Collector, Howrah as a result of the assessment carried out by him and it was rather difficult to challenge the Collector's award after a lapse of so many years.

**Para. 10—Defence Audit Report, 1951—Uneconomical operation of contracts for fresh fruits and vegetables.**

135. Explaining the reasons for not strictly following the instructions issued in 1946 for the execution of such contracts, the representative of the Ministry of Defence stated that these had not been deliberately ignored but were due to the fact that abnormal conditions prevailed during the years 1947-48 and 1948-49 when most of the British Officers who had in the past handled such contracts left the country and the Indian Officers who took over from them were quite new to that work and had no experience of it. He assured the Committee that the Indian Officers had by now gained experience in the working of such contracts. Stating the steps taken to prevent the recurrence of the irregularities reported by Audit, the representative of the Ministry of Defence informed the Committee that instructions had now been issued that all contracts should be subjected to the prior scrutiny of the Controller of Defence Accounts. Action had also been taken to make the limitation of percentages of each variety of fruits and vegetables under the A.S.C. specifications more flexible.

136. Elucidating the matter further, the Quarter-Master-General stated that a decision had been taken in July, 1951 to execute contracts only for a period of six months at a time *viz.*, one contract for winter and one for summer commodities. He added that the practice now was to demand only those commodities which were available during a particular season and that the ratio in which vegetables and fruits available in a particular season should be

provided had been laid down. He summed up by saying that there were no loopholes in the revised system whereby the contractor could tender rates for those items which were not available locally during the season.

**Setting-up of Arbitration Tribunals.**

137. The Committee wanted to know the action taken by the Ministry of Defence to implement the recommendations made in this behalf in the second sub-para of Para. 6 of the Report of the Public Accounts Committee on the Appropriation Accounts for 1947-48 (post-partition). The representative of the Ministry undertook to furnish a note\* on the subject.

**Item 15 of the statement showing action taken or proposed to be taken on the recommendations of the P.A.C.—Waiver of the balance due from certain contractors.**

138. The Committee considered the note furnished by the Ministry (Appendix XXI). They were informed by the Director of Audit, Defence Services that all the individual cases of hardship involving the waiver or recovery of Rs. 4,94,000 outstanding against certain contractors were shown to Audit and they were satisfied that these were genuine.

139. The Committee then adjourned to meet again on the 9th July, 1953.

---

\*See Appendix VII.

**Proceedings of the Eighth Meeting of the Public Accounts Committee  
held on Thursday, the 9th July, 1953**

---

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Prof. Shriman Narayan Agarwal  
Shri S. N. Das  
Shri U. C. Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri G. S. Rau, *Officer on Special Duty, Office of the Comptroller and Auditor-General of India.*

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

Shri S. Gupta, *Accountant-General, Food, Rehabilitation and Supply.*

**SECRETARIAT**

Shri S. L. Shakdher, *Joint Secretary.*

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*  
Shri M. K. Vellodi, I.C.S., *Secretary, Ministry of Works, Housing and Supply.*  
Shri T. C. Puri, I.C.S., *Joint Secretary, Ministry of Works, Housing and Supply.*  
Shri M. R. Sachdeva, I.C.S., *Director-General, Supplies and Disposals.*  
Shri Shiv Charan Singh, *Director, Co-ordination, Directorate-General, Supplies and Disposals.*  
Shri K. Bhawanishanker Rao, *Financial Adviser, Defence.*  
Shri R. Jagannathan, *Controller General of Defence Accounts.*

140. The Committee resumed consideration of the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon.

**Para. 54, Defence Audit Report, 1951—Contracts with intermediaries for obtaining certain stores manufactured in a foreign country**

141. The Secretary, Ministry of Defence informed the Committee that the two contracts referred to in this Para. related to the procurement of two types of Defence Stores. He gave a brief account of the negotiations which were carried out by the High Commissioner for India in London with certain firms in foreign countries in connection with the procurement of these stores. Referring to comments offered by Audit that a direct contract between the Indian Government and the manufacturers would have been feasible with the assistance of the Foreign Government concerned and that the interposition of intermediaries involved the payment of a higher price to cover the intermediaries' margin, the Defence Secretary stated that he was doubtful whether such a direct contract would have been feasible for the reason that the manufacturers had appointed the intermediaries as their agents and they could not brush aside whatever right the manufacturers might have given to their agents. As regards the payment of agency commission to the intermediaries, he added that it was inevitable as the firm from whom they purchased the stores were the sole manufacturers of the particular type of Defence Stores in Europe.

Referring to the point made by the Defence Secretary that but for the employment of the intermediaries, the firm which had assembled the various types of Defence Stores would not have come into existence, the representative of the Comptroller and Auditor-General informed the Committee that according to the information available with them, the firm of manufacturers was already in existence and the intermediaries had approached them for the sale of their goods and not that the firm was brought into existence by the intermediaries. But the Defence Secretary stated that it was through the intermediaries that they came to know that a firm was prepared to undertake the manufacture of that type of Defence Stores and offered reasonable acceptable deliveries. The Committee then desired to be furnished with information on certain points arising out of the discussion especially regarding the part played by the High Commissioner for India in U.K. and the Ordnance Consulting Officer in negotiating the deal.

142. In reply to a question whether any Government-to-Government approach was made by the Ministry of Defence for the supply of the stores, the Defence Secretary stated that they would not ordinarily write to another Government unless they had reason to know that the latter would be in a position to make the supply. When they knew that a particular store was manufactured by a foreign firm, the contract ordinarily would be entered into directly with the manufacturers. Thus there was no point in entering into any discussion with the Government concerned except that in respect of armament stores they had to obtain their approval for export.

Replying to a question whether the concurrence of the Ministry of Finance was obtained to the reasonableness of the price offered,

the representative of that Ministry stated that the question of price never came up for consideration by the Government of India. He added that the Indian High Commission in U.K. had got a proper Department to go into the question of prices etc. with the help of the Financial Counsellor. But this particular contract was treated as a 'secret contract' and not shown to the Financial Counsellor. Elucidating the point further, he stated that the procurement of a large number of articles required by the Defence Services was done by the Ministry of Works, Housing and Supply and other Ministries and the Ministry of Finance (Defence) did not generally deal with these monopoly items.

143. As regards the comments made by Audit in respect of the method of payment for stores supplied in this case, the Defence Secretary stated that they had to open Letters of Credit or make advance payments because those were conditions on which supplies were offered to them. He added that the bank reference was called before the contract was concluded and he did not think that anything was paid before the contract was signed.

The Committee then adjourned to meet again on the 10th July, 1953.

---

**Proceedings of the Ninth Meeting of the Public Accounts Committee held on Friday, the 10th July, 1953.**

---

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman*.

*Members*

Shri Ranbir Singh Chaudhuri  
Shri H. V. Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay.  
Shri Shree Narayan Das  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas.

Shri V. D. Dantyagi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri S. Gupta, *Accountant General, Food, Rehabilitation and Supply.*

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

**SECRETARIAT**

Shri S. L. Shakdher, *Joint Secretary.*

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

Shri N. N. Wanchoo, I.C.S., *Joint Secretary, Ministry of Defence.*

Shri T. C. Puri, I.C.S., *Joint Secretary, Ministry of Works, Housing and Supply.*

Shri S. Ratnam, *Joint Secretary, Ministry of Finance.*

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts, Ministry of Finance (Defence).*

## MINISTRY OF DEFENCE—contd.

144. The Committee resumed consideration of the Appropriation Accounts (Defence Services), 1949-50 and 1950-51 and the Audit Reports thereon.

**Para. 12 of the Defence Audit Report, 1952—Procurement of blankets in the United Kingdom.**

145. The Committee pointed out the various irregularities committed by the authorities concerned in the matter of procurement of blankets in the United Kingdom, resulting in a loss of Rs. 1,34,599, especially in not following the usual practice of stamping the inspected blankets, and desired to have an explanation for this negligence. The representative of the Ministry of Works, Housing and Supply explained that the 100 per cent. inspection as originally proposed by the Military Adviser, without consulting the India Stores Department, could not be carried out due to inadequate staff. It had only been possible to conduct a test inspection of 20 per cent. As to the objection regarding non-stamping of blankets, he stated that marking on the blankets which had been inspected was not done in view of the past experience which showed that the stamped portion tended to deteriorate.

The representative of the Ministry of Defence stated that all efforts were made to procure blankets of indigenous make but the trade was not in a position to offer the deliveries about the time they were required. Accordingly, an indent was placed with the Directorate-General, Supplies and Disposals which was cross-mandated by them to the India Stores Department, London for the purchase of blankets from the source of supply indicated by the Military Adviser to the High Commissioner for India in the U.K. As to the inspection, the records available in the Military Adviser's Office showed that the Textile Inspector of the India Stores Department who had approached the Military Adviser for acceptable colours was duly informed of the necessity of 100 per cent. inspection in view of the reconditioned stock, but subsequently due to paucity of inspection staff a percentage check was considered adequate. When the blankets arrived in India sometimes during May and July, 1949, 50 per cent. of them were found infested and un-serviceable. He felt that the possibility of the firm taking advantage of unstamped stores by sending un-inspected blankets could not be ruled out but according to the India Stores Department's statement they had not come across any cases of substitution of stores by the U.K. in the past.

146. The finding of the Court of Inquiry constituted for this purpose was that the blankets were un-serviceable and not fit for issue to the Army. Accordingly, the India Stores Department took up this matter with the suppliers in the United Kingdom who held that the blankets supplied were fully serviceable and conformed to the sample blankets and the blankets inspected. On persuasion they offered to re-purchase the blankets at a reduction of 20 per cent. of

the purchase price subject to their free delivery in the United Kingdom. It was, however, decided not to avail of this offer, but to dispose them of in India. In pursuance of this decision, the blankets were sold by public auction at Rs. 2,95,000 as against the price of Rs. 2,99,000 paid for them in the U.K. The total loss including sea and inland freight and customs duty amounted to Rs. 1,34,599. This loss was attributable to the failure on the part of the D.G., I.S.D. Inspectorate to bring out the fact that the blankets were not what they were claimed to be. If this had been done, orders could have been placed in India and supplies of good blankets obtained by the stipulated time. The procedure adopted by the Military Adviser to the High Commissioner was also irregular as while intimating to the Government of India the availability of blankets and the name of the firm in the U.K., he had not previously consulted the I.S.D., London nor insisted later that cent. per cent. inspection should be carried out as originally recommended by him.

147. Further discussion on this subject revealed that no enquiry was made by the authorities in London in regard to the commercial standing of the firm viz., Messrs. S. P. Pental & Sons, which had supplied the blankets.

148. To an enquiry as to whether before placing the order any notice was taken of the fact that 100 per cent. inspection could not be conducted by the D.G., I.S.D., the representative of the Ministry of Defence replied that an intimation to this effect was received by them only subsequently.

149. As to the disciplinary action against the inspecting staff who failed to carry out proper inspection, the representative of the Ministry of Works, Housing and Supply stated that consequent on the recommendation of the D.G., I.S.D. no action had been taken against the officials concerned, one of whom had since retired.

150. The Committee did not appreciate the viewpoint of the Ministry of Works, Housing and Supply in not punishing the persons responsible for this palpable negligence and observed that the Ministry had neglected completely their duty to enforce proper standard of inspection and control.

**Para. 17, Defence Audit Report, 1952—Stock verification in Army units and formations (other than Factories).**

151. The Committee desired to know the action which Government had taken against the officials responsible for inaccurate stock-taking on reorganisation, disclosed particularly in the case of the first and second depots mentioned in the audit paragraph. The representative of the Ministry of Defence explained that at the end of the War, the Ordnance Depots were left in a very chaotic condition inasmuch as the units located outside sent back all the stores left with them to the depots without proper documentation. Even in the case of stores which arrived during the War, no papers relating to them reached due to losses of ships on the seas and as a result thereof no track could be kept of what was contained in different packages. Soon after Partition, a 'boxing' operation was undertaken which involved opening of the boxes, checking up the contents and then repacking them with the correct listing of stores. It was actually during this process that

considerable surpluses and deficiencies were found. He stated that the total value of surpluses ran into substantial sums, as against the value of deficiency. He further stated that the checking of ground balances of stores had since been completed except in the case of one Depot.

But in so far as the Air Force stores accounts were concerned, the position was still not very satisfactory.

152. The representative of the Ministry of Defence added that the Government was faced with the problem of finding covered accommodation for storing a large quantity of serviceable stores, some of which were not easily procurable and had to be stored for meeting the future requirements. He informed the Committee that the Director General, Supplies and Disposals had been asked to arrange for quick disposal of stores which had been declared to him as surplus, so that accommodation might be available for storing serviceable stores. Side by side the programme of construction was going on to prevent stores being subjected to inclemencies of the weather.

**Para. 49, Defence Audit Report, 1952—Loss due to heavy condemnation of Batteries.**

153. The Committee noticed that of the various types of batteries valued at about Rs. 55.93 lakhs imported from the United Kingdom for providing power for Army Wireless Sets, a number of them valued at Rs. 29 lakhs had been condemned in an Ordnance Depot. They desired to know the reasons for more than 50 per cent. condemnation, as also the action taken by Government in this regard. The representative of the Ministry of Defence stated that the loss of Rs. 14 lakhs on one particular type of battery alone was due to the fact that out of 23,000 batteries imported, 22,000 were declared as defective by the Army technical authorities. The losses were due either to defective supply by the U.K. authorities or to over-provisioning.

154. With regard to loss due to defective supply, the position was that in lieu of the Indian Government's requirements of dry batteries for wireless set No. 38, U.K. War Office supplied a different type of battery which was considered equivalent to  $2\frac{1}{2}$  times the type of battery actually indented for. The release of this different type of battery was accepted by Government provisionally, pending technical trials. The test of 120 of this type of batteries received in May 1947 revealed that most of these batteries were complete failures due to certain inherent defects. Accordingly, the High Commissioner of India was telegraphically instructed on the 27th August, 1947 that if shelf-life of 12 months was unobtainable and the time lag between the date of manufacture and arrival in India was not reduced, it might necessitate the cancellation or reduction of the order.

In reply, the Commonwealth Relations Office stated that the batteries supplied to India for trial purposes represented the first effort at production in the U.K. and that before drastic action to cancel or reduce the demand was taken, the batteries shipped in September 1947 might be tested. The tests carried out by the technical authorities on a percentage of the consignment of 22,511

batteries which arrived in India in October, 1947 revealed 28 to 79 per cent. rejections in the alternative battery that had been offered and 41 to 44 per cent. rejection in the type of battery that had been indented for. The rate of rejection in both the types of batteries was duly intimated to the Commonwealth Relations Office on the 20th February, 1948 and replacement of an equal number of batteries was asked for. The War Office denied replacement of these batteries on the ground that other customers were similarly affected.

155. In regard to losses due to over-provisioning, the representative of the Ministry of Defence stated that the imported dry batteries with shelf-life expired while in storage could not be issued to units before expiry of their shelf-life, as the demands received from units were very little as compared with the provision made. He, however, realised that there had been an error of judgment in fixing the scales.

156. According to the representative of the Ministry of Defence, the following steps had been taken to safeguard against recurring of losses due to wastage or over-provisioning in future:

- (i) the scales had been worked out on the basis of actual monthly wastage;
- (ii) actual reserve stock holding had been brought down to one month's requirement; and
- (iii) a running rate contract had been arranged with the firms for a regulated supply of these items on a rigid basis, as the indigenous manufacture of these batteries had now been established.

**Para. 48, Defence Audit Report, 1952—Cannibalisation of post-war vehicles.**

157. In regard to the scheme of cannibalisation of post-war vehicles which resulted in a loss of over Rs. 13 lakhs, the Committee desired to know as to why it was not suspended immediately in October, 1950 when it was known to be not yielding the results expected. The representative of the Ministry of Defence explained that the time lag of four months in arriving at a decision was due to careful scrutiny of the report of the technical advisers. Further consideration of this matter was postponed.

The Committee adjourned to meet again at 10 A.M. on Saturday, the 11th July, 1953.

**Proceedings of the Tenth Meeting of the Public Accounts Committee  
held on Saturday, the 11th July, 1953**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das— *Chairman.*

**Members**

Shri Ranbir Singh Chaudhuri  
Shri Hari Vinayak Pataskar  
Dr. Mono Mohon Das  
Shri Tribhuan Narayan Singh  
Shri M. L. Dwivedi  
Pandit Munishwar Dutt Upadhyay  
Shri Shree Narayan Das  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas.  
Shri V. P. Nayar.

Shri V. D. Dantiyagi, *Additional Deputy Comptroller  
and Auditor-General of India.*

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

**SECRETARIAT**

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

**Witnesses**

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

Shri M. K. Vellodi, I.C.S.; *Secretary, Ministry of Works,  
Housing and Supply.*

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

Shri K. Bhawanishankar Rao, *Financial Adviser, Defence.*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

**MINISTRY OF DEFENCE—contd.**

158. The Committee resumed consideration of the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon.

159. Referring to the statement made by the Director of Audit, Defence Services at the last meeting of the Committee that his Audit Party had been prevented from conducting test-check of provisioning of A.S.C. stores in Q.M.G.'s Branch which was commenced

on the 17th March, 1953, the Defence Secretary informed the Committee that the enquiries made by him in the matter revealed that the Q.M.G.'s Branch did not say that they would not allow the test-check being carried out, but they told the Audit Party to come at a later date. He assured the Committee that there had been no intention on the part of the Ministry of Defence to oppose any test-check that the Audit might wish to carry out.

**Para. 48 of Defence Audit Report, 1952—Cannibalisation of post-war vehicles.**

160. The Committee wanted to know why the scheme of "Cannibalisation of post-war model 'B' vehicles" was not suspended immediately in October, 1950 when it was known that it was not yielding the results expected. Giving a background of the scheme, the Secretary, Ministry of Defence stated that on the 17th April, 1950, detailed instructions were issued to cannibalise 5,861 vehicles. On the 17th July, 1950, the Army Headquarters decided not to review the working of the scheme at the end of three months as was agreed to previously as they thought that sufficient data was not available and the scheme was still in the stage of being implemented. On the 17th October, 1950, a total of 1,682 vehicles had been cannibalised and the scheme was reviewed by Army Headquarters and the M.G.O. on the basis of that review recommended to the Ministry of Defence that the scheme should be abandoned as the data collected proved that it was not successful. In December, 1950, the Ministry of Defence accepted the M.G.O.'s recommendation and on the 3rd January, 1951 instructions were issued to suspend the scheme. By then as many as 2,667 vehicles had already been cannibalised. He added that a very careful examination was required to be made before they could decide to abandon the scheme.

**Para. 53 of Defence Audit Report, 1952—Irregularities in the Naval Stores Depot.**

161. The Secretary, Ministry of Defence read out to the Committee the conclusions arrived at by the Board of Inquiry set up to determine the cause of fire in the Naval Stores Depot, Bombay which *inter alia* indicated various possibilities including sabotage. Incendiarism was not also ruled out altogether.

Intervening, the Director of Audit, Defence Services informed the Committee that when the Audit party was going to take up the checking of the accounts of the Depot, the Executive staff resisted to make available to them the relevant documents. While the audit was still in progress, a fire occurred in the Depot resulting in a loss of huge quantity of stores and the destruction of all the ledgers and documents. On a point being raised by the Committee whether under the existing rules regulating the constitution of the Boards of Inquiry, it was open to Government to pursue the matter further in case they felt dissatisfied with their findings, the Defence Secretary stated that they would look into that aspect of the matter.

**AUDIT REPORT ON THE COMMERCIAL APPENDIX TO THE DEFENCE SERVICES ACCOUNTS, 1949-50.**

**Para. 5—Revision of piece work rates in Ordnance factories.**

162. The Committee wanted to know the present position regarding the revision of the piece-work rates in the Ordnance factories.

The Financial Adviser, Defence Services informed the Committee that the fixation of piece-work rates by time and motion study could not be enforced during the War years and they had decided to undertake examination of this matter after the monthly scales of pay had been more or less fixed. He added that the scales had since been fixed and they had now undertaken time and motion study of piece-work system in certain factories. He assured the Committee that this matter was constantly receiving the attention both of the Ministry of Finance and the Ministry of Defence.

**Para. 6—Amounts due to factories on account of work done for or stores supplied to private individuals.**

163. The Committee wanted to know the rate and the mode of payment for work done by Ordnance factories for private firms. The Defence Secretary informed the Committee that detailed instructions had been issued to the Ordnance factories that they should not enter into contracts involving unspecified liability and accounting difficulties. He added that since 1946 no work orders were undertaken by Ordnance factories without entering into a formal agreement with the parties concerned. The Railways, Government Departments or private firms were required to pay to the Director-General, Ordnance Factories for the supplies against the orders placed by them at the price as might be fixed by him in consultation with his Accounts Officers. Elucidating the point further, the Financial Adviser stated that deposits were taken from private parties unless the Director-General, Ordnance Factories was satisfied that the party was financially sound. The Defence Secretary agreed to examine the suggestion made by the Committee that Railway Receipts for goods supplied should be delivered against payment only.

The Committee desired to be furnished with a self-contained note setting forth the financial aspects of the working of (i)\* Machine Tool Factory and (ii)\* agreement entered into by the Ministry of Defence with a French firm for the manufacture of Electronics.

**Para. 7—Alleged unfinished Military Engineer Services works in a factory.**

164. The Committee wanted to know the outcome of the investigations made by the Ministry of Defence in the case reported in this Para. The Defence Secretary stated that a huge project for the erection of a factory was undertaken by the Government of India at a certain station during the last War. That Project included buildings etc. for the use of the factory as well as for the Royal Air Force and it was executed by the three different agencies: viz., the M.E.S., C.P.W.D., and P.W.D. of the State Government concerned. The total expenditure incurred on the Project by all the agencies was about Rs. 2;4 crores. He further stated that it had now been established that out of the balance of Rs. 111.7 lakhs representing the difference between the total expenditure incurred and the amount entered in the block register of the factory, viz., Rs. 92 lakhs, a sum of Rs. 50.11 lakhs represented expenditure on the R.A.F. buildings leaving a balance of Rs. 61.6 lakhs to be accounted for. He concluded by saying that in view of the incomplete nature of the construction accounts that were maintained during the War years, it had not been

Since furnished.

found possible to link up at this stage the figures of expenditure with those in the block accounts in the normal manner. They had, therefore, decided to make a survey of the existing buildings to arrive at a valuation at rates which prevailed during the period the project was executed. A certain amount of preliminary work in that respect had already been done, but the completion of the work was likely to take some time as the processes involved were very lengthy.

**COMMERCIAL APPENDIX TO THE DEFENCE SERVICES, APPROPRIATION ACCOUNTS, 1950-51 AND AUDIT REPORT THEREON.**

**Para. 2—Heavy rejections.**

165. The Committee enquired the measures that Government proposed to adopt to eliminate continuous heavy rejections in production in certain Ordnance Factories. In reply, the Defence Secretary stated that the ways and means of reducing the percentage of rejections were continuously under examination and in supersession of the older methods, manufacture was now being carried out on a new process schedule and the change in the methods had produced considerable improvement. The Committee desired to know from the Financial Adviser, Defence Services whether there existed an adequate machinery to cost all work orders and finished goods manufactured in the Ordnance Factories under the control of the Ministry of Defence and whether the costing was done on a percentage basis or for each and every article.\*

**Para. 37 of Defence Audit Report, 1951—Military Officers' knowledge of accounting and financial matters.**

166. Referring to the comments made by Audit in this Para. the Financial Adviser, Defence Services informed the Committee that the training in the fundamental principles of public expenditure and accounting etc. was imparted to the Officers in the three Services of the Army right from the beginning of their career as a cadet and was continued during the Junior Commanders' course which every Officer attended.

167. The Committee then proceeded to take up consideration of notes/memoranda etc. furnished by the Ministry of Defence pursuant to action taken on the recommendations made in the previous Reports of the P.A.C. on the Appropriation Accounts, Defence Services, 1947-48 (post-partition) and 1948-49 (Appendix I):

(i) *Item 5—Standardization of contract forms.*—The Committee considered the note furnished by the Ministry of Defence (Appendix XXII). The Defence Secretary informed the Committee that the question of drawing up of standard forms of contracts was considered in consultation with the Ministries of Finance and Law and the view taken was that it was impossible to lay down a uniform contract form for the use of all the Ministries. However, the amendments proposed to be carried out in the contract forms pertaining to the M.E.S. Organisation appeared to be on the lines desired by the Committee. Since then, he added, efforts were being made to finalise the outstanding amendments in consultation with the Ministries of Finance and Law and certain important amendments had already been finalised and issued.

---

\*See Appendix XXIX

(ii) *Item 14—Alleged irregularities committed in the Term Contract.*—The Committee considered the note submitted by the Ministry and pointed out that adequate punishment had not been meted out to the delinquent Officers for having circumvented the Rules regarding the Term Contracts laid down in M.E.S. Regulations. They also pointed out that the factor of time-bar should not have stood in the way of re-opening the case and inflicting suitable punishment upon Officers responsible for the irregularities resulting in financial loss to Government. The Defence Secretary agreed with the viewpoint of the Committee that the passage of time should not allow a loophole of which advantage could be taken because obviously sometimes an inquiry itself took a long time. He promised to examine the matter to see whether on that point the Army Act required to be amended.

(iii) *Item 4—Provision of covered accommodation for Defence stores lying in the open.*—The Defence Secretary informed the Committee that they were building more accommodation and since 1947 they had built some 610 sheds. The Committee desired to know what proportion the expenditure on providing covered accommodation for stores bore to the total capital expenditure incurred during the year 1948-49. The representative of the Ministry of Finance (Defence) stated that this information\* was not readily available.

(iv) *Item 3—Measures to check against the inter-depot transfer of stores.*—The Committee noted the action taken by the Ministry in the matter.

The Committee then adjourned to meet again on the 14th July, 1953.

---

\*See Appendix XXIII.

**Proceedings of the Twelfth\* Meeting of the Public Accounts Committee held on Tuesday, the 14th July, 1953.**

The Committee met from 10 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhuri

Shri H. V. Pataskar

Dr. Mono Mohon Das

Shri T. N. Singh

Shri M. L. Dwivedi

Pandit Munishwar Dutt Upadhyay

Prof. S. N. Agarwal

Shri S. N. Das

Shri Uma Charan Patnaik

Pandit K. C. Sharma

Shri K. M. Vallatharas

Shri V. P. Nayar.

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri G. S. Rau, *Officer on Special Duty, Office of the Comptroller and Auditor-General of India.*

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

**SECRETARIAT**

Shri S. L. Shakdher, *Joint Secretary.*

*Witnesses*

Shri H. M. Patel, I.C.S., *Secretary, Ministry of Defence.*

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

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

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts, Ministry of Finance (Defence).*

**MINISTRY OF DEFENCE—contd.**

168. The Committee took up consideration of Para. 55 of the Audit Report, Defence Services, 1952 relating to outstanding Audit Objections.

---

\*Eleventh meeting relates to the consideration of the Report of the sub-Committee on the 'Disposal of Tyres and Tubes' (Eighth Report of the P. A. C.)

169. The Engineer-in-Chief, Army Headquarters stated that the accumulation of these objections was a sequel to the unusual conditions prevalent during the last War and the period immediately subsequent to the War. He added that they had now appointed an *ad hoc* Committee which was examining all these Audit objections. He assured the Committee that they attached great importance to the early clearance of all such outstanding objections.

The Committee suggested that the Ministry of Defence should evolve a method to clear off the back-log of unimportant audit objections in consultation with the Financial Adviser (Defence) and Director of Audit, Defence Services.

*(At this stage, the Engineer-in-Chief, Army Headquarters withdrew).*

170. The Committee then heard from the Secretary, Ministry of Defence a brief account of the development of the three Services of the Indian Army during the post-partition period, formation of National Cadet Corps, measures taken to step up the indigenous production of Defence stores in the Ordnance Factories, and the help rendered by the Army to the civil population in the famine stricken areas and for other purposes such as 'Grow More Food Campaign' etc. from time to time.

The Committee then adjourned *sine die*.

---

**Proceedings of the Fourteenth† Meeting of the Public Accounts Committee held on Monday, the 21st September, 1953.**

The Committee met from 3-30 P.M. to 6-00 P.M.

**PRESENT**

Shri B. Das—*Chairman*

**Members**

Shri Ranbir Singh Chaudhuri

Shri Tribhuan Narayan Singh

Shri B. Ramachandra Reddi

Shri Uma Charan Patnaik

Shri Krishna Chandra Sharma

Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy-Comptroller and Auditor-General of India.*

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

**SECRETARIAT**

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

**Witnesses**

Shri B. B. Ghosh, *Secretary to the Government of India, Ministry of Defence.*

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

Shri K. Bhawanishankar Rao, *Financial Adviser, Ministry of Finance (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

171. The Committee took up further consideration of Para. 54 of the Defence Audit Report, 1951.

172. The Committee enquired of the representative of the Ministry of Defence whether any communication was addressed by the High Commissioner for India in London to the Indian Ambassador in a foreign country informing him of the proposed contract for the supply of two types of Defence Stores. In reply, he informed the Committee that he was not aware of any such correspondence. The Committee then drew his attention to the note dated the 25th September, 1953 furnished by the Ministry of Defence stating "that the actual communication sent by the High Commissioner for India in U.K. to the Indian Ambassador (referred to earlier) is not available,

---

†Thirteenth Meeting relates to Civil Accounts.

but has been called for" and wanted to know whether it did not imply that they were aware of the correspondence between the two. The representative of the Ministry explained that the actual position was that the Ministry of Defence sent a telegram to the High Commissioner on the 17th November, 1950 asking him to keep the Indian Ambassador concerned informed about the proposed purchases; and when a copy of the communication from the latter was received by the Ministry, they assumed that he must have been informed by the High Commissioner for India in London. He further assured the Committee that various executive instructions had already been issued by the Ministry in order to avoid recurrence of the defects pointed out by the Public Accounts Committee from time to time in regard to the procedure for entering into contracts with the foreign firms.

173. The Committee enquired of the representative of the Ministry whether the imposition of an intermediary was inevitable in so far as the purchases of the stores from the foreign firm were concerned, and whether the interposition of such intermediaries, as pointed out in the Defence Audit Report, had not cost the Government more. The Comptroller and Auditor-General pointed out, that the former Secretary to the Ministry of Defence had agreed with the comments made in the Audit Report in this matter. The representative of the Ministry expressed the view that a direct contract with the manufacturers might have been possible.

174. In reply to a question, the representative of the Ministry informed the Committee that the Government of India wrote to the High Commissioner for India in the U.K. specifying the quantities of stores etc. they required, for the first time on 22nd December, 1950. He added that on the 30th December, 1950, the S.C.K. Agencies (a British firm) were appointed as agents and were authorised to negotiate for the same specified quantities of stores. When questioned about the previous experience of S.C.K. in that particular line of business, he could not say anything definitely.

175. The Committee wanted to know the extent of the additional amount that had to be paid by the Government in the payment of higher price to cover the intermediaries' margin. The representative of the Ministry stated that since the articles in question were manufactured only in that foreign country, the Ministry had no data on which to compare the prices charged and it was also unlikely that the firm concerned would have disclosed the prices they charged for the same articles from other parties. He, however, added that when subsequently they wanted to purchase a further quantity of Defence Stores, the quotations received direct from the manufacturers were on the high side when compared with the prices paid in case of the first transaction and that could perhaps lead to the conclusion that Government had not suffered any loss in the purchase as a result of the interposition of the intermediaries. He assured the Committee that he would put up to Government the observations made in the Audit Report as also the views of the Committee on this deal.

176. The Defence Secretary further stated that the selection of the particular types of stores was made by the Senior Army Officers in India on the basis of reports of the Ordnance Consulting Officer in London.

177. The Committee pointed out that while the original price for the Defence Stores in question was quoted at £6 per unit, the actual payment was made at the rate of £7-17-0. They asked the representative of the Ministry of Finance (Defence) to elucidate the position as well as to furnish them copies of the indent placed by the Defence Ministry on the High Commissioner. The Committee were also informed that no firm price per unit had been quoted in the indent, but only the estimated total price of £1,642,500 had been given. The estimated price, it was stated, was based on the findings of the O.C.O. attached to Indian High Commissioner in U.K.

178. In reply to a question, the representative of the Ministry stated that they were not in a position to verify the antecedents and the financial status of the foreign firms with which indents had been placed by Government as referred to in Para. 54 of the Defence Audit Report, 1950. He pleaded that it was not the responsibility of the Ministry of Defence to do so.

The Committee then adjourned till 11-00 A.M. on Tuesday, the 22nd September, 1953.

---

**Proceedings of the Fifteenth Meeting of the Public Accounts Committee held on Tuesday, the 22nd September, 1953.**

The Committee met from 11 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman*

*Members*

Shri Ranbir Singh Chaudhuri

Shri Hari Vinayak Pataskar

Dr. Mono Mohon Das

Shri Tribhuan Narayan Singh

Pandit Munishwar Dutt Upadhyay

Shri B. Ramachandra Reddi

Shri Uma Charan Patnaik

Pandit Krishna Chandra Sharma

Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantyagi, *Additional Deputy Comptroller and Auditor-General.*

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

**SECRETARIAT**

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

*Witnesses*

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

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

Shri K. Bhawanishankar Rao, *Financial Adviser (Defence).*

Shri R. Jagannathan, *Controller-General of Defence Accounts.*

179. The Committee resumed further consideration of Para. 54 of the Defence Audit Report, 1951.

180. The Committee asked the Secretary, Ministry of Defence to explain the basis on which the pricing of the indents placed with the S.C.K. agencies was carried out. In reply, he stated that as the particular stores indented for were being purchased by the Ministry for the first time, they had no basis on which to price the indent except the information supplied by O.C.O. attached to the Indian High Commission in London. The latter had informed the Ministry of Defence that the price per unit of the store in question would be over £6 approximately, exclusive of freight, packing etc. This was only an 'estimated price'. Subsequently, however, when the contract was entered into, the price was actually fixed at £7-17-0 per unit.

In reply to a question whether any attempt was made to consult the foreign Government concerned with a view to ascertaining the reasonableness of the high price, the Defence Secretary replied in the negative. He further mentioned that in regard to the purchases made from abroad, neither the Ministry of Defence nor the Finance Officers accredited to that Ministry were concerned with the actual fixation of the price as they had no data to make out a comparison of prices of different items of stores prevailing in the overseas markets.

181. The Financial Adviser (Defence) elucidating the position stated that the price shown in the indent in the case under consideration was worked out by the Director of Weapons and Equipment and the General Staff Branch, Army Headquarters. The total estimated figure shown on the indent as arrived at by them was £1,642,500. This figure included £1,600,000 at £8 per unit and £42,500 at £2½ per unit. He added that it was made clear to every one, including the Ordnance Consulting Officer, that a price had still to be negotiated. On the 27th December, 1950 a telegram was received by the Ministry from the High Commissioner in London saying that the Ordnance Consulting Officer and an Officer from the D.G., I.S.D. had been sent to the country of manufacturer to negotiate a firm price and settle details. The price in the contract including cost of packing was fixed at £ 7-17 on the 5th January, 1951 while the estimated price for valuation of the indent was £ 8. The Committee noted that the Indian High Commissioner did not invoke the help of the foreign Government concerned.

182. In reply to a question, the Financial Adviser (Defence) stated that they thought that the estimated price of £ 8 quoted by the Ministry of Defence in the indent was likely to be the maximum budget commitment involved. He added that they made it clear that the firm price had to be negotiated in the usual manner laid down by the Government of India. But the directive issued in this behalf by the Ministry of Works, Housing & Supply had not been obeyed by the Indian High Commissioner, so far as this particular contract was concerned. The Ministry of Finance, it was further added, was at no stage informed that it was a firm price. He admitted that it would have been better to quote in the indent a price lower than £ 6 rather than putting £ 7-17. The Financial Adviser (Defence) further stated that to the best of his recollection, he told the O.C.O., while the latter came over here, that this particular contract must be carried out in the way in which all contracts were to be entered into by the High Commissioner in the U.K.

183. In reply to a query, the F.A., Defence informed the Committee that there was no record of the discussions that took place between the Secretary, Ministry of Defence and the O.C.O. who came to India from London to settle the details of this transaction especially the price factor.

184. The Committee wanted to know whether the Defence Ministry, as the purchaser, did not indicate to the Ministry of Works, Housing & Supply that they should not exceed the budgeted amount. The representative of the Ministry stated that the Ministry of Works, Housing & Supply could exceed the maximum amount that the indenting Ministry were prepared to pay by 25 per cent. He

added that under the existing procedure, the costing of stores was done by the Ministry of Finance and not by the indenting Ministry, and at the stage of preparation of indents only the estimated price was generally indicated.

185. The Comptroller and Auditor-General informed the Committee that the foreign Government concerned had agreed to give to the Government of India protection against fluctuation of prices in the event of their entering into any such contracts in their country. It could not, however, be explained how the increase in price had occurred, especially, when the price of £6 had been quoted by a responsible official of the supplying firm.

186. In reply to a question, the Secretary, Ministry of Defence stated that there was no documentary evidence or proof in their possession to justify the enhancement of the price during the very short interval when the prices were revised.

187. The Committee desired to know whether it was a fact that the Indian Ambassador concerned had written to the Ministry of Defence stating that the purchase of stores could have been made better through the foreign Government. The representative of the Ministry replied in the affirmative and added that the Ambassador had expressed the view that the purchases, had they been made through the foreign Government instead of through an intermediary, would have been much cheaper.

188. In reply to a question, it was stated by the Defence Secretary that the particular type of the Defence Stores were preferred by the Government of India on the basis of the advice of the Technical Experts in the Army Headquarters who examined the reports of the O.C.O. in London and the United Kingdom Ordnance Board.

189. The Committee desired to know whether the O.C.O. who was connected with the deal relating to this purchase was also associated with the transactions mentioned in the Audit Report, 1950.

190. To sum up, the Defence Secretary informed the Committee that in the light of the experience gained by them in this transaction, they were now, as a rule, discouraging the purchases through intermediaries unless they felt that they could not get the articles otherwise. He added that so far as consultation between the High Commissioner for India in the U.K. and the Financial Adviser was concerned, the Ministry of Works, Housing & Supply had recently issued comprehensive instructions laying down that whenever there was difference of opinion between the two, a reference should be made to the Government of India. As regards the acceptance of technical advice, the procedure was that the technical aspects were first gone into by the technical officers of the Army whose views were placed on record. These views were then considered by the Director of Weapons and Equipment and the Chief of General Staff. So far as the prices were concerned, these were fixed by the High Commissioner for India in the U.K. in consultation with his Financial Adviser. He added that in this particular case, there had been some misunderstanding and the High Commissioner appeared to have fixed the prices on the presumption that the price shown in the indent forwarded to him by Ministry of Defence had the concurrence of the Ministry of Finance.

191. The Committee decided to take up examination of the accounts relating to the Hindustan Aircraft Ltd. and the Defence Industries at the time of consideration of the Audit Report, 1953.

The Committee then adjourned to meet again at 11 A.M. on Thursday, the 24th September, 1953.

---

**Proceedings of the \*Sixteenth Meeting of the Public Accounts Committee held on Thursday, the 24th September, 1953.**

The Committee met from 11 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman.*

*Members.*

Shri Ranbir Singh Chaudhuri

Shri H. V. Pataskar

Dr. Mono Mohon Das

Shri T. N. Singh

Shri M. L. Dwivedi

Shri Uma Charan Patnaik

Pandit Krishna Chandra Sharma

Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri P. C. Padhi, *Accountant-General, Central Revenues.*

Shri S. Gupta, *Accountant-General, Food, Rehabilitation and Supply.*

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

**SECRETARIAT**

Shri M. N. Kaul, *Secretary.*

192. The Committee considered the points arising out of the case relating to the purchase of Defence Stores commented upon in Para. 54 of the Defence Audit Report, 1951 in the light of the evidence tendered before them by the representatives of the Ministries of Defence and Finance (Defence) and decided to make the following observations in this respect in their report :

- (a) No contemporaneous record of the conversations and discussions that took place between the O.C.O. attached to the Indian High Commission in London and the Secretary, Ministry of Defence when the former came to India, especially in regard to the raising of the price of the stores in question from £ 6 to £ 7.17 per unit had been kept. Although such conversations might be concurrently secret, it should be an invariable rule that such conversations are recorded.

---

\*Seventeenth to Thirty-ninth meetings relate to the (Railways) and (P.&T.) Accounts etc.

- (b) A direct contract with the manufacturers was feasible if an attempt had been made through the foreign Government and the Indian Embassy concerned and thus the additional amount in the form of payment of agency commission to the intermediaries would have been saved.

Although the foreign Government had agreed to give direct contracts in the case of their own manufacturers and to aid in the contract with the industrialists, yet no attempt was made to invoke their assistance. This fact was admitted by the Defence Secretary. Messrs. S. C. K. (Agencies), Ltd., London were appointed as agents of the foreign firm of manufacturers at a later stage *viz.*, after the Government of India decided to purchase these particular stores. As to the precise amount that Government had lost on account of this transaction in the payment of higher prices to cover intermediaries' margin, it was not possible for the Committee to reach any definite conclusion.

- (c) A procedural mistake was made in this case in not having consulted the Indian Ambassador in the foreign country when the deal was made by the High Commissioner for India in the U.K. with a firm of manufacturers in that country.
- (d) The Committee endorsed the observations made in the Audit Report that the responsibility for happenings in this case rested with the individuals and not with the system or rules. They decided to recommend to Government to fix responsibility on the individuals concerned in this case for having followed wrong procedure and to take necessary action against them.

193. The Committee then adjourned to meet again on the 9th November, 1953 when they decided to take up examination of the Railway Accounts, 1950-51, etc.

---

**Proceedings of the Fortieth Meeting of the Public Accounts Committee held on Monday, the 28th June, 1954.**

The Committee met from 10-30 A.M. to 12-45 P.M.

**PRESENT**

Shri B. Das—*Chairman*

*Members*

Shri T. N. Singh  
Shri M. L. Dwivedi,  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General of India.*

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

Shri P. N. Krishnaswamy, *Accountant-General, Food, Rehabilitation and Supply.*

**SECRETARIAT**

Shri V. Subramanian, *Deputy Secretary.*

194. The Committee took up consideration of the Draft Ninth Report on the Appropriation Accounts, Defence Services, 1949-50 and 1950-51.

195. The Committee read the following Chapters of the draft report para. by para. and approved them subject to certain modifications being made therein here and there:

I.—Introduction.

II.—Financial working of the Grants relating to the Defence Services.

III.—Store Accounts.

VI.—Works Expenditure—Military Engineer Services.

196. The Committee then decided to send for Shri M. V. Rangachari, Joint Secretary, Ministry of Finance (Economic Affairs) and examine him at their meeting on the following day regarding the skeleton forms devised by them in consultation with the Comptroller and Auditor-General in which the Accounts embracing the receipt and debt sides in respect of the revenue earning Ministries would be prepared and furnished to the Committee by that Ministry.

The Committee then adjourned till 10-30 A.M. on Tuesday, the 29th June, 1954.

**Proceedings of the Forty-first Meeting of the Public Accounts Committee held on Tuesday, the 29th June, 1954.**

The Committee met from 10-30 A.M. to 1 P.M.

**PRESENT**

Shri B. Das—*Chairman*

*Members*

Shri Ranbir Singh Chaudhuri  
Shri T. N. Singh  
Shri M. L. Dwivedi  
Prof. S. N. Agarwal  
Shri Uma Charan Patnaik  
Pandit Krishna Chandra Sharma  
Shri K. M. Vallatharas  
Shri V. P. Nayar.

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General of India.*

Shri P. C. Padhi, *Accountant-General, Central Revenues.*

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

Shri P. N. Krishnaswamy, *Accountant-General, Food, Rehabilitation and Supply.*

**SECRETARIAT**

Shri V. Subramanian, *Deputy Secretary.*

*Witnesses\**

Shri M. V. Rangachari, *Joint Secretary, Ministry of Finance (E.A.).*

Shri H. S. Negi, *Deputy Secretary, Ministry of Finance.*

197. At the outset, the Committee took up consideration of the Memorandum furnished by the Ministry of Finance forwarding the skeleton of the forms devised by them in consultation with the Comptroller and Auditor-General in which the Accounts embracing the receipt and debt sides in respect of the revenue earning Ministries would be prepared (Appendix XXXIII) as also the Memorandum giving a background of this case prepared by this Secretariat (Appendix XXXIV).

198. The Committee approved the skeleton forms for the compilation of the above Accounts as forwarded by the Ministry of Finance

---

\*Were present only during the course of consideration of the Memorandum referred to in Para. 1 of the Proceedings.

and decided that these should be compiled with effect from the year 1951-52—the latest year for which the figures of actual expenditure were available.

199. The Committee then took up further consideration of the Draft Ninth Report on the Appropriation Accounts (Defence Services), 1949-50 and 1950-51 and approved the following Chapters thereof subject to certain additions or alterations being made therein:

IV.—Policy and Procedure regarding Purchase of Stores by the India Stores Department, London.

VII.—Pay and Allowances.

VIII.—Defence Installations and Factories, etc.

IX.—Miscellaneous.

200. The Committee then decided that Chapter V—Purchase of Stores in Foreign Countries—should be abridged and mention made therein at a suitable place to the effect that a Secretariat Officer should not be entrusted with the purchase of stores worth several lakhs of rupees in foreign countries. The Committee authorised the Chairman to revise this Chapter and present the Report to the House.

201. Before the Committee rose, the Chairman thanked the retiring Members for their co-operation and they in their turn thanked the Chairman for his guidance.

The Committee then adjourned *sine die*.

---

### **PART III**

---

---

**Report of the sub-Committee of the Public Accounts Committee to investigate into the case referred to in Para. 8 of the Defence Audit Report, 1951—Payments relating to settlement of cases out of court.**

---

---

# I

## 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. 8 of the Defence Audit Report, 1951—Payments relating to settlement of cases out of Court.

2. At the meeting of the Public Accounts Committee held on the 3rd July, 1953, a sub-Committee consisting of the following Members of the Committee was appointed to investigate into the aforementioned case which had caused Government additional expenditure of about Rs. 1.75 lakhs as the payments were over and above the contractual amount already paid to the contractors on completion of the work contracted for and for which Government obtained no return:

### *Chairman*

1. Shri H. V. Pataskar.

### *Members*

2. Pandit Krishna Chandra Sharma
3. Shri K. M. Vallatharas.

The sub-Committee held two sittings and called for further information from the Ministry of Defence (Appendix XX).\*

3. The sub-Committee place on record their appreciation of the valuable assistance given to them in the course of their examination of this case by the Comptroller and Auditor-General of India and Director of Audit, Defence Services.

---

\*See also Appendix XIX.

## II

### 4. The facts of this case are briefly described as follows:—

The Deputy Chief Engineer, Bombay Area entered into a contract with the firm named, New India Construction Co. on the 18th March, 1947. The contract itself was carried out and the work was done. The payment in respect of that work had been duly made as per terms of the contract.

The sole proprietor of this New India Construction Co. is one Mr. Lentin. It appears that apart from the work contracted for and the payment in respect thereof, the said Mr. Lentin made a claim against the Government by way of damages to the extent of Rs. 2,71,000. By virtue of the general terms contained in such contract, one Lt. Col. Sydney Moody Blagg, R. E. was appointed, 'Arbitrator' to decide this claim in respect of which there was a dispute between the contractor and the Military authorities. The Arbitrator gave an award for Rs. 2,15,674 plus Rs. 3,750/- plus Rs. 6,100/- for costs on 25th of February, 1948. The award was accepted by the contractor but was not admitted by Government. The Government, therefore, presented a petition to the High Court of Bombay praying that the award should be set aside. Justice Tendolkar heard the matter and came to the conclusion that there was a legal misconduct on the part of the Arbitrator inasmuch as he firstly awarded certain amount in excess of the amount claimed and, secondly, the Arbitrator had failed to apply his mind at all to any of the matters before him. The award was set aside by Justice Tendolkar except for Rs. 3,750.

Against this decision, the contractor filed an appeal on 3rd January, 1949 in the High Court of Judicature, Bombay. During the pendency of this appeal, the contractor was also carrying on negotiations with Government for the settlement of his claim in respect of which he had filed the appeal.

5. It appears that this appeal was first scheduled to be heard on 5th September, 1949 but was later on postponed and came up for hearing after about six months. The Advocate-General, Bombay who was briefed for the conduct of this appeal asked for a short adjournment which was granted. Ultimately, the matter was compromised on the 13th March, 1950 by the Advocate-General and he informed the Financial Adviser, Defence *vide* his letter, dated the 14th March, 1950 that he did so on his own responsibility and in exercise of the discretion he had. He further informed the Financial Adviser in that letter that when the appeal came up for hearing before the Judges of the High Court in Bombay, the tendency of the Court was in favour of the appellant and against the Government of India. He, therefore, thought it better to compromise as, otherwise, in case the appeal was allowed, Government

would have incurred a liability to the extent of Rs. 2,50,000 including the cost, and exercising the discretion which he had, he agreed to a settlement of the claim with the contractor for Rs. 1,59,000 without any cost.

6. In this case the Advocate-General was definitely informed by the Government officers who were helping him in the case that Government would not agree to a compromise figure of anything beyond Rs. 70,000/-. The Advocate-General should not have therefore, made a compromise at Rs. 1,59,000 plus interest without the approval of Government. The sub-Committee feel that as a general rule also, although the Power of Attorney may be given to the Counsel defending a Government case, he should not agree to any settlement out of Court without the prior approval of Government. The attention of the sub-Committee has been drawn to the Law Officers Rule No. 173 of Government of Bombay which provides that "no suit or other civil proceeding is to be settled out of Court or compromised in the Court without the express orders of Government".

7. Under these circumstances, though the sub-Committee feel that the Advocate-General should rather not have taken this action without obtaining the express consent or permission of his client viz., the Government of India, they think that no further action is necessary in the matter.

8. *Recommendation.*—The sub-Committee would, however, recommend that a rule similar to Law Officers Rule No. 173 of the Government of Bombay should be adopted by the Government of India in order to avoid recurrence of such cases in future.

H. V. PATASKAR,  
Chairman,

Sub-Committee of the Public Accounts Committee.

Dated the  
23rd September, 1953.

## **PART IV**

---

### **PUBLIC ACCOUNTS COMMITTEE**

**Proceedings of the Meetings of the sub-Committee to consider Notes/Memoranda furnished by the Ministry of Defence, etc. on the points arising from the Defence Accounts, 1949-50 and 1950-51 and Audit Reports thereon.**

---

**Proceedings of the First Meeting of the sub-Committee held on  
Monday, the 10th August, 1953.**

The sub-Committee met from 5-30 P.M. to 6-45 P.M.

**PRESENT**

Shri Ranbir Singh Chaudhury }  
Shri Umacharan Patnaik } *Members*  
Dr. Mono Mohon Das }

Shri P. C. Padhi, *Accountant-General, Central Revenues.*

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

[In the absence of the Chairman of the sub-Committee, Pandit Munishwar Dutt Upadhyay, Shri Ranbir Singh Chaudhury took the Chair.]

The sub-Committee took up consideration of the Notes/Memoranda furnished by the Ministries of Defence and Finance (Defence) on the points arising out of the Appropriation Accounts (Civil), 1949-50 and (Defence Services), 1949-50 and 1950-51 and Audit Reports thereon (as detailed in Annexure I).

**Item 1—Para 28 of the Audit Report (Civil), 1951—Wrong interpretation of Naval Dockyard Provident Fund Rules resulting in the overcrediting of interests.**

2. The sub-Committee noticed that in the note under consideration the Ministry of Finance (Defence) had attributed the excess calculation of interest payable on Government contribution towards the subscriptions made by the Naval Dockyard Workmen to the defect in the rules which had been revised later. The sub-Committee also noted the statement made by that Ministry in Para. (ii) of the above note that 'technically there has been no over-payment or overcrediting of interest'. The sub-Committee pointed out that the fact that an amendment to Rule 28 of the Naval Dockyard Provident Fund Rules had been found necessary because of the misinterpretation thereof did not, however, change the character of the case from one of misinterpretation to that of a case of change of rule. And, if Government had later decided not to readjust the interest overcredited in the past, it would not be correct to say that they were doing so because the rule was being changed. The sub-Committee postponed further consideration of the matter.

**Item 13—Para. 53 of the Defence Audit Report, 1952—Irregularities in the Naval Stores Depot.**

3. The Director of Audit, Defence Services, informed the sub-Committee that the Court of Enquiry had listed five possibilities for the outbreak of fire in the Naval Stores Depot which included sabotage and had concluded that the fire could have been due to any one of those possibilities.

The sub-Committee felt that since the Court of Inquiry did not come to any decision about the actual cause of the fire or the persons responsible for it, the Ministry of Defence should have pursued the enquiry further through other agencies *viz.*, Police etc.

The sub-Committee postponed further consideration of this subject.

The sub-Committee then adjourned to meet again at 3-30 P.M. on Thursday, the 13th August, 1953.

---

## ANNEXURE I

*Statement showing notes/ memoranda furnished by the Ministry of Defence etc. on the points arising out of the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon.*

S. No.	Ref. to Audit Report	Para. No.	Subject
1.	Audit Report, Civil, 1951.	28	Naval Provident Fund Accounts. (Appendix XVI)
2.	Audit Report, Defence, 1951.	26	System of accounting of pay of troops. (Not printed as it contains a number of forms)
3.	Do.	27	Debtor balances in Army Other Ranks' Accounts. (Appendix X)
4.	Do.	30	Non-recovery of proportionate outfit allowance. (Appendix XVII)
5.	Audit Report, Defence Services, 1952.	51	Delay in disbandment of a hill depot. (Appendix XVII)
6.	Audit Report, Defence, 1951.	49	Short recoveries on account of outside work executed in a dockyard. (Appendix XII)
7.	Audit Report, Defence, 1952.	52	Absence of control over production costs in Naval Dockyards. (Appendix XII)
8.	Do.	40	Statement showing the latest position in regard to outstandings of rent referred to in Para 40. (Appendix VI)
9.			Note re : Mode of recruitment of Engineer Officers to the M. E. S. both Civilians and Commissioned Officers. (Appendix XXVI)
10.			Statement showing the extent of work done (in terms of money) through the agency of (i) contractors (ii) departmental labour and (iii) Engineer (Pioneer, etc.) Units during the financial years 1949-50 and 1950-51. (Appendix XXVII)
11.	Audit Report, Defence, 1952.	22	Stock verification in Air Force Units*
12.	Do.	47	Irregular disposal of Engineer Stores (Appendix VIII)
13.	Do.	53	Irregularities in the Naval Stores Depot (Appendix XXVIII)
14.			Statement showing profit or loss made by individual Military Farms during the years 1949-50 and 1950-51 (Appendix XXV)

\*Not printed.

**Proceedings of the Second Meeting of the sub-Committee held on  
Thursday, the 13th August, 1953**

The sub-Committee met from 3-30 P.M. to 6 P.M.

**PRESENT**

Pandit Munishwar Dutt Upadhyay--*Chairman.*

*Members*

Shri Umacharan Patnaik  
Shri Ranbir Singh Chaudhury

(Shri B. Das, Chairman, Public Accounts Committee was present by special invitation.)

Shri P. C. Padhi, *Accountant-General, Central Revenues.*

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

4. The sub-Committee took up further consideration of the Notes/memoranda furnished by the Ministries of Defence and Finance (Defence) on the points arising out of the Appropriation Accounts (Civil), 1949-50 and (Defence Services), 1949-50 and 1950-51 and Audit Reports thereon (as detailed in Annexure I to the Proceedings of the First Meeting).

**Item I—Para. 28 of the Audit Report (Civil), 1951—Wrong interpretation of Naval Dockyard Provident Fund Rules resulting in the overcrediting of interest.**

5. The sub-Committee resumed further consideration of the note furnished by the Ministry of Finance (Defence). After some discussion, they decided to record the following recommendation in this case:

“The sub-Committee are convinced that the defect in the wording of the Rule 28 of the I.N.D.P.F. Rules was so patent that it should have been detected earlier. They are further of the view that Government would have been justified in giving retrospective effect to the amendment of the defective rule and readjusting the overcredits in all the Accounts. The sub-Committee, however, feel that it is now too late to review these cases as the amount that might be realised would not be commensurate with the labour involved. Moreover, a number of subscribers might have retired by now.”

**Item 13.—Para. 53 of the Defence Audit Report, 1952—Irregularities in the Naval Stores Depot.**

6. The Director of Audit, Defence Services read out to the sub-Committee the following extracts from his note dated the 8th July, 1950 to the Ministry of Defence in which he had made some

comments on the procedure adopted by the Court of Enquiry set up to enquire into the cause of fire in the Naval Stores Depot, at the time when the audit of Accounts of the Depot was in progress:

"I regret I have to make some comments on the procedure adopted by the Board of Enquiry. The proceedings of the Board were vitiated by the fact that the Captain Supdt. Dockyard was allowed to sit with the Board and prompt a Member to put questions to a witness, *vide* My D.O. No. 1410/D-Stores/29/49, dated 4th July, 1949 to Mr. Dayal. At least in respect of the evidence of the Assistant Director of Audit, Defence Services \* \* the recorded proceedings are not a verbatim report of all the evidence given.

"It is surprising that the Board and the Director of Stores have dismissed the evidence of the Assistant Director of Audit as relating to 'petty difficulties' encountered by Audit. As the A.D.A. mentioned to the Board, the proposed audit of Transit Shed accounts created visible signs of uneasiness among the Depot staff and a reluctance to part with the records. On the 13th May, 1949 the Foreman of the Transit Shed was disinclined to furnish the documents required by audit. On the 24th May the Naval Store Officer issued orders that the documents under audit should no longer be made available for audit purposes. Even though these difficulties were eventually overcome, it is the obstruction that is really significant, and the subsequent production of the records does not detract from the seriousness of these incidents.

"It is also surprising that the Board and the Director of Stores have proceeded on the assumption that the Assistant Director of Audit had originally formed an opinion that the fire was caused by an act of incendiarism. All that was stated was that the occurrence of the fire looked suspicious and that incendiarism was not impossible. The Board also did not rule out this possibility, *vide* para. 6 of their Supplementary Report. In these circumstances, the opinions expressed by the Board in paras. 7 and 8 of their Supplementary Report and by the Director of Stores in para. 6 of his minute are unfortunate. In regard to the suggestion of deliberate incendiarism, it was unreasonable to expect the Assistant Director of Audit or any one else to name an individual who could be suspected.

"I cannot imagine that the Board did not properly appreciate the main idea underlying my note No. 671/B-Stores/12/48, dated 8th June, 1949, *viz.*, that as the audit staff had brought out a number of cases of failure to account for stores, loss of stores could probably have been proved. The documents under scrutiny by Audit were all in the R. & I. shed and their loss by fire would make it impossible to fix responsibility or even to prove the loss. Yet, the Board did not see the Audit report. Nor

did they examine the N.S.O. and the other officers concerned and enquire why they placed impediments in the way of audit."

The sub-Committee expressed the view that the Ministry of Defence should not have contented themselves with the findings of the Court of Enquiry but they should have investigated the matter further, and, if necessary, intimated the case to the Police.

In order to prevent such cases arising in future, the sub-Committee recommended that the Ministry of Defence should issue instructions that all cases involving considerable loss of property as a result of fire, theft etc. in the Defence Stores Depots and Installations should be reported to the Police also for investigation especially when the Departmental Court of Enquiry was unable to arrive at any definite conclusions.

**Item 2—Para. 26 of the Audit Report, 1951—System of accounting of pay of troops.**

7. Noted.

The sub-Committee then adjourned to meet again at 11 A.M. on Friday, the 14th August, 1953.

---

**Proceedings of the Third Meeting of the sub-Committee held on  
Friday, the 14th August, 1953.**

The Committee met from 11 A.M. to 1 P.M.

PRESENT

Pandit Munishwar Dutt Upadhyay—*Chairman.*

*Members.*

Dr. Mono Mohon Das  
Shri Ranbir Singh Chaudhury  
Shri Umacharan Patnaik.

(Shri B. Das, Chairman, Public Accounts Committee was present by special invitation).

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

8. The sub-Committee took up further examination of the notes/memoranda furnished by the Ministry of Defence etc. on the points arising from the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon (as detailed in Annexure I).

**Item 1—Para. 27 of Audit Report, Defence, 1951—Debtor balances in Army Other Ranks' Accounts.**

9. The sub-Committee noted that the position of Dr. balance had considerably improved so much so that the total Dr. balance at the end of February, 1953 was only Rs. 40 lakhs as compared to about Rs. 100 lakhs as it stood on 31st August, 1950. Out of the debtor balance of Rs. 40 lakhs, Rs. 10 lakhs represented payment of advances to men proceeding on leave and were stated to be permissible debtor balances. The sub-Committee desired that the following recommendation should be made in this respect:

“Efforts should be made to clear off the balances in the Soldiers' Accounts.”

**Item 2—Para. 30 of the Audit Report, 1951—Non-recovery of proportionate outfit allowance.**

10. The sub-Committee observed that although there might be some justification in this case for taking a fresh decision to make a proportionate refund of the renewal allowance, still decision in such cases involving financial implication should be taken expeditiously and delays avoided.

**Item 3—Para. 51 of Audit Report, 1952—Disbandment of a hill depot.**

11. The sub-Committee noted that all the persons responsible for the irregularities had either been released or retired and they could not be tried by Court Martial at this stage owing to time bar of three years from the date of offence. The sub-Committee desired that the Ministry of Defence should examine the desirability of amending the Army Act with a view to prevent such Officers escaping punishment.

**Item 4—Para. 49 of the Audit Report, 1951—Short recoveries on account of outside work executed in a dockyard.**

12. The sub-Committee noted the statement made by the Ministry of Defence that there was a *bona fide* mistake in this case as the Officers responsible for the use of the terminology 'basic labour' were under the impression that others who would have to apply the orders would not find any difficulty in correctly interpreting the terminology. The sub-Committee desired that an enquiry should be made from the Ministry of Defence whether the original proposals on the basis of which Government issued orders in December, 1948 directing *inter alia* that an *ad hoc* overhead charge of 140 per cent. on basic labour should be added to direct costs were submitted through the Controller of Defence Accounts (Naval) and whether the statement showing the calculations of actual labour charges included dearness and other allowances.

**Item 5—Para 52 of Audit Report, 1952—Absence of control over production costs in Naval Dockyard.**

13. The sub-Committee noted that a proposal to sanction the appointment of a Cost Accounts Adviser was receiving Government's consideration. The D.A.D.S. informed the sub-Committee that at present there was an acute shortage of personnel trained in the Cost Accounting work in the country. The sub-Committee decided to make the following recommendation in this respect:

"Government should take steps to train sufficient manpower in the cost accounting and estimating work not only for the Naval Dockyards but also for employing in other Governmental Industrial undertakings."

**Item 6—Audit Report, 1952—Statement showing the latest position in regard to outstandings of rent referred to in Para. 40 of Audit Report.**

14. The sub-Committee noted that a sum of Rs. 14,35,147 was now outstanding as against the sum of Rs. 33,24,647 referred to in the Audit Report. They desired that the question of recovery of the outstanding amount from the State Governments concerned should be vigorously pursued by the Ministry of Defence.

**Item 7—Recruitment to M.E.S.**

15. Noted.

**Item 8—Work done by the M.E.S. (in terms of money).**

16. Noted.

**Item 9.—Para. 22 of Audit Report, 1952—Stock verification in Air Force Units.**

17. The sub-Committee noted from para. 3 of the note submitted by the Ministry that they had called for from the Depots concerned full reasons for the non-verification of the stock. The sub-Committee postponed further consideration of the matter till a report was received from the Ministry.

**Item 10—Para. 47—Audit Report, 1952—Recovery of hire charges.**

18. The sub-Committee desired that the Ministry should be asked to furnish further information on the following point\*:

“Why was no security deposit taken from the party or the approximate cost of the plant on the basis of cost plus 10 per cent. realised from the party immediately after the same was concluded?”.

The sub-Committee deferred further consideration of the matter till a reply to the above point was received from the Ministry.

**Item 11—Statement showing profit/loss made by individual Military Farms during the years 1949-50 and 1950-51.**

19. Noted.

20. The sub-Committee then adjourned to meet again at 9-30 A.M. on Sunday, the 16th August, 1953.

---

\* See Appendix XX.

## ANNEXURE

*Statement showing \*notes/memoranda furnished by the Ministry of Defence etc. on the points arising out of the Appropriation Accounts, Defence Services 1949-50 and 1950-51 and Audit Reports thereon.*

Sl. No.	Ref. to Audit Report	Para. No.	Subject
1	Audit Report, Defence, 1951.	27	Debtor balances in Army Other Ranks' Accounts.
2	do.	30	Non-recovery of proportionate outfit allowance.
3	Audit Report, Defence Services, 1952.	51	Delay in disbandment of a hill depot.
4	Audit Report, Defence, 1951.	49	Short recoveries on account of out-side work executed in a dockyard.
5	Audit Report, Defence, 1952.	52	Absence of control over production costs in Naval Dockyard.
6	do.	40	Statement showing the latest position in regard to outstandings of rent referred to in Para 40.
7			Note re: Mode of recruitment of Enginee Officers to the M. E. S.—both civilians and Commissioned Officers.
8			Statement showing the extent of work done (in terms of money) through the agency of (i) contractors; (ii) departmental labour and (iii) Engineer (pioneer, etc.) Units during the financial years 1949-50 and 1950-51.
9	Audit Report, Defence, 1952.	22	Stock verification in Air Force Units.**
10	do.	47	Recovery of hire charges.
11			Statement showing profit/loss made by individual Military Farms during the years 1949-50 and 1950-51.

\* Reference to the Appendices Nos. containing these Notes/Memoranda have been given in Annexure I to the proceedings of the First Meeting of the sub-Committee.

\*\* Not printed.

**Proceedings of the Fourth Meeting of the sub-Committee held on  
Sunday, the 16th August, 1953.**

The sub-Committee met from 9-30 A.M. to 1 P.M.

**PRESENT**

Pandit Munishwar Dutt Upadhyay—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhury

Dr. Mono Mohon Das

Shri V. P. Nayar

Shri Uma Charan Patnaik

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

Shri S. Gupta, *Accountant-General, F.R. & S.*

21. The sub-Committee took up further consideration of the notes/memoranda furnished by the Ministry of Defence etc. on the points arising from the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon (as detailed in Annexure).

**Items 1 and 2—Para. 12 of Audit Report, 1952—Procurement of blankets in the U.K.**

22. The sub-Committee considered the two notes furnished by the Ministries of Defence and Finance.

The D.A.D.S. read out some extracts from the correspondence exchanged between his Office and the Ministry of Defence wherein it had been stated by the latter that the papers *re*: discontinuance of the practice of stamping the blankets could not be traced. The sub-Committee also noted from the note submitted by the Ministry of Works, Housing and Supply that the relevant files pertaining to that period and dealing with details of the procurement of blankets had been destroyed according to the rules and it was not, therefore, possible for the Ministry to say what enquiries were made from the trade in India for procuring blankets. The sub-Committee desired to know the date on which the relevant file was destroyed. They also observed that no serious attempt seemed to have been made by the D.G. Supplies to purchase the blankets from the open market in the country. In view of the fact that the demand for the procurement of blankets in this case was cross-mandated by the D.G. Supplies to the D.G., I.S.D., London, the sub-Committee wanted to examine the Ministries of Defence and W.H. & S. in regard to the responsibility of the Military Attache to the High Commissioner for India in U.K. *vis-a-vis* the India Stores Department, London, in making such purchases.

The sub-Committee desired to be furnished with a joint note from the D.A.D.S. and A.G., F.R. & S. setting forth the full facts of this case in the chronological order as to when the order was placed;

when it was cross-mandated; how the supply was arranged in U.K.; and so on. They further decided to re-examine the representatives of the Ministries concerned on the receipt of this note.

**Item 3—Appointment of Arbitration Tribunals to decide cases of disagreement under Works contracts.**

23. The sub-Committee observed that the Office Memorandum submitted by the Ministry of Defence did not answer the point raised in the second sub-para. of para. 6 of the Report of the Public Accounts Committee on the Appropriation Accounts, 1947-48 (post-partition) as it referred to the appointment of an Umpire in cases where there was disagreement between the Joint Arbitrators, while the P.A.C. had recommended the appointment of arbitration tribunals consisting of not less than three persons one of whom should be a high ranking judicial Officer.

The sub-Committee also observed that the Office Memorandum under consideration had not been submitted to them through the Director of Audit, Defence Services in accordance with the instructions laid down in the Office Memorandum from the Ministry of Finance, No. F.10(10)-B/52, dated the 31st October, 1952. They desired that the Ministry of Defence should be asked to submit a revised Memorandum in the light of the observations made by them through Audit.

**Item 4—Cost-accounting system in the Defence Factories.**

24. The sub-Committee desired to be furnished with printed copies of the Accounts of the Ordnance Factories for the last two years.† They also wanted to know whether the Ordnance Factories debited to the M.G.O.'s Branch the cost of all stores supplied to them, and, if not, why not?

**Item 5—Ministry of Defence letter No. 17(2)/53/6460/D(Civ) dated 5th June, 1953 regarding the Report of Kalyanwala Committee.**

25. Noted.

**Item 6—Co-ordination of work connected with the P.A.C. in the Ministry of Defence.**

26. Noted.

**Item 7—Statement of losses etc. pertaining to the Defence Services (relating to the pre-partition period), finally dealt with during the year 1949-50.**

27. No comments.

**Item 8—Statements of losses, etc. pertaining to the Defence Services (relating to the pre-partition period) finally dealt with during the year 1950-51.**

28. No comments.

29. The sub-Committee then adjourned to meet again on a date to be fixed by the Chairman.

---

† Since furnished.

## ANNEXURE

*Statement showing notes, memoranda furnished by the Ministry of Defence etc. on the points arising out of the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon.*

S. No.	Ref. to Audit Report	Para. No.	Subject
1	Audit Report 1952	12 (note furnished by the Ministry of Defence)	Procurement of blankets in U.K.†
2	-do-	12 (note furnished by the Ministry of W.H.&S.)	-do-‡
3	Para. 8 of the Report of the P.A.C. on Defence Accounts 1947-48 (post-partition).		Appointment of Arbitration Tribunals to decide cases of disagreement under Works contracts. (Appendix VII).
4			Note on the cost-accounting system in the Defence Factories. (Appendix XXI).
5			**Ministry of Defence letter No. 17 (2)53 6460/D (Civ) dated 5th June, 1953 regarding Report of the Committee of Inquiry appointed under Ministry of Defence Notification No. 19-E dated the 15th September, 1950 ( <i>Kalyanwala Committee</i> ).
6			Co-ordination of work connected with the P.A.C. in the Ministry of Defence. (Appendix XXX).
7			†Statements of losses, etc. pertaining to the Defence Services (relating to the pre-partition period), finally dealt with during the year 1949-50.
8			†Statements of losses, etc. pertaining to the Defence Services (relating to the pre-partition period), finally dealt with during the year 1950-51.

†Not printed.

\*\*Not printed being a voluminous document.

‡Not printed being voluminous documents.

**Proceedings of the Fifth Meeting of the sub-Committee held on  
Wednesday, the 26th August, 1953.**

The sub-Committee met from 5 to 7-30 P.M.

**PRESENT**

Pandit Munishwar Dutt Upadhyay—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhuri  
Dr. Mono Mohon Das  
Shri V. P. Nayar  
Shri Uma Charan Patnaik.

(Shri B. Das, Chairman, P.A.C. and Shri T. N. Singh, Member, P.A.C. were present by special invitation).

Shri V. Narahari Rao, *Comptroller and Auditor-General of India.*

Shri V. D. Dantiyagi, *Additional Deputy Comptroller and Auditor-General.*

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

30. The sub-Committee took up further consideration of the notes etc. furnished by the Ministry of Defence on the cases relating to the purchase of \*jeeps and Defence Stores †commented upon in paras. 53 and 54 of the Defence Audit Report, 1951.

After discussing at some length the various implications involved in these deals, the sub-Committee decided that the question whether a small sub-Committee of the P.A.C. might be appointed to investigate into the various aspects of the case relating to the purchase of Defence Stores etc., should be referred to the main Committee. The Chairman, P.A.C. then decided that this question should be placed before the full Committee for their consideration when they next met

31. The sub-Committee desired to know what action the Government took after the comments relating to this deal were made known through the Defence Audit Report, 1951. Citing the example of the procedure followed in the U.K., the Comptroller and Auditor-General pointed out that it was for the Ministry of Finance to have taken up the matter with the Ministry concerned in so far as disciplinary action against the delinquent officials connected with this deal was concerned. The sub-Committee further desired that this aspect of the matter should be taken up when the representatives of the Ministry of Finance were examined further either by the main Committee or the proposed sub-Committee.

32. The sub-Committee then adjourned to meet again on a date to be fixed by the Chairman.

---

\*See Appendix XXXI.

†Not printed being secret.

**Proceedings of the Sixth Meeting of the sub-Committee held on  
Tuesday, the 22nd September, 1953.**

The sub-Committee met from 4 to 5-10 P.M.

**PRESENT**

Pandit Munishwar Dutt Upadhyay—*Chairman.*

*Members*

Shri Ranbir Singh Chaudhury  
Shri Umacharan Patnaik  
Dr. Mono Mohon Das  
Shri V. P. Nayar.

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

33. The sub-Committee took up further consideration of the Notes/Memoranda furnished by the Ministry of Defence on the points arising from the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit Reports thereon (as detailed in Annexure).

**Item 1—Para. 47 of the Defence Audit Report, 1952—Irregular disposal of Engineer Stores.**

34. The sub-Committee considered the matter at some length in conjunction with the earlier note dated the 30th July, 1953 furnished by the Ministry of Defence (Appendix VIII) and decided to make the following recommendation:

“When the party was committed to the sale and Government had after taking legal opinion decided to enforce the terms of the agreement, it was not correct on their part to have released these stores at 40 per cent. of the book value on the ground that it was in pursuance of a new policy invoked by Government to sell surplus plant and machinery to industrial users in order to speed up disposals and encourage rehabilitation and expansion of industry.”

**Item 2—Para. 49 of the Defence Audit Report, 1951—Short recoveries on account of outside work executed in a dockyard.**

35. No comments.

**Item 3—Accounting of stores supplied by the Ordnance Factories to the M.G.O. Branch.**

36. The sub-Committee noted the statement made in sub-para. (ii) of the Ministry's Memorandum dated the 24th August, 1953 that 'for purposes of accounting, Ordnance Factories are considered part of the Army Establishments. The cost of stores supplied to the M.G.O. Branch is, therefore, not separately debited to that Branch.' The sub-Committee observed that as the question of pricing and debiting

of the cost of stores manufactured in the Ordnance Factories to the M.G.O. Branch involves major changes in the budgetary and accounting system of the Defence Services, it should be left over for examination by the whole Committee.

**Item 4—Para. 22 of the Defence Audit Report, 1952—Stock verification in Air Force Units.**

37. No comments.

**Item 5—Item No. 4 of the statement showing outstanding recommendations—Provision of covered accommodation for storage of Defence stores.**

38. Noted.

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

---

## ANNEXURE

*Statement showing notes/memoranda furnished by the Ministry of Defence etc. on the points arising out of the Appropriation Accounts, Defence Services, 1949-50 and 1950-51 and Audit reports thereon.*

Serial No.	Reference to para. of the Audit Report, 1951-52.	Particulars
1.	Para. 47 of Defence Audit Report, 1952.	Irregular disposal of Engineer Stores ( <i>Appendix IX</i> ).
2.	Para. 49 of Defence Audit Report, 1951.	Short recoveries on account of outside work executed in dockyard ( <i>Appendix XIII</i> ).
3.	Commercial Appendices to the Defence Accounts, 1949-50 and 1950-51.	Cost accounting system in the Defence Factories ( <i>Appendix XXIX</i> ).
4.	Para. 22 of the Defence Audit Report, 1952.	Stock verification in Air Force Units.*
5.	Item No. 4 of the printed statement showing action taken or proposed to be taken on the recommendations of the P. A. C. relating to the Defence Accounts, 1948-49.	Provision of covered accommodation for storage of Stores ( <i>Appendix XXIII</i> ).

\*Not printed.

## APPENDIX

*Statement showing the summary of principal observations, recommendations made in the Ninth Report of the Public Accounts Committee on the Defence Accounts, 1949-50 and 1950-51*

Serial No.	Reference to Para. No. of the Report	Ministry concerned	Summary of conclusions/ recommendations
1	2	3	4
1	9	Defence	The excesses relating to the year 1950-51 be regularised in accordance with the provisions of Article 115 of the Constitution.
2	11	Defence Finance/Defence	The standards of budgeting for the Defence Services during the year under review are not still very satisfactory. The Committee reiterate the recommendations made in this behalf in Para. 2 of their Second Report on the Defence Accounts, 1948-49 and trust that the need for closer estimating would be impressed on all the Branches of the Defence Services. Overestimating should be scrupulously avoided and a strict watch should be maintained upon the observance of these instructions.  As recommended by the Committee in Para. 14(a) and (b) of their Seventh Report, provision made on account of stores or supplies indented should be reviewed periodically especially during the closing months of the year concerned, so that funds not required are surrendered in time to avoid lapse of grants. A close liaison should also be maintained with the Supplying Department to achieve this object.
3	12	Do.	Whatever excuses there may have been, valid or invalid, during the War and the post-war periods, the latter of which was affected to some extent by the Partition, it is imperative that the Store Accounts should be improved and brought on an entirely correct basis. The Committee trust that the promises made to them that satisfactory arrangements would be made to maintain correct Store Accounts and to conduct necessary stock-takings in order to ensure the efficient administration of stores are being implemented and that the authorities would satisfy them in this matter. It is essential that adequate and efficient manpower should be employed for the administration of stores and the maintenance of satisfactory accounts.
4	13	Do.	The Committee hope that in future the periodical stock verification will be carried out scrupulously and any laxity in this respect will be severely dealt with.
5	14	Do.	It is of utmost importance that correct facts are given to the Audit authorities and no occasion for conflicting statements of facts between the Executive and the Audit should arise.

Serial No.	Reference to Para. No. of the Report	Ministry concerned	Summary of conclusions/recommendations
1	2	3	4
6	15	Defence Finance (Defence)	It is emphasised that keeping of Store Accounts is an important factor in maintaining the efficiency of the Navy.
7	16	Defence	<p>The investigation of the cause of the fire that occurred in the Naval Stores Depct, on the 2nd June, 1949 should not have been left to the Departmental Officers. It should have been conducted by a Board of Senior Officers not connected with the Naval Stores Organisation and the Police should have been called in, if necessary. The failure to make this investigation calls for serious admonition. Those who resisted Audit inspection should also be suitably dealt with.</p> <p>In order to prevent recurrence of such cases, the Ministry of Defence should issue instructions that all cases involving material loss or destruction of property as a result of fire, theft, etc. in the Defence Stores Depots and installations should also be reported to the Police for investigation.</p> <p>The Ministry of Defence may also examine the point whether under the existing rules regulating the constitution of the Boards of Inquiry, it is open to Government to pursue the matter further in case they feel dissatisfied with their findings. The Committee should like to know, in due course, the views of the Ministry of Defence in the matter.</p>
8	18	Defence W. H. & S.	Consequent on the promulgation of the revised Rules regulating the policy and procedure to be observed by the India Stores Department, London in the purchase of stores and the engagement of freight to India, it is hoped that there would not be any confusion in future in the matter of fixing of responsibility for the purchases of stores made through the agency of the India Stores Deptt., London.
9	19	Do.	Government should consider the question of adequately equipping the I. S. D., London for carrying out the inspection of Defence Stores, such as arms and ammunition etc. purchased abroad.
10	20	Do.	The Committee should be apprized of the comments of the Ministries of Defence and W.H.&S. on the observations made in Para. 11 of Chapter III of the Report of the India Stores Department, London for the year 1951-52 urging the desirability of establishing manufacture of common-user items in India. In the meantime, the Committee would stress the desirability of procuring the common-user items for the use of Defence Services in India as such a course would not only give a fillip to the indigenous industries but also conserve our foreign exchange resources.

11	24	<p style="text-align: center;"><u>Defence</u></p> <p>Defence (Finance)</p>	<p>Despite the observations made by the Committee in Para. 10 of their Second Report that the 'new contract' for the supply of 1007 jeeps at a price different from that agreed to under the previous agreement required scrutiny, neither was any scrutiny made nor any fresh sanction sought or given. Further, no monthly reports about the progress of supply of the jeeps under the new contract could be submitted to the Committee as after the first batch of 50 jeeps, no supplies were made.</p>
12	25	<p>Do.</p>	<p>Attention is drawn to the following objectionable features of the first contract for the supply of jeeps :</p> <ul style="list-style-type: none"> <li>(i) short-circuiting of the normal procedure which lays down that the D.G., I.S.D., London assisted by his Legal and Financial Advisers should deal with such contracts ;</li> <li>(ii) failure to invite tenders ;</li> <li>(iii) even if (ii) above is overlooked for special reasons, the selection of a newly formed private limited company which was not an established firm dealing in Jeeps and whose antecedents and financial standing were not known ;</li> <li>(iv) failure to obtain the necessary Bank reference and securities for the performance of the contract and for advance payments made ;</li> <li>(v) unjustified revision of the contract which made large payments possible without proper inspection certificates ;</li> <li>(vi) payment of the second instalment of £81,575 without any certificates of inspection for 502 Jeeps ; and</li> <li>(vii) failure to proceed against Anti-Mistants, Ltd. for the recovery of such damages on account of the non-performance of the contract as might have been possible.</li> </ul>
13	26	<p>Do.</p>	<p>It was most desirable that in the case of the new contract, the Indian High Commission in London before entering into negotiations should have obtained reliable information from the Government of the country, the trade or other reliable sources about the commercial and financial standing and capacity of S.C.K. (Agencies) as well as of its individual members especially as personal guarantee of these members was being accepted. The offer of Messrs. S. C. K. (Agencies), a new firm to make good the loss of £ 1,43,162 suffered by the Government of India in their deal with the Anti-Mistants Ltd., without a <i>quid pro quo</i> should not have been so readily accepted at its face value.</p>
14	27	<p>Defence</p>	<p>Although the comments on this (Jeep) deal were made known to the Government through the Defence Audit Report, 1950 and Para. 10 of the Second Report of the Public Accounts Committee, yet no effective action has been taken by Government against persons who were responsible for transacting such an un-businesslike deal in disregard of the administrative and financial rules.</p>
15	29	<p style="text-align: center;"><u>Defence</u></p> <p>Defence (Finance)</p>	<p>The Committee, while endorsing the observations contained in Para. 54 of the Audit Report, Defence Services, 1951 in respect of the first contract for the purchase of certain Defence Stores, record the following conclusions :</p> <ul style="list-style-type: none"> <li>(i) A direct contract between the Government of India and the manufacturers was possible with the assistance of the foreign Government concerned.</li> </ul>

Serial No.	Reference to Para. No. of the Report	Ministry concerned	Summary of conclusions recommendations
1	2	3	4
			<p>(ii) The appointment of intermediaries, especially those who came in at a later stage and did not have regular agency contract with the manufacturers resulted in the payment of higher price to cover the intermediaries' margin.</p> <p>(iii) The contract was concluded without necessary financial concurrence in regard to the reasonableness of price.</p> <p>(iv) Within a week of the opening of Letter of Credit, payments to the extent of 50 per cent of the entire contract price were made on production of certificates from the manufacturers that raw materials required for the manufacture had been acquired for the equivalent value. These payments resulted in considerable sums being in fact advanced to the contractors long before the supplies were forthcoming.</p> <p>(v) The contract conditions did not specify the method of payment for supplies but provided only for the opening of Letter of Credit for such amount and on such other terms as may be agreed upon and embodied in the Letter of Credit. It is only the Letter of Credit which specified the method of payment. This is an unusual procedure and the payment conditions should have been incorporated in the contract itself and the Letter of Credit authorising the Bank to open credits and make payments therefrom should have been in accordance with the terms and conditions of the contract.</p> <p>(vi) As stated in the Audit Report, Defence Services, 1951, "it appears somewhat extraordinary for a Government such as the Government of India to have to offer security in the form of Letters of Credit in favour of contractors who are just intermediaries involving locking up of foreign currency worth crores of rupees. The Government of India have ample financial and banking resources and can pay sums of any magnitude throughout the world at a moment's notice for meeting their contractual obligations".</p>
16	30	Defence Finance (Defence)	The Committee's observations in Para 29 <i>supra</i> apply <i>mutatis mutandis</i> in the case of the second contract for the purchase of Defence stores. It is amazing how the exact military requirements of the Government of India which are of a confidential character became known to a private firm within eight days of their communication by the Ministry of Defence to the High Commissioner for India in London. An independent enquiry into the circumstances under which the information leaked out to a foreign private firm would appear desirable.

- 17 31 Do. According to the Committee, the other irregularities connected with the second contract are :
- (i) lack of necessary financial concurrence in regard to the reasonableness of the prices ;
  - (ii) opening of Letters of Credit involving payments to the extent of 50 per cent of the entire contract price merely on production of certificates from the manufacturers that raw materials required for the manufacture had been acquired for the equivalent value. This is an unusual procedure and payment conditions should be incorporated in the contracts themselves ; and
  - (iii) no contemporaneous record of the secret conversations and discussions that took place between the Ordnance Consulting Officer attached to Office of the High Commissioner for India in London and the Secretary, Ministry of Defence or the Financial Adviser, Defence Services when the former came to India had been kept, although the discussions involved huge financial commitments by the raising of the price of the stores in question by £ 1-17-0 per unit. This becomes all the more necessary in cases where a deal has to be entered into on a non-competitive basis.
- 18 33 Works, Housing & Supply  
Defence. No steps were taken by the D.G., I.S.D., London before placing the order to the value of £ 8,115 or making the advance payment, to verify the credentials and financial standing of the firm Messrs. Aircraft Instrumentation Ltd. which was a private company with nominal capital of £2,000.
- 19 34 Do. It is surprising to note that the firm, Messrs. Aircraft Instrumentation Ltd. were neither manufacturers nor agents of the manufacturers but were stated by the Air Adviser to hold stocks of the items required. The Committee express their disapproval of the action of the Air Adviser in London in having gone out of his way to suggest the name of a particular firm not even on the list of approved contractors. The Committee think that if the Air Adviser recommended some firm which was unsuitable and which failed to execute the job, he cannot escape responsibility. The Ministry of W., H. & S. should, in consultation with the Ministry of Defence, fix the responsibility on the person or persons responsible for placing the orders with the above firm and take action against those responsible. The Committee should be informed of the action taken in the matter.
- 20 39 Works, Housing & Supply  
Defence. Apart from the overall loss caused to the Government on the transaction relating to the procurement of blankets from the U. K. which comes to Rs. 1,34,599 (including Rs. 93,000 as Customs Duty and Rs. 2,000 being the commission paid to the auctioneer), serious irregularities, procedural and technical, as stated below, were committed by the authorities in handling it in India as well as in London.
- (i) No serious attempt to procure these blankets from the trade in North India was made by the Ministry of W., H. & S. before cross-mandating the indent to the D.G., I.S.D., London.
  - (ii) The part-worn blankets from the U.K. were accepted by the Defence Ministry in the belief that they will be delivered before the end of 1948 and supplies from India were not possible before April, 1949. Actually, the second-hand blankets reached the receiving depot in India in May, 1949 only and the main object of getting early delivery which was to supply to our Forces in Kashmir in the winter of 1948-49 was defeated.

Serial No.	Reference to Para. No. of the Report	Ministry concerned.	Summary of conclusions/recommendations
1	2	3	4
			<p>(iii) Contact with the U.K. firm of Messrs. S. Pentel &amp; Sons, Ltd, was made through an intermediary, Messrs. Watson &amp; Son, Ltd.</p> <p>(iv) No enquiry about the commercial and financial standing of these two firms was made by the authorities in London. Messrs. S. Pentel &amp; Sons had a registered capital of £5,000 only and Messrs. Watson &amp; Son, Ltd., of £ 1,000.</p> <p>(v) The D.G., I.S.D. London should not have dispensed with the stamping of blankets without obtaining the prior permission of the Ministry of Defence.</p> <p>(vi) Although the Court of Enquiry held on the 14th September, 1949 pronounced that the blankets were unserviceable and unfit for issue to the Army, the Report was received by the D.G., I.S.D., London in March, 1950, i.e., 12 months after the shipment of the blankets. This time-lag enabled the firm to repudiate its liability.</p>
21	40	Defence <u>Works, Housing &amp; Supply.</u>	<p>In matters of stores which are urgently required, their supply within the stipulated time is absolutely essential. In this case, the Committee take a serious view of :</p> <p>(a) the very late arrival of these blankets ; and</p> <p>(b) of their being unfit for the use of the Defence Forces.</p> <p>In the opinion of the Committee, both the Ministry of Works, Housing &amp; Supply and the D.G., I.S.D., London have been neglectful in their duty to enforce proper standard of inspection and observance of the contract by the firm concerned.</p>
22	41	<u>Do.</u> All other Ministries.	<p>The files regarding purchase transactions should be kept for longer periods so that Government could be in a position to resist any claims from suppliers at a later date.</p> <p>The existing instructions regarding destruction of files should be carefully examined and modified to ensure that Government interests are not jeopardised by premature destruction of files.</p>
23	42	Defence	<p>The Committee view with concern that elementary and commonsense precautions in the matter of a series of important contracts involving large sums of money as well as well-known business and financial procedure and established practices were ignored. The question of the extent of individual responsibilities can be assessed only by a high level Committee consisting of one or two High Court Judges.</p>

- 24 43 All Ministries . In future no contract should be negotiated through intermediaries having little or no standing or which appear to have been formed a few months before the contracts are negotiated. It is also essential that in all cases where contracts or transactions are entered into with private firms, every care should be taken to verify their financial position through Banker's reference or by consultation with the Government concerned. It is desirable when dealing with private firms in a foreign country to take both our Ambassador in that country as well as the Government concerned into confidence particularly as in these days supplies of Defence stores are not possible from a foreign country without the concurrence and co-operation of the Government of that country.
- 25 44 Defence . . . In order to expedite settlement of the outstanding advances paid to former Indian States for execution of Defence works during the War, a team consisting of an Officer each of the M.E.S. and the Defence Finance (Defence) Accounts Department should be deputed to undertake some kind of visual audit or local inspection with a view to seeing on the spot that there was reasonable evidence of the expenditure having been incurred, and, if such evidence was forthcoming, the matter could be treated as settled.
- 26 45 Defence . . . It is of great importance that in administering public funds, the risk of loss through hasty or inadequately Finance justified payments in the closing days of the financial year should be avoided. Finance (Defence)
- 27 46 Defence . . . A rule similar to Law Officers Rule No. 173 of the Government of Bombay which provides that 'no suit or Law other civil proceeding is to be settled out of Court or compromised in the Court without the express orders of Government' should be adopted by the Government of India in order to avoid recurrence of cases similar to that referred to in Para. 8 of the Audit Report, Defence Services, 1951—Payments relating to settlement of cases out of Court.
- 28 47 Defence . . . The Ministry of Defence should examine the conditions of contracts in the Military Engineer Services in Finance (Defence) consultation with Audit authorities and amend them suitably to ensure that anomalies in the form of wrong pricing as a result of amendments to a contract as disclosed in Para. 9 of the Audit Report, Defence Services, 1951 will not recur.
- 29 48 Do. . . The question of recovery of the outstanding amount from the State Governments concerned should be vigorously pursued by the Ministry of Defence and the Committee informed, in due course, of the results achieved.
- 30 49 Do. . . It is hoped that in future a stricter observance of the orders that stores for any work should be collected only after necessary funds have been allotted will be enforced.
- 31 50 Do. . . The M. E. S. Organisation should ensure that the special billing teams appointed for the clearance of outstanding contractors' bills for the year 1951-52 perform their task adequately and that there will be no necessity for any billing team in future.

Serial No.	Reference to Para. No. of the Report	Ministry concerned.	Summary of conclusions/recommendations
1	2	3	4
			<p>The element of delay in the settlement of a contractor's bill not only leads to corruption and other malpractices but also serves as an incentive towards the raising of the contractor's rates which means loss of public money.</p> <p>Some effective measures should be taken by the Ministry of Defence to tone up the working of the M. E. S. Organisation and instructions should be issued to all Commands/Formations etc. that contractors' bills should be dealt with promptitude.</p>
32	51	Defence . . . Finance (Defence)	In order to prevent any malpractices in the issue of the Military Credit Notes to the contractors, a cent. per cent. check of all Credit Notes issued by the M.E. S. to the contractors should be conducted by the Defence Accounts Department.
33	52	Do. . . .	An early decision should be taken in the matter of the implementation of the recommendation made in the second sub-para. of para. 6 of the Report of the Public Accounts Committee on the Appropriation Accounts 1947-48 (post-partition) re : setting up of Arbitration Tribunals to decide cases of disagreement under Works contracts.
34	53	Do. . . .	<p>The case relating to the irregular disposal of Engineer Stores referred to in Para. 47 of Audit Report, Defence, 1952 reveals ignorance of the canons of financial propriety on the part of the authorities handling this unbusinesslike transaction. When the party was committed to the sale at cost price plus 10 per cent. and Government had after taking legal opinion decided to enforce the terms of the agreement, it was not correct on their part to have released these stores at 40% of the book value on the ground that it was in pursuance of a new policy decided by Government to sell surplus plant and machinery to industrial users in order to speed up disposals and encourage rehabilitation and expansion of Industry.</p> <p>In the opinion of the Committee, Government should pursue the matter further with a view to fixing responsibility on the persons who did not safeguard the public interests.</p>
35	54	Defence . . . .	The delay in convening a Court of Enquiry and/or delay in taking action on their recommendations defeats the very object of such an enquiry. The Ministry of Defence should examine this aspect of the matter and amend the Army Act, if necessary, to ensure that adequate disciplinary action is taken in all cases against Officers who have been guilty of financial irregularities and they do not escape by taking shelter under the 'time limit' clause.

- 36 55 Defence . . . Special steps should be taken to clear off the huge outstandings under the suspense head 'Field Deposits' and to effect reconciliation as any further delay might put Government to a loss.  
Finance (Defence)
- 37 56 Do. . . Efforts should be made to clear off the balances in the Soldiers' Accounts.
- 38 57 Do. . . The Local Audit Officers of the Defence Accounts Department should also carry out surprise checks of cash with the Imprest Holders and the Defence authorities should render them all necessary facilities to carry out such checks.
- 39 58 Do. . . The Ministry of Defence should examine the adequacy of the various internal checks including checks by the Defence Accounts Department on the cash accounts in consultation with the Controller-General of Defence Accounts, the Ministry of Finance (Defence) and Comptroller and Auditor-General and suggest improvements, if any.
- 40 59 Do. . . All the pensionary increases sanctioned by the Commonwealth Relations Office of the nature referred to in para. 33(3) of the Audit Report, 1951 may be reviewed and steps taken to recover overpayments, if any.
- 41 60 Defence . . . Government should arrive at an early decision for taking over the work relating to the payment of Military pensions from the U. K. Government with a view to entrusting it to the High Commissioner for India in London. This will also enable the Government to save the payment of agency fees on the pensions paid by the C. R. O. on their behalf.  
Finance (Defence)  
Finance
- 42 62 Defence . . . Government orders involving financial implications should be worded in clear and precise terms and should not be vague and ambiguous and thus be susceptible of different interpretations by the subordinate authorities.  
Finance (Defence)  
All other Ministries.
- 43 63 Defence Government should take steps to train sufficient manpower in Cost Accounting and estimating work not only for the Naval Dockyards but also for employment in other Governmental Industrial Undertakings.  
Finance  
Finance (Defence) Cost Accounting is very necessary in cases where jobs are executed for outside parties and cost has to be recovered from them. It is also necessary for watching economy in the Department itself, as a kind of index or barometer to see how the business is being done. The absence of estimates provides opportunities for all kinds of evils.  
Home Affairs.  
Production  
Communications.  
Railways  
All other Ministries concerned.

Serial No.	Reference to Para No. of the Report	Ministry concerned	Summary of conclusions/recommendations
1	2	3	4
44	64	Defence	Government should take all possible steps to enforce recoveries of the existing heavy outstandings on account of stores supplied or services rendered to private individuals by Ordnance and Clothing Factories during the years 1944—48.
45	65	Do.	The question of allocation of the unaccounted expenditure in the case of the project for the erection of a Factory at a certain station [referred to in Para. 7 of the Audit Report on the Commercial Appendix to the Appropriation Accounts (Defence Services), 1949-50] should be settled and necessary adjustments made as early as possible.
46	66	Do.	With a little more energetic action on the part of the Technical Officers of the Director-General, Ordnance Factories, the defect in the manufacture of certain stores could have been remedied much earlier and a considerable portion of the loss of Rs. 6½ lakhs avoided.
47	68	Defence Works, Housing & Supply. Home Affairs. All other Ministries.	<p>(i) The Committee deprecate the delays that generally occur in the subordinate offices to proceed with the disciplinary matters. Top priority should be accorded in all Offices to the disposal of the disciplinary cases.</p> <p>(ii) In the case referred to in Para. 10 of the Audit Report, Defence Services, 1952, the Committee should like to know the action taken by the Ministry of W. H. &amp; S. against the Executive Engineer on receipt of the advice of the U.P.S.C.</p> <p>(iii) Contracts should be placed after tenders have been openly invited.</p>
48	69	Defence All other Ministries.	In the matter of evaluation of buildings, the assistance of 'expert valuers' should be obtained.
49	70	Defence	The Government of West Bengal should be urged to expedite reply to the points referred to in Para. 42 of Audit Report, 1951 and Para. 42 of Audit Report, 1952.
50	71	Do.	<p>(i) The object for which the scheme for Cannibalisation of post-war vehicles was launched viz., to meet the shortage of spares was not fulfilled to any appreciable extent.</p> <p>(ii) The Ministry of Defence should make a careful study of the whole scheme from the technical and financial aspects and arrive at an early decision about the disposal of the remaining vehicles, as they are likely to depreciate further by the efflux of time.</p>

- 51 73 Defence . The High Commissioner for India in London should be asked to pursue the question of early settlement of outstanding claims against the U. K. Government which amounted to £3,788,100 at the end of March, 1953 at a high level with the War Office as any further delay is likely to complicate matters.
- 52 74 Do. . . The Committee desire that the Ministry of Defence should, in consultation with the Ministry of Finance (Defence) and Audit, evolve a method to clear off the backlog of unimportant audit objections which are outstanding since long.
- 53 115 W. H. & S. . The Ministry of W. H. & S. should take up the question of making advance payments to the U. K. Government for the supply of certain stores to the Government of India in consultation with the Defence Ministry.
-

