

FORTY-THIRD REPORT

PUBLIC ACCOUNTS COMMITTEE (1980-81)

(SEVENTH LOK SABHA)

EXECUTION OF A NAVAL PROJECT AND DISPOSAL
OF ALUMINIUM SCRAP BY AN ORDNANCE
FACTORY

MINISTRY OF DEFENCE



Presented in Lok Sabha on

Laid in Rajya Sabha on

LOK SABHA SECRETARIAT
NEW DELHI

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Accounts Committee (Seventh Lok Sabha)

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			SECRETARIAT	LOK SABHA
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PART II*

Minutes of sitting of the Committee held on 11-2-1981

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

PUBLIC ACCOUNTS COMMITTEE (1980-81)

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INTRODUCTION

1, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Forty-third Report on Paragraphs 23 and 11 of the Reports of the Comptroller and Auditor General of India for the years 1977-78 and 1978-79 Union Government (Defence Services), respectively on Execution of a Naval project and Disposal of aluminium scrap by an ordnance factory.

2. The Reports of the Comptroller and Auditor General of India for the years 1977-78 and 1978-79, Union Government (Defence Services) were laid on the Table of the House on 18 May, 1979 and 26 March, 1980 respectively. The Committee (1980-81) examined paragraph 23 at their sitting held on 11 February, 1981. The Committee considered and finalised the Report at their sitting held on 18 April, 1981. Minutes of the sittings form Part II* of the Report.

3. The Committee have observed that the initial wrong location of the site of the degaussing basin was responsible for much of the extra expenditure of Rs. 80.87 lakhs that had to be incurred under the second contract. The Committee have strongly emphasised the need for carrying out thorough and intensive soil investigations before commencement of work on such projects.

4. The report also deals with a case of disposal of 500 tonnes of aluminium scrap by an Ordnance Factory. The Committee have pointed out certain irregularities in the deal and observed that wide publicity was not given to the tender notice, tender forms had been sold even before the publication of the tender notice, reserve price for aluminium scrap was not fixed, ledger price had not been revised after 1957 and scrap had been sold at a rate much lower than the rate at which scrap was sold by another Ordnance Factory. The Committee have recommended that the work of revaluation of scrap items should be undertaken annually and the prices should be related to current market prices.

5. For reference facility and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

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

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

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

CHANDRAJIT YADAV,

Chairman,

Public Accounts Committee.

NEW DELHI;

April 23 1981

Vaisakha 3, 1903 (Saka)

EXECUTION OF A NAVAL PROJECT

Audit Paragraph

1.1. In paragraph 19 of the Report of the Comptroller and Auditor General of India, Union Government (Defence Services) for 1974-75, mention was made of the execution of a contract (May 1967) for dredging in a Naval project bringing out the following points:

Suspension of the dredging of the degaussing basin in 1969 after incurring expenditure of Rs. 50 lakhs and deferment of the programme of dredging to 1978-79 due to inadequacy of soil survey of the area;

extra payment of Rs. 9.85 lakhs to the contractor by way of higher rates on areas dredged due to inability of the project authorities to make available the total area for dredging and due to foreclosure of the contract; and

negotiation of a fresh contract (in 1973-74) for dredging inclusive of the residual quantity of the earlier contract at a higher rate of Rs. 8.20 per cubic metre against the earlier rate of Rs. 3.50 per cubic metre (i.e. 234 per cent of the earlier rate) with the same contractor, involving additional expenditure of Rs. 122.53 lakhs as a result of conclusion of the new contract.

1.4. *Increase in cost of Port Trust land required for the projects:* It was found beyond 5 million cu.m. had to be suspended, *inter alia*, due to non-completion of acquisition of 22 acres of Port Trust land and increased presence of rock in the degaussing basin, the site of which had to be shifted.

1.3. An analysis of the process of acquisition of land and dredging of the degaussing basin revealed the following:

1.4. *Increase in cost of Port Trust land required for the projects*—It was observed that as far back as 1971 (when the earlier dredging contract was still in force), the Port Trust had indicated their willingness to make available 22 acres of land, then estimated to cost Rs. 13.45 lakhs, subject to the Navy meeting expenses on the re-location of a Mercantile Training Establishment (3.66 acres) under the Ministry of Shipping and Transport and a private boat building yard (1 acre) in the area. However, in 1972 the Navy considered that on security considerations, it was not desirable for the two establishments to continue in the area. The question of shifting these establishments (at the instance of the Navy) remained under discussion till October 1973 when the Navy agreed to allow them in the existing location until they were able to shift to a new location. The Navy also agreed to accommodate the private yard in another unused space belonging to it and to pay the cost involved in its shifting. Thereafter,

sanction of the Ministry of Defence was accorded in October 1975 to the payment of Rs. 10.50 lakhs, to the Port Trust for re-shifting the two establishments. In the meantime, quinquennial revision of the value of the Port Trust land due in March 1973 was undertaken by the Port Trust authorities in January 1974; consequently, the delay in taking a decision by the Naval authorities resulted in additional payment of Rs. 21.52 lakhs (over the earlier estimated cost of Rs. 13.45 lakhs) to the Port Trust (March 1975).

1.5. The Ministry of Defence stated (January 1979) that increase in the cost of acquisition was due to yardsticks adopted by the Port Trust which is an autonomous body and was entirely beyond the control of the project authorities.

1.6. *Degaussing basin*:—The sub-soil investigation, laboratory tests, etc. for determining rock surfaces for dredging in the degaussing basin were carried out between March 1968—December 1972 at a total cost of Rs. 10.89 lakhs. The dredging of the site selected for the basin could not, however, be completed due to the existence of rocks and the site had to be shifted after an expenditure of Rs. 50 lakhs had been incurred. The contractor had offered (April 1969) to execute the work of rock blasting at Rs. 102 per cu.m. and removal and transportation of blasted material at Rs. 45 per cu.m. during the pendency of the first contract. Based on the approved rates of the Port Trust, the Ministry of Defence sanctioned (February 1971) the rates for rock blasting and grab dredging of the area at Rs. 85 per cu.m. and Rs. 28.02 per cu.m. respectively.

1.7. Due to change in the alignment of the degaussing basin, the cost of dredging and rock blasting (June 1978), based on the quantities of work actually done, increased by Rs. 80.87 lakhs (91 per cent) as shown below:—

	(Rs. in lakhs)
Cost of dredging 22.74 lakh cu. m. at the earlier contracted rate of the Rs. 3.50 per cu.m.	79.59
Cost of rock blasting (8,185 cu.m.) at Rs. 85 per cu.m. and removal (9,221 cu.m.) at Rs. 28.02 per cu. m. as per sanction issued in February 1971	9.54
TOTAL	(A) 89.13
Completion cost of dredging 22.74 lakh cu. m.	123.60
Actual cost of rock blasting (1,185 cu. m.) at Rs. 107.25 per cu. m. and removal (9,221 cu. m.) at Rs. 35.75 per cu. m.	12.07
Mobilisation charges*	25.00
Price escalation allowed to the contractor	9.33
TOTAL	(B) 170.00

*No such charges were payable under the first contract.

1.8. Increase (B)-(A): Rs. 80.87 lakhs

The Ministry of Defence stated (January 1979) that the decision for shifting the degaussing basin was taken after detailed discussions with the specialists in order to reduce the quantity of rock blasting.

1.9. *Mobilisation charges*:—A sum of Rs. 25 lakhs was payable to the contractor as mobilisation charges for dredging work. 80 per cent (Rs. 20 lakhs) of the amount was payable within seven days of arrival of two dredgers (including the unloading dredger). The balance of Rs. 5 lakhs was to be paid after completion of work. There was no return for mobilisation charges (included in Rs. 25 lakhs) paid (May 1974) for the unloading dredger which required repairs in the dry dock before it could be put into operation.

1.10. According to the Ministry (January 1979), the fact that the unloading dredger was not operational did not establish that the same was not required or could not be made operational when required. The unloading dredger was, however, not utilised for the project.

1.11. *Procurement of a motor boat not needed*:—In January 1972, the Ministry of Defence sanctioned procurement of a motor boat for the project at an estimated cost of Rs. 1.32 lakhs. The boat procured through the Director General, Supplies and Disposals at a cost of Rs. 1.04 lakhs was scheduled to be delivered in May 1973; but was actually received in January 1977. Although the requirement was projected (August 1970) for purposes of inspection and measurement of dredging work, the boat could not be used due to:

no qualified crew being available to operate the boat;

Provision in the dredging contract for the contractor to provide at his cost a boat to the project authorities for inspection and measurement of work done; and

non-materialisation of attempts to transfer the boat to a neighbouring dry dock project (December 1977).

1.12. The Ministry stated (January 1979) that the boat was transferred to the Naval Command Boat Pool to avoid fresh employment/recruitment of necessary crew and it was always available for use in the project.

1.13. *Change in requirement in an oxygen plant*:—In January 1972, the Ministry of Defence accorded sanction, *inter alia*, to the provision of a building for installation of an oxygen plant at a cost of Rs. 3.49 lakhs, revised to Rs. 8.87 lakhs in April 1975. As per the Project Report, the oxygen plant was to be procured from abroad. In November

1973, it was decided by the users to instal a captive (oxygen) plant of an indigenous make. During the project review meeting held in September 1974, a decision was taken to defer installation of the plant and to procure liquified oxygen. Notwithstanding this decision, work on a portion of the building for installing the plant was commenced in January 1976 and stopped only after it had progressed up to plinth level and an expenditure of Rs. 1.20 lakhs had been incurred.

1.14. The project authorities stated (March 1978) that foundation and plinth for the plant room were constructed keeping in view the decision of the users taken in November 1973.

1.15. The main points, that emerge, are:

additional payment of Rs. 21.52 lakhs for the transfer of Port Trust land required for the project consequent on delay in taking a decision on shifting two establishments;

increased expenditure of Rs. 80.87 lakhs on dredging and rock blasting due to change in the alignment of the degaussing basin;

procurement of a motor boat (cost: Rs. 1.04 lakhs) not needed/ utilised for the project; and

incurring an expenditure of Rs. 1.20 lakhs on the work relating to construction of building for the installation of the captive (oxygen) plant although its installation had been deferred.

[Paragraph 23 of the Report of the Comptroller and Auditor General of India for the year 1977-78, Union Government (Defence Services)]

REPORT

Introductory

1.16. The Naval Project Visakhapatnam comprises the following facilities:—

1. Naval Base
2. Training Complex
3. Dockyard

1.17. The Project was approved by the Government in September, 1968 on the basis of a report given by foreign specialists. The cost of the Project initially estimated at Rs. 96 crores, was revised to Rs. 211 crores in 1975 and Rs. 217.77 crores in 1978 comprising Rs. 112.92 crores for Phase I and Rs. 104.85 crores for Phase II. So far a total expenditure of about Rs. 120 crores has been incurred on the project (upto November, 1980).

Dredging of the Degaussing Basin

1.18. According to Paragraph 19 of the Report of C&AG for the year 1974-75, Union Government (Defence Services), it was decided in December, 1968 to dredge the degaussing basin. The present Audit Paragraph points out the suspension of the dredging of the degaussing basin in 1969 after incurring expenditure of Rs. 50 lakhs and deferment of the programme of dredging due to inadequacies of soil survey of the area. The Committee desired to know the reasons necessitating the suspension of the work relating to dredging of the degaussing basin in 1969. In a note, the Ministry of Defence have assigned the following reasons for suspension of the dredging of the degaussing basin:—

- “(a) Non-availability of 22 acres of Port Trust land opposite to Wharves and Jetties.
- (b) Non-dismantling of rail-cum-road bridge by VPT on the river Megadrigedda which was scheduled to be dismantled by June 69 as per original programme. Since the non-removal of rail-cum-road bridge necessitated maintenance of the loop bridge across the North Western channel, dredging in the area in the immediate vicinity of the diversion loop could not be undertaken.
- (c) Dredging of Flood channel could not be taken up in the absence of a decision of the proposal for the re-alignment of two berths (Berth Nos. 12 and 13) which would affect the configuration of the channel.

- (d) Quantum of rock encountered in the Degaussing Basin to be blasted was found large that anticipated which necessitated re-consideration of siting of the Degaussing Basin to effect economy."

1.19. In a note furnished to the Study Group of the Public Accounts Committee during the course of their visit to the Naval Dockyard in January, 1981, it was stated:—

"The original location of the degaussing basin was as given in the project report. Soil surveys had been carried out prior to the undertaking of dredging. Based on available soil data, ascertained through soil survey carried out in 1966 it was visualised that MOT Dredger will be able to dredge through the layers of the conglomerate and weathered rock and blasting would only be needed to remove rocky strata. However, subsequently it was found that the conglomerate and weathered rock could not be dredged through with the ordinary dredger and had to be removed through blasting. However, the quantum of rock actually encountered to be blasted in the original site was found much larger than that anticipated, *i.e.* 1,20,200 cu.m. as against 32,000 cu.m. reflected in the contract. Later when it became apparent that the quantity of rock blasting would be much higher and the same could be reduced by shifting of the degaussing basin to 90 metres South East, the site was shifted and as a result the saving of about Rs. 50 lakhs was achieved, as compared to the expenditure that would have been incurred if the work had been completed on the original site."

1.20. The Committee enquired about the stage at which it was realised that the actual quantities of rock blasting would be much higher than anticipated. In a note, the Ministry of Defence stated:—

"During dredging of the Degaussing Basin area under the first contract in 1969, it was found that the suction dredger, normally employed for dredging work in ordinary soil, could not dredge through the conglomerate/weathered rock, overlying the hard rock. Only then it was realised that these materials would have to be first blasted and then removed. At that stage it was estimated that the quantity of rock blasting required would be about 1,26,200 cu.m."

1.21. Elucidating the position about the suspension of the dredging of the degaussing basin in 1969 after incurring expenditure of Rs. 50 lakhs and deferment of the programme of dredging to 1978-79, the Director General, Naval Project stated during evidence:—

"In the Audit report, mention has been made about the basin. In the report, it is stated that Rs. 50 lakhs was infructuous. It is

not actually infructuous. We drove a number of bore holes, after expert advice in consultation with the foreign specialists. Going into the marshy soil in consultation with the foreign specialists and our specialists on a competitive tender, we decided upon a certain pattern to dig the bores. This area had to be dug. We found rock in a certain position and the vital portion of the degaussing basin is not the entire basin but a cross and it is 240 metres long, 65 metres wide in the North-South direction and East-West direction respectively."

1.22. The Defence Secretary further stated:—

"Excavation has to be done at different levels and depths. In the whole basin, it has to be done. But only at a selected point, it was expected to go to 19 metres. It was later on reduced to 18 metres. Suppose they had gone to that depth below the normal depth which is necessary for all the areas, then there would have been infructuous expenditure. Luckily, before that, this rock was identified and they had not gone to that depth which would have made expenditure infructuous. So, the shifting of the cross from one place to the other by 80 metres or 90 metres does not mean that something has been done which should not have been done. That is why, we claim that there was no necessary digging and if at all, it may be marginal... It is understandable in a project of this size. We have made a calculation later on as to what could have been the result if the original work had gone on... If we had persisted without knowing fully about the rock at the earlier stage and then completed the whole thing up to 18 metres or 19 metres depth it would have been very costly. It was actually caution on our part that we were able to suspect that there was rock in the beginning. After that, we have taken all the precautions to keep a watch on the progress of the work."

1.23. Asked about the total number of boreholes dug, the Director General, Naval Project stated that so far as the degaussing basin was concerned, that initial number of boreholes dug was 9. Asked to give year-wise figures of the boreholes dug, he furnished the following information:—

1966	9 boreholes. The company concerned was M/s. Comentation.
1968	10 more by Foundation Corporation of India.
1970	14 by M/s. Comentation on competitive tender.
1972	13 by M/s. Comentation.

Total: 46

1.24. Asked to confirm whether all the 46 boreholes were dug in the degaussing basin, the Director General of the Project replied:—

“Yes, Sir. Over the entire project over 400 boreholes were dug over a period.”

1.25. Asked whether the number of boreholes dug was adequate for a proper survey, the Director General of the Project replied:—

“You are working in a marshy area like this. I am doing boreholes at 150 metres. You might consider 20 metres as good enough; somebody else might consider 200 metres as good enough.”

1.26. During their visit to the Project site in January, 1981, a Study Group of the Committee were informed that even in the pattern survey/ decomposed rock was found in one of the boreholes between a depth of 15 to 18 metres. The Committee, therefore, enquired whether the matter was considered afresh at that stage and if so, why more boreholes were not dug. The Director General, Naval Project replied “That would have involved extra expenditure.”

1.27. Elucidating the position further, the Defence Secretary stated :—

“I would like to give some clarification. Number one is, deep digging, as it happened, was done at the right place. The moment suspicion arose about some rock, we took some precautions. You are possibly wanting to impress upon us that, once decomposed rock was found, more borings should have been done and more data collected, so that infructuous expenditure could have been voided. But, as I said in the beginning, borings have been done even after the rock was spotted. Those precautions were taken. That is how, we were able to save the likely infructuous expenditure.

Another thing is, in the normal course, a particular kind of spacing had been recommended by the statisticians. We went by that. In the normal case, it would have been alright. But you will agree that here was an abnormal situation. The normal sample survey would have given a kind of data that this basin was alright. According to the normal sample survey; this was not bad, but it happened that a particular place was very bad; so, a second experiment was made. All these things gave us further data and because of that, we were able to save money.”

1.28. Explaining the position further a representative of the Ministry of Defence stated:

“ the point you were really probing was why proper precautions were not taken in this regard. In 1966, we had consulted

the Consultants from the foreign country also. The first mine bores were made at the Degaussing Basin where we had to do dredging upto minus 19.5 metres. The boreholes had been done right upto minus 24 metres. There too soft clay was found except in one hole which was at the edge where such a deep dredging was not required.

There is no set pattern as to how much should be the distance between one bore hole and other. I understand that normally it should be from 100 to 150 metres in an area where soft clay is found. This distance is supposed to be a reasonable one. Even by going upto minus 24 metres depth, when soft clay was noticed, it was decided that we could dredge further."

1.29. The Committee desired to know whether the concerned authorities were satisfied about the selection of site for the Degaussing Basin, before commencing the dredging work. The Director General, Naval Project, stated during evidence:—

"It was a decision taken after considering the opinion of the foreign specialists, after getting some boreholes tested. We were satisfied that this was the best thing for us to do."

1.30. In reply to a further question, the Ministry of Defence have stated that the expenditure incurred in subsequent soil investigation was Rs. 49,454 only.

Delay in conclusion of the 2nd Contract

1.31. It is seen from Paragraph 19 of the Report of C & AG for the year 1974-75, Union Government (Defence Services) that though the suspension was to be without any financial implication, the contractor put in a claim in January, 1970 for Rs. 56.35 lakhs. It was held that although the suspension of work was agreed upon after mutual discussion, the contractor's point that the record of discussion did not constitute a legal modification of the contract was not without legal force. The contractor had earlier in July, 1969 claimed Rs. 36.69 lakhs on account of stoppage of work (ordered by DGINP in November, 1969 with respective effect from August, 1969) resulting from the breakdown of his equipment due to certain unexpected obstructions at the site. Against this claim the arbitrator awarded Rs. 19.37 lakhs but the award was repudiated by Government. Although the claims were not accepted initially, later in October 1973 Government sanctioned a sum of Rs. 25 lakhs on the basis of a negotiated settlement of all claims including a claim of Rs. 8.34 lakhs for disposal of dredged material at a distance beyond 2.5 km. It was also decided that work under the contract would be deemed to have been completed and a fresh contract would be negotiated with the same firm for the residual quantity. Consequently,

another contract was concluded in February 1974 for capital dredging of 3 million cubic metres at a rate higher than the one stipulated in the earlier contract.

1.32. The Committee desired to know the reasons for delay in finalisation of the second contract. In a note, the Ministry of Defence have stated:

“The problems due to which the first contract had to be suspended were:—

- (i) Non-availability of 22 acres of Port Trust land opposite to wharves and jetties;
- (ii) Delay in the dismantling of the rail-cum-road bridge by the VPT;
- (iii) Delay in the decision the re-alignment of Berths 12 & 13;
- (iv) Relocation of the Degaussing Basin consequent on encountering rocks in the initial site.

It took some time to resolve these problems. Besides, the contractor had also raised claims for Rs. 101 lakhs consequent on suspension of the first dredging contract. To sort out the claims of the firm, a high level committee comprising Secretary (Defence Supplies) and F.A. (DS) was appointed in March, 1973 as per the advice of the Ministry of Law. The Committee gave its report in May 1973, which was accepted by Government in September 1973. The Committee, besides giving recommendations on the claims of the contractor arising out of the first dredging contract, also indicated the broad terms for the second contract. The second contract was concluded in February, 1974. Time taken in the conclusion of the second contract was, therefore, unavoidable.”

Expenditure on Dredging

1.33. It is seen from the Audit Paragraph that due to change in the alignment of the Degaussing Basin, the cost of dredging and rock blasting (June, 1978), based on the quantities of work actually done, increased from Rs. 89.13 lakhs to Rs. 170 lakhs, i.e. by Rs. 80.87 lakhs (91 per cent).

1.34. In a note, the Ministry of Defence, have explained:—

“The original location of the Degaussing Basin was as given in the Project Report. Soil Surveys had been carried out prior to the undertaking of the dredging. The work was being progressed in conformity with the layout indicated in the Project Report.

However, quantum of the rock actually encountered to be blasted in the Degaussing Basin (as initially located) was found much larger than that anticipated *i.e.*, 1,26,200 cu.m. as against 32,000 cu.m. reflected in the contract. Later it became apparent that the quantity of rock blasting involved would be much higher and that the same could be reduced by shifting the Degaussing Basin by 90 M to South East. This shifting resulted in the reduction in the quantity of rock blasting from 1,26,200 cu.m. to 8,149 cu.m.

The analysis of costs given in the C & AG's report is based on the rate of first contract. However, the contract was suspended in 1969 due to some unavoidable circumstances.

Under the first contract, rock blasting would have been 1,26,200 cu.m. But due to the shifting of the degaussing basin, approx. 90 M to the South East and reduction in level of dredging from —19.5 M to —18 M the rock blasting substantially reduced from 1,26,200 cu.m. to 8149 cu.m. If the work had been completed under the first contract, the quantity of rock to be blasted and removed would have been 1,26,200 cu.m. In that case the total cost of dredging in the Degaussing Basin would have been Rs. 222.22 lakhs** as against Rs. 170.00 lakhs actually spent. It will not therefore be correct to say that there has been any extra expenditure due to completion of the work under the second contract, after changing the site.

There was no excess quantity of rock blasting. Hence, there is no question of payment for the excess quantity of rock blasting.

1.35. The Ministry have added:—

“Actually there was no extra expenditure due to suspension of dredging work. But there was a saving of Rs. 52.22 lakhs due to the timely decision and prompt vigilance of Engineers.

	(Rs. in lakhs)
(a) Cost of soft dredging 22.74 lakhs cu m. @Rs. 3.50 per cu. m.	Rs. 79.59
(b) Cost of Rock blasting (1,26,200 cu. m. @ Rs. 85 per cu. m. and removal of rock @ Rs. 28.02 per cu. m. as sanctioned)	Rs. 142.63
	Rs. 222.22 Lakhs.

The total cost of dredging in the Degaussing Basin would have been Rs. 222.22 lakhs as against Rs. 170.00 lakhs actually spent”.

1.36. The Director of Audit (Defence Services) has offered the following comments on the aforesaid reply of the Ministry of Defence:—

“...It will be seen from page 79 of the printed Audit Report for 1977-78 that in computing the actual expenditure of Rs. 170.00 lakhs the quantities of rock blasting and removal actually involved have been taken as 8,185 cu.m. and 9,221 cu.m. respectively. It is, therefore, felt that the figure of estimated expenditure of Rs. 222.22 lakhs as arrived at by the Ministry has no significance and the increase in expenditure has to be computed with reference to the figure of Rs. 89.13 lakhs as mentioned in the Audit Report.”

1.37. Explaining the position further the Ministry of Defence have stated:—

“The matter has been reconsidered in the Ministry. It is not possible to agree to the basis of the calculation indicating that the cost of the work has gone up by Rs. 80.87 lakhs due to change in alignment of the degaussing basin. The actual completion cost of the work computed by Audit as Rs. 170.00 lakhs is however agreed to. But, this cost appropriately should not be compared with the cost for the same quantity of the work computed at the rates of the earlier contract. If at all a comparison has to be made, it needs to be done with the cost computed for that quantity of work which would have been done if the dredging of the degaussing basin had been completed under the first contract. The quantity of rock blasting which was involved on the original location was 1,26,200 cu.m. As a result of the shifting of the degaussing basin, a quantity of 32,000 cu.m. of rock was expected to be blasted and removed. However, as a result of the further review of user requirements in July, 1978, it was decided to limit dredging to (—)18M instead of —19.5M and this reduce rock blasting to 8.149 cu.m.

Hence cost of the operation as per the original contract before re-alignment of degaussing basin would have to be computed assuming, 1,26,000 cu.m. of rock blasting. .”

1.38. During evidence, a representative of the Ministry of Defence stated:—

“When we went into the first dredging contract we found that it involved rock blasting of 1,26,200 cubic metres. If we had gone

ahead with the contract and had gone with the work as well as with the blasting of 1,26,200 cu.m. of rock blasting and its further removal, the total cost would have come to Rs. 2.22 crores. That is why we said that we took a wise decision of shifting the main cross of the degaussing basin, and stopped the dredging at the earlier place and save Rs. 52.2 lakhs.

There are three points here. In the audit para, it is indicated that the rate of dredging is Rs. 3.50 per cu.m. This rate was applicable only if the total quantity exceeded 5 million cu.m. As is found in the Audit paragraph itself, the total dredging was below that figure. Therefore this rate was not applicable. Similarly, this quantity of 8,149 cu.m. rock blasting came up after we shifted the site. At the original place, the quantity was 1,26,200. So this figures also does not reflect the position correctly. We spent Rs. 170 lakhs on the basis of the later contract, where the rates for dredging as well as rock blasting were different. We have done 2.27 million cu.m. of dredging and then the rock blasting of 8,149 cu.m. We actually spent Rs. 170 lakhs. If we had spent as earlier estimated, we would have spent Rs. 222.22 lakhs and incurred an additional expenditure of Rs. 52.2 lakhs. We did not have spend much more because we shifted."

1.39. In a further note the Ministry of Defence have stated:

"... The first dredging contract did not have any rates for rock blasting and removal. These calculations presumed certain rates which the Government was agreeable to pay but which the contractor had not accepted."

Actual expenditure is as follows :—

(i) Completion cost of dredging 22.74 lakhs cu.m. partly @ Rs. 3.70 cu.m. and partly @ Rs. 8.20 cu.m.	Rs. 123.60 lakhs
(ii) Blasting and removal of rock	Rs. 12.07 lakhs
(iii) Mobilisation charges	Rs. 25.00 lakhs
(iv) Price escalation	Rs. 9.33 lakhs
	<hr/>
TOTAL	Rs. 170.00 lakhs
	<hr/>

1.40. Actual expenditure incurred is Rs. 52.22 lakhs less than that which might have been incurred had the work been completed in the first contract without shifting the position of the Degaussing arms.

1.41. The actual amount of dredging work done in Degaussing Basin is as under:—

13.97 lakhs cu.m. of soft dredging under first contract @ Rs. 3.70 per cu.m.

8.77 lakhs cu.m. of soft dredging under the second contract @ 8.20 per cu.m.

8185 cu. m. of rock blasting @ 107.25 per cu.m.

92.21 cu.m. of rock removable @ 35.75 per cu.m.

Additional expenditure on re-dredging

1.42. The Committee learnt from Audit that subsequent to the signing of second contract an additional expenditure of Rs .44 lakhs had to be incurred on the re-dredging of the areas earlier dredged. In a note, the Ministry of Defence stated :—

“Siltng in the channel is a continuous natural phenomenon and maintenance dredging is required to be carried out periodically. The quantity of siltation in the Degaussing Basin that would have occurred between the peirod 1969 and 1976 is estimated as 5 lakhs cu.m. approximately, 4.648 million cu.m. of dredging completed under the second dredging contract included removal of the silt in the Degaussing Basin and therefore the estimated cost of removal of the silt from the Degaussing Basin is calculated as Rs. 44 lakhs at the rate of Rs. 8.20 per cu.m. for 5 lakhs cu.m.

Incidentally it is pointed out that 134 hectares of base complex/dockyard area was reclaimed through the first dredging contract when 4.92 million cu.m. of dredging was carried out. This reclaimed land was used for construction of buildings and facilities of the Dockyard.”

Mobilisation Charges

.. . .

1.43. It is seen from the Audit Paragraph that a sum of Rs. 25 lakhs were payable to the contractor as mobilisation charges for dredging work. 80 per cent (Rs. 20 lakhs) of the amount was payable within seven days of arrival of two dredgers (including the unloading dredger). The balance of Rs. 5 lakhs was to be paid after completion of work. There was no return for mobilisation charges paid in May 1974 for the unloading dredger which required repairs in the dry dock before it could be put into opera-

tion. The Ministry of Defence intimated Audit in January 1979 that the fact that the unloading dredger was not operational did not establish that the same was not required or could not be made operational, when required. The unloading dredger was, however, not utilised for the project.

1.44. The Committee desired to know the reasons for payment of mobilisation charges for dredging work under the second contract, when no such charges were paid in the first contract. In a note the Ministry of Defence stated:—

“Mobilisation charges were demanded by the contractors to off-set the expenditure incurred in bringing the additional dredger ‘DRIM’ from abroad. Payment of such charges is normal in the contracts where initially a lot of expenditure has to be incurred by a contractor/Construction Agency, for mobilising equipment and other such resources for execution of works which are equipment oriented.

As far as the earlier contract was concerned, the contractor did not ask for mobilisation charges perhaps because his other dredger was reported to be employed on some work in India and seems to have been diverted from that place to DGNP, Vizag, work without much expenditure.”

1.45. The Committee enquired as to how the naval authorities had verified the reasonableness of Rs. 25 lakhs as mobilisation charges. In a note, the Ministry of Defence stated:—

“The contractor was required to mobilise a number of vessels including the dredgers and also had to make necessary provision of pipe-lines for pumping the dredged materials to the distant reclamation grounds. It was also necessary for him to have proper workshop facilities to carry out the repairs. It was necessary for him to make heavy investment prior to the actual start of the work.

On conclusion of the work, these equipments and workshops were to be dismantled. If no provision was made for mobilisation charges, the contractor was bound to reflect the cost of these requirements in the dredging rates. Payment of Rs. 25 lakhs as mobilisation charges for dredging and reclamation, was considered reasonable under the second dredging contract. Payment of mobilisation charges for dredging had also been recommended by the high level negotiating committee.”

Delay in acquisition of Port Trust Land and increase in cost . . .

1.46. According to the Ministry of Defence, non-availability of 22 acres of Port Trust land opposite to Wharves and jetties, was one of the reasons for suspension of the dredging of the degaussing basin in 1969.

1.47. It is seen from the Audit Paragraph that as far back as 1971, when the earlier dredging contract was still in force, the Port Trust had indicated their willingness to make available 22 acres of land, then estimated to cost Rs. 13.45 lakhs, subject to the Navy meeting expenses on the re-location of a Mercantile Training Establishment (3.66 acres) under the Ministry of Shipping and Transport and a private boat building yard (1 acre) in the area. However, in 1972 the Navy considered that on security considerations, it was not desirable for the two establishments to continue in the area. The question of shifting these establishments (at the instance of the Navy) remained under discussion till October 1973 when the Navy agreed to allow them in the existing location until they are able to shift to a new location. The Navy also agreed to accommodate the private yard in another unused space belonging to it and to pay the cost involved in its shifting. Thereafter, sanction of the Ministry of Defence was accorded in October 1975 to the payment of Rs. 10.50 lakhs, to the Port Trust for re-siting the two establishments. In the meantime, quinquennial revision of the value of the Port Trust land due in March 1973 was undertaken by the Port Trust authorities in January, 1974; consequently, the delay in taking a decision by the Naval authorities resulted in additional payment of Rs. 21.52 lakhs (over the earlier estimated cost Rs. 13.45 lakhs) to the Port Trust (March, 1975).

1.48. The Committee enquired whether at the time of commencing the dredging work, it was not visualised that additional land would be required. In a note, the Ministry of Defence stated :—

“The initial agreement for the dredging of 5 million cu.m. with M/s. PIM was based on the availability of land from the V.P.T. However, in the course of subsequent discussions with the VPT it was gathered that they would have no objection to dredging being carried out in their area provided the Ministry of Defence laid no claim to that area and hence negotiations were carried out with M/s. PIM for enhancement of the dredging quantity to 7 million cu.m. Processing of the case for the transfer of an additional 22.23 acres of VPT land to the Ministry of Defence, however, got delayed due to disputes regarding the modalities of the transfer as also the quantum of compensation to be paid to the VPT. Further delay took place on account of the demand for payment of compensation subsequently

raised by the VPT for shifting of the two establishments which could only be finalised in October, 1975."

1.49. Elucidating the position further, the Ministry of Defence have stated in a subsequent note:—

"A Mercantile training establishment and a private boat building yard were located in the 22 acres of land proposed to be acquired from the Port Trust. Besides, a certain portion of the land was also held on lease by another private firm. Due to vital security considerations, Navy was reluctant to accommodate the private establishments in the Naval Area. Relocating these establishments outside the area proposed to be acquired and finalisation of the terms and conditions for the same took considerable time as it involved prolonged negotiations between the Project Authorities, Headquarters Eastern Naval Command, Naval Headquarters, Visakhapatnam Port Trust and the Ministries of Defence and Shipping and Transport. The areas could be taken over only after mutually acceptable solution was arrived at. The delay in taking over the land, thus, can not be viewed in isolation, but needs to be viewed in the overall perspective of the security considerations as also the cost that we would have had to pay if the land had been taken over in 1971. As late as July, 73, the Port Trust had demanded Rs. 148.6 lakhs as compensation for relocating the two establishments out of the Naval Area. Ultimately it was decided to move the Mercantile training establishment further south in the North-West Arm, and the private boat building yard was shifted outside the Naval Area. The compensation that had to be paid for this was only Rs. 10.5 lakhs. Even taking into account the enhanced land value that had to be paid (Rs. 34.97 lakhs as against Rs. 13.45 lakhs offered earlier) due to the intervening quinquennial revision, a saving of about Rs. 116 lakhs had been achieved."

1.50. The Chief Engineer, V.P.T. in his letter No. LN/PIII/4926 dated 30-12-1971 addressed to the Director General Naval Project had *inter alia* stated:

"In the various meetings held both at Delhi and also Visakhapatnam, the Navy have agreed to dredge the N. W. Diagonal arm and reclaim the land required for shifting these installations.

In spite of repeated reminders from the Port, the navy has not furnished their programme for dredging the diagonal arm and the reclamation of the land. The land required by the Navy on Eastern Bank of the N.W. Arm can be transferred only after the I.O.C. vacates the installations and T.S. "Mekhala", Boat Building Yard etc., are shifted to the North Western Diagonal Arm to be dredged by the Navy. The extent of the land and cost of same is 22.23 acs. and Rs. 13,44,915/- respectively. This rate is based on the quinquennial valuation of Port lands and will continue till March, 73 when next quinquennial valuation will be made."

1.51. It is seen that in 1972 the Navy considered that on security considerations, it was not desirable for the aforesaid establishments to continue in the area. As these establishments ultimately continued to remain in that area, the Committee enquired as to how far their existence was prejudicial to security considerations. The representative of the Ministry of Defence stated during evidence:—

"One of the units which was existing there was Tirven & Co. This was a crane factory. We shifted this company towards the South. The second unit was the Boat Building Yard which was occupying one acre of land. This was also shifted away. The third was the T.S. Mekhala. This has been shifted to the South Side slightly. It has now been located in such a situation that it ceased to be a security risk. So, we took care of all the three establishments."

1.52. The Committee enquired as to when the Navy's consent to accommodate the private yard in another unused space and to pay the cost involved in shifting the yard was formally communicated to the Port Trust. In a note, the Ministry of Defence stated:

"No formal communication was sent to Port Trust. This issue was however, discussed during various meetings including inter-ministerial meetings."

1.53. Asked about the reasons for delay of about 10 months in according sanction to the resiting of the two establishments in October, 1975, the Ministry of Defence have stated:—

"The question of payment of compensation for shifting of the two establishments, was finally raised by the V. P. T. in December, 1974. After further discussions with the V. P. T. authorities and examination of all aspects of the proposal both at the Project level and in the Ministries of Defence and Finance,

it was possible to issue Government sanction for Rs. 10.5 lakh for the purpose only in October, 1975. There was no unusual delay in handling the case."

1.54. During evidence the representative of the Ministry of Defence further explained:—

"The point was that we could not settle the amount of compensation to be given to the Port Trust for relocation. As early as 1973, when there was a joint meeting, the Port Trust asked Rs. 148 lakhs for re'ocation of these establishments. It was after a great deal of discussions both at Delhi and at Visakhapatnam that the Port Trust Authorities agreed to have a compensation of Rs. 10.5 lakhs for relocation of these establishments."

1.55. Asked as to whether the fact of quinquennial revision of the value of the Port Trust land due in March 1973 was not known to the Naval authorities, the Ministry of Defence replied in the negative.

1.56. Asked whether it was not a fact that the Chief Engineer VPT in his d.o. letter 4066/PT. II dated 30th December, 1971 had made mention of quinquennial review of VPT land and if so, for what reasons this fact was not taken note of, the Ministry of Defence stated:

"Letter No. LP/P III/4926 dated 30-12-1971 from Chief Engineer VPT does make a mention of quinquennial valuation of Port lands while indicating the cost of 22.23 acres of land and its continuation till March 1973 when next quinquennial valuation was to be made. However, it does not specifically state that the price of land proposed to be acquired by Navy was going to be enhanced due to next quinquennial valuation in March, 1973... Since a number of agencies viz. Project authorities, Headquarters, Eastern Naval Command, VPT, Ministry of Defence and Ministry of Shipping and Transport were involved the deliberations/negotiations took considerable time and finalisation of the decision got prolonged. The question of shifting of the private establishments from the North Western Arm and the compensation to be paid had to be sorted out before the land could be taken over from VPT..."

1.57. During evidence the Committee enquired about the reasons for delay in taking over 22 acres of land, when as early as in 1971, the Port Trust had indicated their willingness to make available this land. The Defence Secretary stated:

"Here, the Naval Headquarters also had their own point of view. There were three establishments which were to be shifted.

These were to be shifted from the security point of view. For this purpose, some compensations should be given. The Navy's point of view is that certain types of establishments cannot actually function in that area. So, the decision could not be taken in a hurry. Ultimately, they had worked out a formula, and said that we could shift them which would mean so much of compensation. We went on looking into various alternatives and ultimately, after sometime, a kind of arrangement was arrived at by which the shifting could be done. We could get land also. But it was done at a comparatively cheaper cost. We have given you the details of this cost. The compensations had been given to the 3 establishments, namely (1) TS Mekhala Mercantile—Training Ship, (2) Pritam Singh's Boat Building Yard and (3) Tirven & Company. Then we were to take over the land also. The demand of compensation was Rs. 148.6 lakhs including shifting charges and all that came to Rs. 13.45 lakhs. The cost of land would have to be added to this amount. All put together, it would have been a colossal expenditure. But after the negotiations, only Rs. 10.5 lakhs were to be paid as compensation for re-location of the establishments and Rs. 34.97 lakhs were to be paid for the cost of land."

1.58. The Committee called for copies of correspondence/Minutes of meetings held with the Ministry of Shipping and Transport. Some relevant extracts therefrom are given below:—

- (1) Para 12 of the Minutes of the meeting on 22-5-1968 under the Chairmanship of Additional Secretary (Defence) to discuss the question of acquisition of port trust land for the implementation of the scheme for the development of the naval base land i.e. Visakhapatnam.

"During the discussions, it was pointed out by the Chairman, Port Trust, that the Port authorities have not been consulted by the Navy in formulating the expansion schemes. The Addl. Secy. regretted this omission on the part the Naval authorities. DGNP (V) stated that details of the Project Report not revealed due to security reason but in October, 1967 the final layout plan was personally shown to the Chairman. For proper co-ordination hereafter, it was suggested by the Addl. Secy. that a committee comprising of representatives of the Ministry of Defence, Ministry of Transport and Shipping, Ministry of Finance (Defence), Navy Port Trust and DGNP (V) be formed. This committee should meet from time to time to look into the requirement of the Port authorities while examin-

ing the plans of the Navy. This committee should also be entrusted with implementation of various decisions arrived at from time to time."

- (2) Para 11 of the Minutes of the meeting held in the Room of Secretary, Ministry of Shipping and Transport on 30-5-1969.

"Shri. . . emphasised that the port authorities were not consulted by the Defence Ministry before they entered into a contract with the Yugoslavs for dredging the area belonging to the Port. He said that the Port authorities could not be made a party to a contract which was concluded by the Navy without prior consultation with the Port authorities. . Vice Admiral. . said that it would not be correct to say that the Port authorities were not kept in the picture in regard to the formulation of the Naval expansion programme as copies of the relevant plans and details had been supplied to the Port authorities."

Realignment of Berths Nos. 12 and 13

1.59. According to the Ministry of Defence yet another reason for suspension of the dredging of the degaussing basin in 1969 was that Dredging of Flood channel could not be taken up in the absence of a decision on the proposal for the realignment of two Berths Nos. 12 and 13, which would affect the configuration of the channel. The Committee desired to know the reasons for delay in taking this decision. The Director General Naval Project stated:—

"At the time when this contract was on, there was a proposal to have a ship building yard and the ship building berths. Alignment of the berths was connected with the flood channel. We had to get the expert report from the CWPRC Pune. Their reply had not come in time before this first contract was suspended. Even though now a decision has been taken not to go in for using these berths for ship building, the alignment has been done under the advice of the CWPRC Pune."

1.60. Elaborating the position further the Ministry of Defence have in a note furnish subsequently at the instance of the Committee stated:

"At the time of finalisation of the scheme to be adopted for the construction of the Naval Dockyard, it was felt that along with the construction of Dockyard there should also be facility for ship construction and this could be advantageously sited next to the Dry Dock. As sufficient space was not available by the

side of the proposed Dry Dock it was felt that this could be provided if Berths Nos. 12 and 13 were realigned. However, before going ahead further with this proposal it was considered necessary that the implications of such a move be studied by CWPRS, in of the likely effect on the coming of the Flood Channel. Hence, this matter was referred to CWPRS. In turn, CWPRS prepared a model and took up the requisite studies pertain to the effect of the Flood Channel. This process took considerable time in reaching a proper scientifically based conclusion and hence it was decided not to take up the dredging of Flood Channel at that stage.

The issue of construction of Berths Nos. 12 and 13 was discussed during the meeting of the Steering Committee held on 19 and 20 July 1974. After integrated studies made by Naval Headquarters, when various connected technical problems were considered, it was finally decided to drop the construction of Berths Nos. 12 and 13.

Rail-cum-road Bridge

1.61. According to the Ministry of Defence still another reason for suspension of the dredging of the degaussing basin in 1969 was the non-dismantling of rail-cum-road bridge by VPT of the river Megodrigedda which was scheduled to be dismantled by June 1969 as per original programme. Since the non-removal of rail-cum-road bridge necessitated maintenance of the loop bridge across the North Western channel, dredging in the area in the immediate vicinity of the diversion loop could not be undertaken.

1.62. The Committee desired to know the reasons for delay in the dismantling of the rail-cum-road bridge by VPT. The Director General Naval Project stated during evidence:

“The rail-cum-road bridge along with the loopline was a vital supply line for the shipyard. Initially, they thought that it was easy to dismantle it, but for re-alignment of the loopline etc. the railways took their own time. The same bridge has not the main water pipeline to the port. CPWD authorities took their time. What they thought could be done in 1969 was a little optimistic. Practically, it is not achievable. Before they could do it, they have to have an alternative rail-cum-road bridge. In 1969 they said they could do it, but it was not physically possible.”

1.63. The Committee enquired whether the Naval authorities had formally taken up the matter with the VPT when they failed to complete the

dismantling of the bridge as per schedule. The Director General of the Project stated:—

“It is mostly discussions. There is very little on record. It was dismantled in 1971-72; and it had to be tied up with the completion of the big rail-cum-road bridge at the extreme north-west. That was the original decision. It had first to be dismantled. We did not do it. The Port Trust did it.”

Procurement of a motor boat not needed

1.64. It is seen from the Audit Paragraph that in January, 1972, the Ministry of Defence had sanctioned procurement of a motor boat for the project at an estimated cost of Rs. 1.32 lakhs. The boat procured through the Director General, Supplies and Disposals at a cost of Rs. 1.04 lakhs was scheduled to be delivered in May 1973; but was actually received in January, 1977. Although the requirement was projected in August, 1970 for purpose of inspection and measurement of dredging work, the boat could not be used due to:—

- no qualified crew being available to operate the boat;
- provision in the dredging contract for the contractor to provide at his cost a boat to the project authorities for inspection and measurement of work done; and
- non-materialisation of attempts to transfer the boat to a neighbouring dry dock project till December, 1977.

1.65. The Committee enquired about the reason for delay in delivery of the motor boat and also whether the boat was used for inspection and measurement of dredging work. In a note, the Ministry of Defence have stated:—

“Supply of the Motor Boat was delayed by the firm due to—

- (a) non-availability of Acrilite and Hardner etc.
- (b) sit-down strike at the Boat Yard.
- (c) paucity of liquid funds with the firm.

The Boat was used for inspection/measurement of dredging work.”

1.66. The Ministry had intimated Audit in January, 1979 that the boat was transferred to the Naval Command Boat Pool to avoid fresh employment/recruitment of necessary crew and it was always available for use in the Project. The Committee desired to know as to when the boat was transferred to Naval Command Boat Pool and also whether it had been used since then. In a note, the Ministry of Defence stated:

“The boat was issued on loan to INS Circars i.e. Command Boat Pool during March, 1977. From this period, the Motor

Cutter was in use by INS Circars and INS Kadmat at different intervals on different sanctions from HQ ENG. upto 12 March, 1980. The boat stands permanently transferred to Admiral Superintendent Dockyard from 12-3-1980."

Infructuous Expenditure on Oxygen Plant

1.67. It is stated in the Audit Paragraph that in January 1972, the Ministry of Defence accorded sanction, *inter alia* to the provision of a building for installation of an oxygen plant at a cost of Rs. 3.49 lakhs, revised to Rs. 8.87 lakhs in April, 1975. As per the Project Report, the oxygen plant was to be procured from abroad. In November, 1973, it was decided by the users to instal a captive oxygen plant of indigenous make. During the project review meeting held in September, 1974, a decision was taken to defer installation of the plant and to procure liquified oxygen. The Committee desired to know the reasons for deferring the installation of the captive plant. In a note, the Ministry of Defence have stated:

"The proposal to instal a storage plant for liquified oxygen was considered and approved by NHQ during November, 1976/ January 1977. This decision was mainly based on economic consideration whereby the expenditure on a captive plant estimated to cost Rs. 30 lakhs has been saved. The storage plant will be supplied on free loan issue and the oxygen used would be paid for on DGS&D rate/contract rates. This would further reduce the operational and man-power cost."

1.68. To a question whether any captive plant of indigenous make had been procured, the Ministry of Defence have replied in the negative.

1.69. The Committee desired to know the reasons why the work of construction of building for installing the captive oxygen plant was commenced in January, 1976, when it was decided to defer its installation in the Project Review meeting held in September, 1974. In a note, the Ministry of Defence have stated:—

"The Captive (Oxygen) Plant was proposed to be located only in a part of Building No. 24 which was also intended to house the liquid gas storage tanks and the gassification plant and also used for storing the oxygen, Acetylene, Argon and Carbon Dioxide cylinders. Since the decision taken at the Review Committee Meeting held on September 1974 was only for deferment of the Captive Plant and not for its abandonment, it was deemed prudent to cater for the foundation work of the entire Building No. 24, including the Captive Plant at one time, as execution of a small piling job later on would have been both

difficult and expensive. The decision not to go in for a Captive Plant was taken only in January, 1977 by which time the entire piling work for Building No. 24 had been completed. Out of a total of 61 piles provided for Building No. 24, only 14 have been rendered surplus due to non-establishment of the Captive Plant, portion is now proposed to be utilised for installing the VIE Plant/Evaporatory Receiver."

1.70. The Committee further enquired as to why the question of installation of the storage plant for liquified oxygen was not considered initially. In a note, the Ministry of Defence have stated:

"The original Project Report had envisaged a plant for gassification of the liquid oxygen. After discussions with the foreign Specialists it was decided to go in for a captive oxygen plant in lieu of a gassification plant as this offered a higher capacity and greater flexibility in operation by avoiding dependence on outside agencies.

In September 1974, it was decided to defer the installation of a captive plant to Phase II of the Project mainly with a view to phasing out of the expenditure. However, after consideration of the matter, it decided in November 1976 not to in for a captive plant as it was assessed that the plant would have been grossly under-utilised in the initial years and also because the return on the capital investment for the captive plant would have been more than adequate to buy oxygen from the trade.

Thus the initial planning was based on the Soviet Project Report and discussions with the Soviet Specialists. Only in November 1976 after considering all aspects of the case, it was decided to go in for liquid oxygen storage plant."

1.71. The Audit Paragraph has pointed out that had the decision of November, 1976 to go in for liquid oxygen storage plant been taken initially, the expenditure of Rs. 1.20 lakhs incurred on construction building for installing the captive oxygen plant would have been saved. In a note on the subject, the Ministry of Defence have stated:

"An expenditure of Rs. 1.20 lakhs had been incurred for providing piles for the captive oxygen plant portion of Bldg. No. 24, so far the superstructure has not been provided over this part of the building. The building will now be completed and used for installation of the vaccum insulated evaporator plant. Thus there has been no wasteful expenditure on the piling work.

The decision to go in for a captive oxygen plant was based on the recommendations of the specialists. This decision had be reviewed in the light of subsequent developments. . . .

The work done on providing pile foundations in this area has thus not gone waste as these piles will be used now. As a metter of fact, by getting the work on pilling done earlier, an amount of Rs. 3,135/- per pile (Rs. 43,890/- for 14 piles) has been saved as compared to the current rates. Moreover, in the case of pilling work, a considerable portion of the overall cost pertains to the mobilisation charges, *i.e.* the initial expenses required for bringing the pilling rigs and other connected rigs to the concerned site and laying other connected infrastructure. All this expenditure would not be incurred now.

There is also considerable difficulty in doing the pilling work very near to an existing building.

Indeed taking up pilling of the in question along with construction other piles reflects good planning the interest of economising the overall costs."

1.72. Government approved in September 1968 a project for development of facilities for repair and maintenance of naval craft at Visakhapatnam. One of the main items of work in the project was capital dredging in the dockyard area. The areas planned for dredging included the main channel, the flood channel and the degaussing basin. The Soil investigations laboratory tests were carried out in the degaussing basin between March, 1968 and December, 1972 at a total cost of Rs. 10.89 lakhs (as against Rs. 5 lakhs sanctioned in February, 1968). The Committee find that the dredging of the degaussing basin which was commenced in December 1968 had to be suspended in November 1969 (with retrospective effect from August, 1969) due to the existence of rocks and the site had to be shifted after an expenditure of Rs. 50 lakhs had been incurred. The work could not be resumed for as long as 9 year *i.e.* till 1978-79 for the following reasons:

- (i) **Quantum of rock encountered in the degaussing basin to be blasted was found larger than that anticipated which necessitated the resting of the degaussing basin.**
- (ii) **Non-availability of 22 acres of Port Trust land opposite the wharves and jetties.**
- (iii) **Non-dismantling of rail-cum-road bridge scheduled to be dismantled by June, 1969 by the Port Trust.**

- (iv) **Want of decision on the proposal for the realignment of two berths Nos. 12 and 13, which would affect the configuration of the channel.**

1.73. The Committee find that 9 bore holes were dug on a trial basis in the degaussing basin. During the actual execution of the work, it was however revealed that the overlying strata could not be dredged as earlier visualised as rock was found in a portion of the degaussing basin in the shape cross 24 metres long and 65 metres wide.

1.74. During their visit to the project site in January, 1981, a Study Group of the Committee were informed that even during the pattern survey, decomposed rock was found in one of the bore holes between a depth of 15 to 18 metres. The representative of the Ministry stated that in evidence that the normal pattern of spacing was followed in this case. He added "But you will agree that here was an abnormal situation Accordings to the normal sample survey, this was not bad but it happened that a particular place was very bad, so a second experiment was made."

1.75. Considering the fact that the soil investigations in the area continued for as long as 4½ years *i.e.* from March, 1968 to December, 1972 the Committee can only infer that the investigations done before actual commencement of the dredging operations work far too inadequate. It is unfortunate that in spite of clear indications of rocky strata, the survey stage itself was not considered necessary to defer the dredging operation, it became unavoidable later on. It would be seen from the succeeding paragraphs that this resulted in considerable amount of avoidable expenditure and delay in completion of the project. The Committee therefore strongly emphasise the need for carrying out thorough and intensive soil investigations before commencement of work on such projects.

1.76. It is seen from Paragraph 19 of the Report of Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services) that though the suspension of the first dredging contract was to be without any financial implications, the contractor put in a claim in January 1970 for Rs. 56.35 lakhs. It was held that although the suspension of work was agreed upon after mutual discussion, the contractor's point that the record of discussion does not constitute a legal modification of the contract was not without legal force. In October, 1973, sanction for Rs. 25 lakhs was accorded on the basis of a negotiated settlement with contractor in settlement of all his claims. It was also decided that work under the first contract would be deemed to have been completed and a fresh settlement would be negotiated with the same contractor for the residual quantity. The second dredging contract was entered in February, 1974.

1.77. The Committee find that considerably higher rate had to be paid towards cost of soft dredging in the fresh contract. As against Rs. 3.50 per cu.m. for the entire quantity of 22.74 lakh cu.m. contracted for earlier the rates actually paid were Rs. 3.70 per cu.m. for 13.97 lakh cu.m. and Rs. 8.20 per cu.m. for the remaining 8.77 lakh cu.m. The rate of rock blasting also went up from Rs. 85/- per cu.m. to Rs. 107.25 per cu.m. and that of rock removal from Rs. 28.02 per cu.m. at Rs. 35.75 per cu.m. In addition, the contractor had to be paid mobilisation charges of the order of Rs. 25 lakhs and price escalation to the extent of Rs. 9.33 lakhs.

1.78. The Committee thus find that as against the anticipated expenditure of Rs. 89.13 lakhs the completion cost of dredging and rock blasting in the degaussing basin mounted to Rs. 170 lakhs i.e. an increase of Rs. 80.87 lakhs (91 per cent). Ministry's contention is that had the site of the degaussing basin not been shifted, the expenditure would have been still higher (Rs. 222 lakhs). Thus, according to the Ministry there was actually a saving of Rs. 52 lakhs in spite of increased rates allowed in the second contract.

1.79. While the Committee do not dispute the soundness of the decision to shift the site of the degaussing basin where considerably less rock blasting had to be done, they consider that having landed themselves in a difficult situation the project authorities had hardly any choice but to accept the revised terms of the contractor.

Thus, the initial wrong location of the site of the degaussing basin was responsible for much of the extra expenditure that had to be incurred under the second contract (Rs. 80.87 lakhs inclusive of Rs. 25 lakhs as mobilisation charges which had to be paid to the contractor in settlement of his claim arising out of the suspension of the first contract).

1.80. The Committee note that in 1971 when the earlier dredging contractor was still in force, the Port Trust authorities indicated their willingness to make available 22 acres of land at an estimated cost of Rs. 13.45 lakhs. Processing of the case for the transfer of the land to the Ministry of Defence however got delayed due to disputes regarding the modalities of the transfer as also the quantum of compensation to be paid to the VPT. Further delay took place on account of the demand for payment of compensation subsequently raised by the VPT for shifting of two establishments viz. a mercantile training establishment and a private boat building yards which could only be finalised in October, 1975.

1.81. As early as in May 1968 it had been decided that a committee comprising of the representatives of the Ministry of Defence, Ministry of

Shipping and Transport Ministry of Finance (Defence), Navy, Port Trust and the DGNP(V) be formed to look into the requirement of port authorities while examining the plans of the Navy. The Committee was also entrusted with implementation of various decisions arrived at from time to time.

1.82. From the Minutes of inter-ministerial meetings held from time to time, the Committee find that the naval authorities themselves were responsible to some extent for lack of progress in the initial stages. In a meeting held in March, 1968 it was pointed out that the Port Authorities had not been consulted by the Naval authorities in formulating the expansion schemes. A year later it was again pointed out in the meeting held on 30 May, 1969 that the port authorities were not consulted by the Defence Ministry before they entered into a contract with the foreign firm for dredging in the area belonging to the Port. It was held out that "the Port authorities could not be made a party to a contract which was concluded by the Navy without prior consultation with the Port authorities."

1.83. It is unfortunate that the Port Trust authorities were not taken into confidence by the Naval authorities and their concurrence obtained for the dredging work in an area which still belonged to the latter.

1.84. In regard to the question of compensation to be given to the Port Trust for re-location of the two establishments, it was after protracted correspondence and discussion that the VPT agreed to scale down its demand from Rs. 148 lakhs to Rs. 10.5 lakhs. The Committee do not quite appreciate why the two Central Ministries viz. the Ministry of Defence and the Ministry of Shipping and Transport could not settle the matter expeditiously.

1.85 The Committee find that on account of the quinquennial revision of the value of the land undertaken by the Port Trust authorities in January, 1974 the Navy had to incur an additional expenditure of Rs. 21.52 lakhs. This is directly attributable to the delay in taking over the land. That such a review was due in March, 1973 had been made clear by the Port Trust authorities in their letter of 30 December, 1971 which stated inter alia: this rate is based on the quinquennial valuation of Port lands and will continue till March, 1973 when next quinquennial valuation will be made."

The reply of the Ministry of Defence that the letter "does not specifically state that the price of land proposed to be acquired by Navy was going

to be enhanced due to next quinquennial valuation in March, 1973", therefore, fails to carry conviction.

1.86. The Committee consider that the Ministry of Defence did not pursue the matter energetically enough with the Ministry of Shipping and Transport and instead allowed the difference between the Port Trust authorities and the Navy to simmer. It is also obvious that the coordination Committee formed at the project level did not enjoy sufficient authority to sort out the differences and take on the spot decisions. The Committee consider that in such cases scope should be provided to the co-ordination committee at the project level to take decisions so that the projects do not get bogged down due to departmental wranglings.

1.87. The Committee find that an indent was placed on the DGS&D for procurement of a motor boat for purposes of inspection and measurement of dredging work notwithstanding the fact that there was a specific provision in the dredging contract for the contractor to provide the same at his cost. The DGS&D could deliver the boat only in January, 1977 after a delay of as much as three years and eight months. As the boat was not used for the project, it was issued on loan to the Naval Command Pool and was permanently transferred to Admiral Supdt. Dockyard in March, 1980. An expenditure of Rs. 1.04 lakhs was therefore rendered infructuous. The Committee would like to be apprised why the boat was at all purchased and why the matter was not reviewed during the extended period of delivery of the boat. The Committee disapprove of such wasteful expenditure and would expect the Ministry to guard against such lapses.

1.88. The Committee note that in January, 1972 the Ministry of Defence had accorded sanction for the provision of a building for installation of an oxygen plant at a cost of Rs. 3.75 lakhs, which was revised to Rs. 8.87 lakhs in April, 1975. Originally the oxygen plant was to be procured from abroad. In November, 1973 it was decided by the users to instal a captive oxygen plant of an indigenous make. During the project review meeting held in September, 1974, it was decided to defer the installation of the plant and to procure liquified oxygen. Notwithstanding the decision taken in September, 1974 to defer installation of the oxygen plant, work on a portion of the building for installing the plant was commenced in January, 1976 and stopped only after it had progressed upto plinth level and an expenditure of Rs. 1.20 lakhs had been incurred.

1.89. In November, 1976 it was decided not to go in for the captive plant as it was assessed that the plant would be grossly under-utilised in the initial years and also because the return on the capital investment would be more than adequate to buy oxygen from the trade.

Apparently, the Ministry of Defence did not examine carefully the economics of the proposal while according sanction for construction of building.

1.90. The Committee are surprised that decisions involving expenditure of substantial sums of money from the Exchequer are not taken with proper care. The Committee expect that in future greater care would be taken at the Ministry level in scrutinising the proposals received from lower formations so that wasteful expenditure is avoided.

II

DISPOSAL OF ALUMINIUM SCRAP BY AN ORDNANCE FACTORY

Audit Para

2.1. For disposal of 500 tonnes of aluminium scrap (turnings and borings) factory 'X' sent tender notice on 6th May 1978 to the Director General of Commercial Intelligence and Statistics (DGCIS) for publication in the Indian Trade Journal of 17th May 1978 and to the Director of Advertising and Visual Publicity (DAVP) for publication in all leading newspapers. The notice was published in the trade journal of 5th April 1978, which was printed (at Calcutta) only on 7th June 1978 and became available for sale from 13th June 1978. The tender notice sent to DAVP by ordinary post, however, did not reach him and as a result, no advertisement appeared in the newspapers and factory 'X' also did not pursue this.

2.2. As per disposal instructions, 6 weeks were to be given between the date of issue of tender notice to the DGCIS and DAVP and the date of opening of tenders, out of which 2 weeks were allowed for publication of tender notice in the trade journal and newspapers and 4 weeks were to be allowed to the trade to offer quotations. In this case, although the tenders were to be opened on 20th June 1978, the trade journal in which the tender notice was published, became available for sale only from 13th June, 1978 and thus, only one week was available to the trade to offer quotations. Tender forms were sold by factory 'X' between 10th June and 19th June, 1978 to 27 parties (including 17 local firms) of which 15 parties had actually applied for the forms between 22nd May and 13th June 1978 (even before publication of the advertisement) and the remaining 12 after the publication of the advertisement. Of the 27 parties, only 10 were from outstations and two of them had actually applied for tender forms on 22nd May and 6th June 1978 respectively referring to the publication in the trade journal although it was yet to be published.

2.3. Out of 20 offers (including 14 from local parties), which varied from Rs. 4,600 to Rs. 6,100 per tonne, opened on 20th June 1978, only 5 were considered as valid. The others were rejected mostly on the ground

of non-payment or payment of inadequate amount of earnest money. The 5 valid offers were as follows:

Firm	Rate quoted per tonne (inclusive of excise duty)	Quantity for which quoted (in tonnes)
	Rs.	
'A' . . .	6,050	100
'B'	6,030	200
'C'	6,021	200
'D'	5,600	25
'E'	5,200	20

('A', 'B', 'C' and 'D' were local firms. Besides firms 'B' and 'C' had the same address and telephone number)

2.4. No reserve price was fixed for the sale even though it was required to be fixed under orders of November 1973 and the price of the scrap was indicated as Rs. 9,330 per tonne in the ledger. Although the offers received were about 35 per cent below the ledger price, factory 'X' informed firms 'A', 'B' and 'C' on 5th July 1978 that their offers were acceptable subject to fulfilment of certain conditions regarding removal of the scrap and payment of its cost etc. and concluded (10th July 1978) a contract with firm 'A' for sale of 100 tonnes at Rs. 6,050 per tonne.

2.5. Meanwhile, a joint complaint was made by a few dealers on 7th July 1978 to the Ministry of Defence alleging that wide publicity was not given to the disposal of scrap and that tender papers were sold to and submitted mostly by one single individual who had floated a number of firms. The dealers also alleged that an offer of Rs. 10,880 per tonne for the same scrap was received by factory 'Y' on 16th June 1978 and requested that either retendering be ordered or the scrap be sold to them at Rs. 8,000 per tonne. The matter was taken up by the Director General, Ordnance Factories (DGOF) with factory 'X' on 13th July 1978 and it was also advised at the instance of the Ministry, to withhold supplies of scrap to firm 'A' and not to enter into contracts with firms 'B' and 'C' pending further instructions. The allegations made by the dealers were refuted by factory 'X' on 13th July and 20th July 1978 and in July/August 1978, the DGOF also corroborated this to the Ministry of Defence. The Ministry, however, considered (November 1978) the question of retendering the sale in consultation with the legal adviser. As a firm contract had already been entered into (10th July 1978) with firm 'A' and firms 'B' & 'C' had accepted (10th July 1978) the revised conditions intimated by

factory 'X' on 5th July 1978, factory 'X' was instructed (January 1979) to deliver supplies to firm 'A' and to conclude contracts with firms 'B' and 'C'. Accordingly, contracts were concluded with firm 'C' (for 200 tonnes at Rs. 6,021 per tonne) and firm 'B' (for 200 tonnes at Rs. 6,030 per tonne) on 31st January and 2nd February 1979 respectively. The scrap was removed by the three firms by June 1979.

2.6. The Ministry stated (November 1979) that:

- as large number (27) of applications for tender forms were received, there was no reason to doubt that the sale notice did not receive wide publicity;
- the advertisement for the sale was displayed on the factory notice board kept outside the main gate of the factory;
- no reserve price for sale of non-ferrous scrap by tender was to be fixed;
- due to certain arithmetical errors, the ledger price was wrongly recorded in the ledger as Rs. 9,330 per tonne in place of Rs. 2,200;
- the allegations made by the dealers were investigated before allowing the firms to lift the scrap and found to be baseless; and
- the scraps sold by factory 'X' and 'Y' were of different grades.

2.7. During 1976 and 1977, loose aluminium scrap stored in open was sold at Rs. 5,500 per tonne by factory 'X' to trade and National Small Industries Corporation (NSIC) and at Rs. 5,500 and Rs. 6,000 per tonne by factory 'Y' to NSIC. However, while the selling price was almost the same during the two years in the two factories, factory 'X' could sell the scrap at a maximum rate of Rs. 6,050 per tonne against the tender of May 1978, whereas factory 'Y' had finalised the rate of the same type of scrap (loose scrap stored in open) at the same time at much higher rates varying from Rs. 9,250 to Rs. 10,923 per tonne. Thus, the price obtained by factory 'X' for the scrap sold during 1978 was not in conformity with the prevailing market price. Computed with reference to the sale price (Rs. 9,250 per tonne) of factory 'Y', the less realisation by factory 'X' in the disposal of 500 tonnes of aluminium scrap during 1978 at lower rates amounted to about Rs. 16.10 lakhs.

2.8. The following are the main points that emerge:

- The tender notice having been published (13th June 1978) in the trade journal only (not in newspapers) the trade got only one week for offering quotations and thus, wide publicity was not given.

- Applications for tender forms were received by factory 'X' even before the publication of the advertisement in the journal.
- No reserve price for the sale was fixed even though it was required to be fixed under orders of November 1973 and the offers of Rs. 6,021 to Rs. 6,050 per tonne which were about 35 per cent below the then recorded ledger price (Rs. 9,330 per tonne) were accepted; the ledger rate of Rs. 2,200 per tonne indicated in the reply of the Ministry was fixed in 1957 and could not be valid for sale in 1978. Due to failure of factory 'X' to observe the rules regarding the disposal of material, the disposal of 500 tonnes of scrap involving less realisation of about Rs. 16.10 lakhs.

[Paragraph 11 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Defence Services)].

2.9. The basic point that arises out of the aforesaid Audit paragraph is that the Ordnance Factory in question did not give wide publicity to proposal for sale of 500 tonnes of aluminium scrap and due to failure of the Ordnance Factory in observing the rules regarding the disposal of material, there was less realisation of about Rs. 16.10 lakhs.

2.10. The Committee desired to know the procedure that had been laid down to ensure that notices sent to DAVP for publication on a particular date have been confirmed for publication in newspapers on that date. The Ministry of Defence stated*: "There was no such procedure laid down in the past by which it could be confirmed that whether a particular advertisement has been published by the DGCT&S, Calcutta or DAVP on a particular date. However, according to the disposal procedure in existence sufficient time of 45 days is given to the DAVP for publication of the tender notice before the actual date of its opening. The tender notice is sent in Registered Cover simultaneously to the Director General of Commercial Intelligence and Statistics, Calcutta and Director of Advertising and Visual Publicity for publication in the Indian Trade Journal and the leading Newspapers respectively. In order, however, to ensure that the advertisement has actually been published on the due date i.e. sufficiently before opening of the tender and to postpone the opening of the tender, in case the advertisement has failed to appear in the Journal/ Newspapers on the due date the following instructions have now been issued to all the Ordnance Factories to ensure:

- (a) that tender notices are sent to DGCI&S and DAVP by Registered post;

*Not vetted.

- (b) that the advertisements appear in the ITJ and Newspapers sufficiently before the tender opening date;
- (c) if by any reason the advertisements/Tender Notices do not appear sufficiently in advance, the DGCI&S and DAVP is chased up for publication of the Tender Notices and simultaneous action is taken to extend the tender opening date suitably so that not only adequate publicity is given to the Tender Notice but also sufficient time is left at the disposal of Trade for participation."

2.11. In reply to another question as to why the Ordnance Factory did not pursue the tender notice sent to DAVP for publication by ordinary post when the same was not published in the trade journal of 5.4.1979, the Ministry stated:* "There was no such procedure laid down under which it was the responsibility of the factory to check with the Advertising agencies whether the advertisement had actually been published. Moreover, since no such mishappening of abnormal delay/date publication/non-publication had ever come to notice in the past, it could not be foreseen/suspected by the factory that the journal would not be actually issued/ marketed on the due date."

2.12. The Committee required as to why was it that the Ordnance Factory did not consider retendering in view of the inadequate time allowed to prospective buyers. The Ministry stated in reply that the factory did not consider retendering the material as prices fetched were found to be reasonable and higher than the rates received for the same type of material in September 1977 and January 1978.

1.13. When asked as to how was it that 15 firms applied for the tender forms before publication of the advertisement and also could refer to the same and whether an investigation of these aspects of the case was made, the Ministry stated:* "These aspects were investigated in depth by the Ministry and an officer of the rank of Director was deputed to investigate the same. 15 firms of Kanpur had applied for the tender forms before the actual publication and issue of the Journal as the advertisement was also exhibited on the notice board placed outside the main gate of the factory for information of tenders/firms."

2.14. The Committee desired to know whether it was not unusual that out of 20 firms, 15 firms had tendered without furnishing earnest money and if so why was this aspect of the matter not examined. The Ministry of Defence in reply stated: "Furnishing of tender forms complete in all respects is the responsibility of the firms. Nonfurnishing of

*Not vetted.

tender forms alongwith earnest money makes the offer 'INVALID'. As such there is nothing unusual on the part of the factory in rejecting the offers by declaring them 'INVALID' as the highest offer received was found to be reasonable and the factory was not losing anything in this transaction."

2.15. As to the result of investigation ordered by the Ministry about the circumstances in which the arithmetical error in the ledger price of the scrap crept in and whether any responsibility therefor had been fixed, the Ministry informed the Committee that on investigation it had been found that the arithmetical error was not "deliberate" on the part of any particular individual but due to mechanical error as the calculations and postings in ledgers were done on the Accounting and Computing machines and therefore no one could be held responsible for the error.

2.16. During the course of the visit to the Ordnance Factory by a Study Group of the Committee led by the Chairman, the Ministry were asked to indicate if there was any machinery or system or committee for fixing the ledger prices. The Minister of Defence stated:* "Instructions are available for periodical re-valuation of the rates of ferrous and non-ferrous scrap items vide Ministry of Defence letter No. 450/SP/C/20|77| D (Prod) dated 20-1-77. In the factory there is no committee or machinery specifically created for this purpose. The provision Section or the Material Control office is to initiate action and the proposals are to be concurred by the Accounts Office. No specific persons have been earmarked so far for carrying out this job and this job was to be done by the staff and officers of the section along with their other jobs. However, the re-valuation of the scrap item has not been carried out in the factory for quite some time and the work has now been taken up after obtaining certain clarifications which were necessary."

2.17. The Committee desired to know in what respects the scrap sold by the Ordnance Factory was different from that sold by the similarly placed another factory. The Ministry clarifying the position stated:* "The scrap arisings in two factories are different both in type and condition. OFC's Scrap was of Grade A-2-1 and A-2-2 (c) of constructional grade. OFC's scrap was of old accumulation having deteriorated in open storage, contaminated with dust and oil, OFAJ's scrap was of fresh arisings stored under cover and some quantity was briquetted and hence cannot be treated as identical."

2.18. When asked to indicate whether the Ordnance Factory was able to get reasonable price for the scrap sold during 1978 as per the pre-

*Not vetted.

vailing market price, the Ministry stated: **"The rate obtained by the factory were higher than the rates at which scrap was being sold to NSIC earlier. As such the factory obviously got the expected reasonable rates."* The Ministry also informed the Committee that the approximate price of all Aluminium Virgin metal between 1957 and 1978 was between Rs. 12/- and Rs. 14/- (per kg).

2.19. According to the procedure for disposal of scrap then in existence in the Ordnance Factories, 45 days time was to be given to the DAVP for publication of the tender notice in all leading newspapers before the actual date of opening the tenders. The tender notice was to be sent by Registered Post simultaneously to the Director General of Commercial Intelligence and Statistics, Calcutta (DGCIS) and Director Advertising and Visual Publicity (DAVP) for publication in the Indian Trade Journal and the leading newspapers respectively. In the present case, the tender notice for disposal of 500 tonnes of aluminium scrap (Turnings and Borings) was sent to DGCIS by registered post on 6th May, 1978, and on the same day to DAVP by ordinary post. The notice was intended to be published in the issue of Indian Trade Journal dated 17th May, 1978. It was, however, published in the said Journal printed at Calcutta on 7th June, 1978 bearing pre-dated date line 5th April, 1978 and which was available for sale only from 13th June, 1978. The tender notice was not published in any newspaper as the copy of notice to DAVP did not reach him. The tenders were opened on 20-6-78. The failure to send notice by registered post to DAVP in spite of the specific instructions could have been treated as a slip or mistake on the part of some junior officer but considering the subsequent chain of happenings, the Committee are inclined to view it as a case of gross negligence on the part of the senior officers of the Ordnance Factory in safeguarding the financial interests of the Factory.

2.20. The Committee have been informed by the Ministry that there was no procedure laid down in the past by which it could be confirmed that a particular advertisement has been published by the DGCIS&S, Calcutta or DAVP on a particular date and therefore the Ordnance Factory did not confirm the fact of publication of the tender notice in question before opening the tender. The Committee note that the Ministry have now issued fresh instructions to all the Ordnance Factories to ensure that the tender notices are sent to the respective agencies by registered post sufficiently in advance of the opening date of tender and if for any reason the advertisements do not get publicity, the opening date of tender shall be suitably extended. The Committee hope that the lapses of the nature referred to in the Audit paragraph shall not re-occur in future and the fresh instructions issued will be followed in letter and spirit.

2.21. Out of 27 parties applying for tender documents, 15 parties had applied for the forms even before the publication of the advertisement (13-6-1978). The two parties from the outstations had actually applied for tender forms on 22nd May and 6th June, 1978 respectively referring to the publication of tender notice in the Trade Journal although it was yet to be published. The two local parties (having the same address and telephone numbers), whose offers for 200 tonnes of aluminium scrap each were accepted, had applied for tender documents on 10th June, 1978 i.e. 3 days before the publication of the notice in the Trade Journal. It has also been stated that out of 20 parties whose offers were opened on the 20th June 1978 as many as 15 parties either did not make payment of earnest money or made payment of inadequate amount of earnest money. The Committee feel that it does not stand to reason that as many as 15 parties out of 20 taking the trouble of buying the tender documents and submitting their offers to the Factory could not even deposit the requisite earnest money. The Committee note that there was a joint complaint from a few dealers that "tender papers were sold and submitted mostly by one single individual who had floated a number of firms." The Committee further note that an enquiry committee appointed by DGOF to look into these charges found them baseless.

2.22. The Ministry of Defence informed the Audit in November, 1979 that as a "large number" of applications for tender forms were received, there was no reason to doubt that the sale notice did not receive wide publicity. The Committee do not consider these facts as mere coincidence. In the light of the above information, this leads the Committee to infer that there could have been some agency at work which prompted a large number of parties to purchase the tender documents and submit them, even without earnest money, so as to show, at least on paper, that a large number of tender forms were sold and offers received.

2.23. Out of 5 firms whose tenders were considered valid, three firms (A, B and C) having made the highest offers, were selected. All the three were local parties and the last two had the same local address and telephone number. Firm 'A' quoted Rs. 6,050 per tonne and desired to purchase 100 tonnes of scrap while firm 'B' and 'C' wanted to purchase 200 tonnes of scrap each at the rate of Rs. 6,030 and Rs. 6,021 per tonne respectively. On 5 July 1978, the Factory informed firms 'A' 'B' and 'C' that their offers were acceptable subject to fulfilment of certain conditions regarding removal of scrap and payment of its cost etc.

2.24. Asked why no reserve price was fixed in such cases as required under order of 1973, the Ministry have stated that reserve price is fixed in the case of sale by auction and not in the case of disposal of scrap by open tender system. The Committee consider it an unwise decision because the

sale proceeds obtained by another Ordnance Factory for the same type of scrap was Rs. 9,250 to Rs. 10,923 per tonne. Compared with reference to the sale price of Rs. 9,250 per tonne in another factory, the Audit have estimated the loss in the above sale of about Rs. 16.10 lakhs. The Committee therefore desire that the reasons for non-fixation of reserve price in the open tender system should be immediately gone into and suitable safeguards devised to prevent such loss of revenue in future.

2.25. Again, it remains inexplicable as to how it occurred to the Factory Management that the ledger price of aluminium scrap indicated as Rs. 9,330 per tonne was not correct and that it should have been Rs. 2,200 per tonne. This inaccuracy was described by the Ministry of Defence as an arithmetical error. It is to be noted that the ledger price of Rs. 2,200 per tonne was fixed as early as 1957. This was also confirmed during the course of the on-the-spot study undertaken by the Committee at the Factory premises. The Committee are surprised to find that no action was taken by the Factory Management to review the price of the scrap during all this period when the price was going up. The Committee have now been informed that the work of revaluation of scrap items has been taken up in the Factory. The Committee desire that the work of revaluation of scrap items not only in this Ordnance Factory but also in other factories under the control of Ministry of Defence should be taken up and action finalised without any loss of time. The Committee also emphasise that the work of revaluation of scrap items should be undertaken annually and the prices should be related to current market prices.

2.26. The Committee, after considering all aspect of the matter, feel that this case be investigated thoroughly and responsibility fixed for the loss of revenue resulting from this deal and the Committee informed of the action taken in the matter.

NEW DELHI;

April 23, 1981

Vaisakha 3, 1903 (Saka)

CHANDRAJIT YADAV,

Chairman,

Public Accounts Committee

APPENDIX

CONCLUSIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/Department concerned	Conclusion/Recommendation
1	2	3	4
1	1.72	Defence	<p>Government approved in September 1968 a project for development of facilities for repair and maintenance of naval craft at Visakhapatnam. One of the main items of work in the project was capital dredging in the dockyard area. The areas planned for dredging included the main channel, the flood channel and the degaussing basin. The Soil investigations laboratory tests were carried out in the degaussing basin between March, 1968 and December, 1972 at a total cost of Rs. 10.89 lakhs (as against Rs. 5 lakhs sanctioned in February, 1968). The Committee find that the dredging of the degaussing basin which was commenced in December 1968 had to be suspended in November 1969 (with retrospective effect from August, 1969) due to the existence of rocks and the site had to be shifted after an expenditure of Rs. 50 lakhs had been incurred. The work could not be resumed for as long as 9 years i.e. till 1973-79 for the following reasons:—</p> <p>(i) Quantum of rock encountered in the degaussing basin to be blasted was found larger than that anticipated which necessitated the resiting of the degaussing basin.</p>

(ii) Non-availability of 22 areas of Port Trust land opposite the wharves and jetties.

(iii) Non-dismantling of rail-cum-road bridge scheduled to be dismantled by Jurec, 1969 by the Port Trust.

(iv) Want of decision on the proposal for the realignment of two berths Nos. 12 and 13, which would affect the configuration of the channel.

2 1.73 Do.

The Committee find that 3 bore holes were dug on a trial basis in the degaussing basin. During the actual execution of the work, it was however revealed that the overlying strata could not be dredged as earlier visualised as rock was found in portion of the degaussing basin in the shape cross 240 metres long and 65 metres wide.

3 1.74 Do.

During their visit to the project site in January, 1931, a Study Group of the Committee were informed that even during the pattern survey, decomposed rock was found in one of the bore holes between a depth of 15 to 18 metres. The representative of the Ministry stated in evidence that the normal pattern of spacing was followed in this case. He added 'But you will agree that here was a abnormal situation. ... According to the normal sample survey, this was not bad but it happened that a particular place was very bad, so a second experiment was made.'

4 1.75 Defence

Considering the fact that the soil investigations in the area continued for as long as 4½ years i.e. from March, 1968 to December, 1972 the Committee can only infer that the investigations done before actual commencement of the dredging operations work far too inadequate. It is unfortunate that in spite of clear indications of rocky stage the survey stage itself it was not considered necessary to defer the dredging operation it became unavoidable later on. It would be seen from the succeeding paragraphs that this resulted in considerable amount of avoidable expenditure and delay in completion of the project. The Committee therefore strongly emphasise the need for carrying out thorough and intensive soil investigations before commencement of work on such projects.

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5 1.76 Do.

It is seen from Paragraph 19 of the Report of Comptroller and Auditor General of India for the year 1974-75, Union Government (Defence Services) that though the suspension of the first dredging contract was to be without any financial implications, the contractor had put in a claim in January 1970 for Rs. 56.35 lakhs. It was held that although the suspension of work was agreed upon after mutual discussion, the contractor's point that the record of discussion does not constitute a legal modification of the contract was not without legal force. In October, 1973, sanction for Rs. 25 lakhs was accorded on the basis of a negotiated settlement with the contractor in settlement of all his claims. It was also decided that work under the first

contract would be deemed to have been completed and a fresh settlement would be negotiated with the same contractor for the residual quantity. The second dredging contract was entered in February, 1974.

6 1.77 Do.

1.73

The Committee find that considerably higher rates had to be paid towards cost of soft dredging in the fresh contract. As against Rs. 3.50 per cu.m. for the entire quantity of 22.74 lakh cu.m. contracted for earlier, the rates actually paid were Rs. 3.70 per cu.m. for 13.97 lakh cu.m. and Rs. 8.20 per cu.m. for the remaining 8.77 lakh cu.m. The rate of rock blasting also went up from Rs. 85 per cu.m. to Rs. 167.25 per cu.m. and that of rock removal from Rs. 28.02 per cu.m. to Rs. 35.75 per cu.m. In addition, the contractor had to be paid mobilisation charges of the order of Rs 25 lakhs and price escalation to the extent of Rs. 9.33 lakhs.

7 1.78 Do.

1.78

The Committee thus find that as against the anticipated expenditure of Rs. 89.13 lakhs the completion cost of dredging and rock blasting in the degaussing basin amounted to Rs. 170 lakhs i.e. an increase of Rs. 80.87 lakhs (91 per cent). Ministry's contention is that had the site of the degaussing basin not been shifted, the expenditure would have been still higher (Rs. 222 lakhs). Thus, according to the Ministry there was actually a saving of Rs. 52 lakhs in spite of increased rates allowed in the second contract.

8 1.79 Do.

1.79

While the Committee do not dispute the soundness of the decision to shift the site of the degaussing basin where considerably less rock blasting had to be done, they consider that having landed them.

selves in a difficult situation the project authorities had hardly any choice but to accept the revised terms of the contractor.

Thus, the initial wrong location of the site of the degaussing basin was responsible for much of the extra expenditure that had to be incurred under the second contract (Rs. 80.87 lakhs inclusive of Rs. 25 lakhs as mobilisation charges which had to be paid to the contractor in settlement of his claim are being out of the first contract).

9 1.80

Defence

The Committee note that in 1971 when the earlier dredging contract was still in force, the Port Trust authorities had indicated their willingness to make available 22 acres of land at an estimated cost of Rs. 13.45 lakhs. Processing of the case for the transfer of the land to the Ministry of Defence however got delayed due to disputes regarding the modalities of the transfer as also the quantum of compensation to be paid to the VPT. Further delay took place on account of the demand for payment of compensation subsequently raised by the VPT for shifting of two establishments viz. a mercantile training establishment and a private boat building yard which could only be finalised in October, 1975.

10 1.81

Defence

As early as in May 1968 it had been decided that a committee comprising of the representatives of the Ministry of Defence, Ministry of Shipping and Transport, Ministry of Finance (Defence), Navy,

Port Trust and the DGNP(V) be formed to look into the requirement of port authorities while examining the plans of the Navy. The committee was also entrusted with implementation of various decisions arrived at from time to time.

11 1.82 Do From the Minutes of inter-ministerial meetings held from time to time, the Committee find that the naval authorities themselves were responsible to some extent for lack of progress in the case in the initial stages. In a meeting held in March, 1968 it was pointed out that the Port authorities had not been consulted by the Naval authorities in formulating the expansion schemes. A year later it was again pointed out in the meeting held on 30 May, 1969 that the port authorities were not consulted by the Defence Ministry before they entered into a contract with the foreign firm for dredging in the area belonging to the Port. It was held out that "the Port authorities could not be made a party to a contract which was concluded by the Navy without prior consultation with the Port authorities."

12 1.83 Do It is unfortunate that the Port Trust authorities were not taken into confidence by the Naval authorities and their concurrence obtained for the dredging work in an area which still belonged to the latter.

13 1.84 Do In regard to the question of compensation to be given to the Port Trust for re-location of the two establishments, it was after pro-

tracted correspondence and discussion that the VPT agreed to scale down its demand from Rs. 148 lakhs to Rs. 10.5 lakhs. The Committee do not quite appreciate why the two Central Ministries viz. the Ministry of Defence and the Ministry of Shipping and Transport could not settle the matter expeditiously.

14- 1.85 Defence

The Committee find that an account of the quinquennial revision of the value of the land undertaken by the Port Trust authorities in January, 1974 the Navy had to incur an additional expenditure of Rs. 21.52 lakhs. This is directly attributable to the delay in taking over the land. That such a review was due in March, 1973 had been made clear by the Port Trust authorities in their letter of 30 December, 1971 which stated *inter alia* ".....this rate is based on the quinquennial valuation of Port lands and will continue till March, 1973 when next quinquennial valuation will be made." The reply of the Ministry of Defence that the letter "does not specifically state that the price of land proposed to be acquired by Navy was going to be enhanced due to next quinquennial valuation in March, 1973", therefore, fails to carry conviction.

15- 1.86 Do:

The Committee consider that the Ministry of Defence did not pursue the matter energetically enough with the Ministry of Shipping and Transport and instead allowed the differences between the Port Trust authorities and the Navy to simmer. It is also obvious

that the coordination Committee formed at the project level did not enjoy sufficient authority to sort out the differences and take on the spot decisions. The Committee considering that in such cases scope should be provided to the co-ordinating committee at the project level to take decisions so that the projects do not get bogged down due to departmental wranglings.

16 1.87

Do.

The Committee find that an indent was placed on the DGS&D for procurement of a motor boat for purposes of inspection and measurement of dredging work notwithstanding the fact that there was a specific provision in the dredging contract for the contractor to provide the same at his cost. The DGS&D could deliver the boat only in January, 1977 after a delay of as much as three years and eight months. As the boat was not used for the project, it was issued on loan to the Naval Command Pool and was permanently transferred to Admiral Supdt. Dockyard in March 1980. An expenditure of Rs. 1.04 lakhs was therefore rendered infructuous. The Committee would like to be apprised why the boat was at all purchased and why the matter was not reviewed during the extended period of delivery of the boat. The Committee disapprove of such wasteful expenditure and would expect the Ministry to guard against such lapses.

17 1.88

Do.

The Committee note that in January, 1972 the Ministry of Defence had accorded sanction for the provision of a building for installation of an oxygen plant at a cost of Rs. 3.75 lakhs, which was revised to Rs. 8.87 lakhs in April, 1975. Originally the oxygen plant was to be procured from abroad. In November, 1973 it was decided by the

users to instal a captive oxygen plant of an indigenous make. During the project review meeting held in September, 1974, it was decided to defer the installation of the plant and to procure liquified oxygen. Notwithstanding the decision taken in September, 1974 to defer installation of the oxygen plant, work on a portion of the building for installing the plant was commenced in January 1976 and stopped only after it had progressed upto plinth level and an expenditure of Rs. 1.20 lakhs had been incurred.

18

1.89

Defence

In November, 1976 it was decided not to go in for the captive plant as it was assessed that the plant would be grossly under-utilised in the initial years and also because the return on the capital investment would be more than adequate to buy oxygen from the trade.

19

1.90

Do.

Apparently, the Ministry of Defence did not examine carefully the economics of the proposal while according sanction for construction of building.

The Committee are surprised that decisions involving expenditure of substantial sums of money from the Exchequer are not taken with proper care. The Committee expect that in future greater care would be taken at the Ministry level in scrutinising the proposals received from lower formations so that wasteful expenditure is avoided.

According to the procedure for disposal of scrap then in existence in the Ordnance Factories, 45 days time was to be given to the DAVP for publication of the tender notice in all leading newspapers before the actual date of opening the tenders. The tender notice was to be sent by Registered Post simultaneously to the Director General of Commercial Intelligence and Statistics, Calcutta (DGCIS) and Director Advertising and Visual Publicity (DAVP) for publication in the Indian Trade Journal and the leading newspapers respectively. In the present case, the tender notice for disposal of 500 tonnes of aluminium scrap (Turnings and Borings) was sent to DGCIS by registered post on 6th May, 1978, and on the same day to DAVP by ordinary post. The notice was intended to be published in the issue of Indian Trade Journal dated 17th May, 1978. It was, however, published in the said Journal printed at Calcutta on 7th June, 1978 bearing pre-dated date line 5th April, 1978 and which was available for sale only from 13th June, 1978. The tender notice was not published in any newspaper as the copy of notice sent to DAVP did not reach him. The tenders were opened on 20-6-78. The failure to send notice by registered post to DAVP in spite of the specific instructions could have been treated as a slip or mistake on the part of some junior officer but considering the subsequent chain of happenings, the Committee are inclined to view it as a case of gross negligence on the part of the senior officers of the Ordnance Factory in safeguarding the financial interests of the Factory.

The Committee have been informed by the Ministry that there was no procedure laid down in the past by which it could be con-

firmed that a particular advertisement has been published by the DGCI&S, Calcutta or DAVP on a particular date and therefore the Ordnance Factory did not confirm the fact of publication of the tender notice in question before opening the tender. The Committee note that the Ministry have now issued fresh instructions to all the Ordnance Factories to ensure that the tender notices are sent to the respective agencies by registered post sufficiently in advance of the opening date of tender and if for any reason the advertisements do not get publicity, the opening date of tender shall be suitably extended. The Committee hope that the lapses of the nature referred to in the Audit paragraph shall not re-occur in future and the fresh instructions issued will be followed in letter and spirit.

22

2.21

Defence

Out of 27 parties applying for tender documents, 15 parties had applied for the forms even before the publication of the advertisement (13-6-1978). The two parties from the outstations had actually applied for tender forms on 22nd May and 6th June, 1978 respectively referring to the publication of tender notice in the Trade Journal although it was yet to be published. The two local parties (having the same address and telephone numbers), whose offers for 200 tonnes of aluminium scrap each were accepted, had applied for tender documents on 10th June, 1978 i.e. 3 days before the publication of the notice in the Trade Journal. It has also been stated that out of 20 parties whose offers were opened on the 20th June, 1978

as many as 15 parties either did not make payment of earnest money or made payment of inadequate amount of earnest money. The Committee feel that it does not stand to reason that as many as 15 parties out of 20 taking the trouble of buying the tender documents and submitting their offers to the Factory could not even deposit the requisite earnest money. The Committee note that there was a joint complaint from a few dealers that "tender papers were sold and submitted mostly by one single individual who had floated a number of firms." The Committee further note that an enquiry committee appointed by DGOF to look into these charges found them baseless.

23

2.22

Do.

The Ministry of Defence informed the Audit in November, 1979 that as a 'large number' of applications for tender forms were received, there was no reason to doubt that the sale notice did not receive wide publicity. The Committee do not consider these facts as mere coincidence. In the light of the above information, this leads the Committee to infer that there could have been some agency at work which prompted a large number of parties to purchase the tender documents and submit them, even without earnest money, so as to show, at least on paper, that a large number of tender forms were sold and offers received.

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2.23

Do.

Out of 5 firms whose tenders were considered valid, three firms (A, B & C) having made the highest offers, were selected. All the three were local parties and the last two had the same local address and telephone number. Firm 'A' quoted Rs. 6,050 per tonne and

desired to purchase 100 tonnes of scrap while firms 'B' and 'C' wanted to purchase 200 tonnes of scrap each at the rate of Rs. 6,030 and Rs. 6,021 per tonne respectively. On 5 July 1978, the Factory informed firm 'A', 'B' & 'C' that their offers were acceptable subject to fulfilment of certain conditions regarding removal of scrap and payment of its cost etc.

25

2.24

Defence

Asked why no reserve price was fixed in such cases as required under order of 1973, the Ministry have stated that reserve price is fixed in the case of sale by auction and not in the case of disposal of scrap by open tender system. The Committee consider it an unwise decision because the sale proceeds obtained by another Ordnance Factory for the same type of scrap was Rs. 9,250 to Rs. 10,923 per tonne. Compared with reference to the sale price of Rs. 9,250 per tonne in another factory, the Audit have estimated the loss in the above sale of about Rs. 16.10 lakhs. The Committee therefore desire that the reasons for non-fixation of reserve price in the open tender system should be immediately gone into and suitable safeguards devised to prevent such loss of revenue in future.

26

2.25

Do.

Again, it remains inexplicable as to how it occurred to the Factory Management that the ledger price of aluminium scrap indicated as Rs. 9,330 per tonne was not correct and that it should have been Rs. 2,200 per tonne. This inaccuracy was described by the Ministry

of Defence as an arithmetical error. It is to be noted that the ledger price of Rs. 2,200 per tonne was fixed as early as 1957. This was also confirmed during the course of the on-the-spot study undertaken by the Committee at the Factory premises. The Committee are surprised to find that no action was taken by the Factory Management to review the price of the scrap during all this period when the price was going up. The Committee have now been informed that the work of revaluation of scrap items has been taken up in the Factory. The Committee desire that the work of revaluation of scrap items not only in this Ordnance Factory but also in other factories under the control of Ministry of Defence should be taken up and action finalised without any loss of time. The Committee also emphasise that the work of revaluation of scrap items should be undertaken annually and the prices should be related to current market prices.

The Committee, after considering all aspect of the matter, feel that this case be investigated thoroughly and responsibility fixed for the loss of revenue resulting from this deal and the Committee informed of the action taken in the matter.

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2.26

Do.