

PUBLIC ACCOUNTS COMMITTEE
(1973-74)

(FIFTH LOK SABHA)

HUNDRED AND TWENTY-FIRST REPORT

[Paragraphs contained in the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government, (Defence Services) relating to Defence Production].



LOK SABHA SECRETARIAT
NEW DELHI

April, 1974 | Chaitra, 1896 (S)

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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
2	1.6	12	7.3.1979	7.3.1970
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PART II*

Minutes of the sittings of the Public Accounts Committee held on :

30-10-1973

31-10-1973

5-4-1974

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PUBLIC ACCOUNTS COMMITTEE

(1973-74)

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*Elected on 29-11-73 vice Shri D.S. Afzalpurkar died.

@Ceased to be member of the Committee consequent on retirement from Raja Sabha.

(iv)

SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri M. S. Sundaresan—*Deputy Secretary.*

Shri T. R. Krishnamachari—*Under Secretary.*

INTRODUCTION

I, the Chairman of Public Accounts Committee, as authorised by the Committee do present on their behalf this Hundred and Twenty-First Report of the Committee (Fifth Lok Sabha) on the paragraphs contained in the Report of Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services) relating to Defence Production.

2. The Report of Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services) was laid on the Table of the House on the 29th March, 1973. The Committee examined paragraphs relating to the Department of Defence Production on 30th and 31st October, 1973. The Committee considered and finalised this Report at their sitting held on 5th April, 1974. Minutes of these sittings from Part II* of the Report.

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

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

5. The Committee would also like to express their thanks to the officers of the Department of Defence Production for the Cooperation extended by them in giving information to the Committee.

NEW DELHI;

April 5, 1974.

Chaitra 15, 1896 (s).

JYOTIRMOY BOSU,
Chairman,
Public Accounts Committee.

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

REPORT

DELAY IN ACCEPTANCE OF OFFERS AND ARRANGING RE-SALE

Audit Paragraph

1.1. An Ordnance factory invited tenders for sale of 21.95 tonnes of copper scrap in November/December 1969 and the tenders were opened on 29th December, 1969. The highest acceptable offer received was Rs. 16,133.65 per tonne and was from a local firm. This offer was valid upto 27th March 1970 as indicated in the tender enquiry. The factory recommended to the Director General, Ordnance Factories, on 23rd January 1970 acceptance of this offer and the latter, after obtaining concurrence of associated Finance, advised the factory by an express delivery letter on 13th March 1970 to accept the offer. The factory, however, received this letter on 27th March, 1970 and communicated acceptance of the offer to the successful tenderer on 10th April 1970. The latter declined to conclude the deal on the ground that the validity of the offer in question had expired on 27th March, 1970.

1.2. The scrap was then re-tendered in June/July 1970 on the advice of the Director General, Ordnance Factories, and the tenders were opened on 11th September, 1970. The highest offer received this time was Rs. 14,61 per tonne. As indicated in the tender enquiry this offer was valid upto 9th December, 1970. The factory recommended to the Director General, Ordnance Factories, on 8th October 1970 acceptance of this offer and the latter, after obtaining concurrence of associated Finance, advised telegraphically the factory on 28th November, 1970 to accept the offer. The factory received this telegram on 30th November, 1970 and communicated acceptance of the offer to the successful tenderer telegraphically on 9th December, 1970. The latter sent a reply on 13th December, 1970 revoking the offer on the ground that the validity period had expired.

1.3. The Ministry of Law, to whom the matter was referred, stated in October, 1971, that in this case a contract had legally come into existence between the parties on 9th December, 1970 and, as the firm had committed a breach of the terms of the contract, there seemed to be no objection to forfeiting the earnest money deposited by the firm. About re-sale at the risk and cost of the firm, the Ministry

of Law held that it might not be in order to do so at that distant point of time as the contract came into existence on 9th December, 1970 and has to be performed within 30 days from acceptance of the offer. The earnest money of Rs. 2,500 deposited by the firm was accordingly forfeited.

1.4. The material was ultimately disposed of by public auction in February, 1972 at Rs. 9,200 per tonne. Had the offer of December, 1969 been accepted within the validity period, the sale proceeds would have been more by Rs. 1.50 lakhs as compared with what was realised finally. Due to delay in arranging re-sale, the difference of Rs. 1.20 lakhs between the subsequent highest offer of September, 1970 and the actual sale proceeds could not also be realised.

1.5. The Ministry stated (November, 1972) that the question whether there had been any avoidable delay on the part of the factory at any stage was being looked into and that the Director General, Ordnance Factories, had been asked to order an enquiry so that remedial measures could be taken to avoid delays in future.

[Paragraph 8 of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services)].

1.6. The following chronological statement of events indicates the time taken for scrutiny and according approval for the acceptance of office in the first tender:

The tender was opened initially.	29.12.1969
The proposal with comparative statement of tenders was forwarded by the factory through the Accounts Officer.	23.1.1970
The C.D.A. (Fys) forwarded the C.S.T. with recommendation to accept the offer of M/s . . .	21.2.1970
The proposal was received in D.G.O.F.Hqrs.	26.2.1970
Case submitted to DFA (Flys) Calcutta for concurrence.	3.3.1970
Case received back with concurrence of DFA(Flys).	7.3.1970
Sanction for sale issued to OFD. By by DGOF under Express Delivery letter.	13.3.1970

1.7. Asked about the reasons for the delay between 29th December, 1969 and 23rd January, 1970 on the part of the factory to forward its recommendations, the Committee were informed, in a note, furnished by the Ministry of Defence. "40 firms applied for tender forms and offers were received from 18 firms. The tender in question was not only for disposal of the Copper Scrap mentioned

in the Audit para but also for another item viz., Non-ferrous mixed metal scrap Grade IV. Some of the firms had quoted for both the items while others quoted only for either of the items. The offers were also not straight forward. Some of the firms had imposed varying conditions which were not strictly in conformity with the tender stipulations. Hence the offers received required careful and close scrutiny to arrive at the offer that was most favourable in all respects and acceptable. Sometime was also taken in the preparation of drafts and typing out the proposals on the prescribed proforma."

The Secretary, Department of Defence Production, however, admitted during evidence that he had his own doubts whether the entire period of 25 days should have been spent on this effort.

1.8. The Committee wanted to know the reasons for the subsequent delay between 23rd January, 1970 and 13th March, 1970 in according approval for acceptance of the offer. The Ministry of Defence, in a written note, stated: "The factory submitted their proposal to the Local Accounts Officer on 23-1-1970 who forwarded the same with his comments to CDA(FYS) Calcutta on 4-2-1970. CDA(FYS) in turn forwarded the case to DGOF on 21-2-1970 which was received in the office of the DGOF on 26-2-1970. After scrutiny of the proposal, the case was forwarded to DFA(FYS) by the DGOF on 3-3-1970, who returned the case to DGOF on 3.3.1970, who returned the case to DGOF with his concurrence on 5-3-1970. Sanction of the DGOF was issued on 13-3-1970."

1.9. The Committee were informed that while the sanction letter for sale was issued to the factory by DGOF under express delivery letter on 13th March, 1970, the factory received this letter on 27th March, 1970. Regarding postal delay in transit, the Secretary, Department of Defence Production informed during evidence that "we enquired from the post office but we were unable to elicit any specific explanation at all..... We also understand that a copy of the sanction which is endorsed to the factory's financial officers, never reached them at all and they had made good that deficiency by taking a copy from our file placing it on their record."

1.10. When asked whether the factory, which was aware that the offer was valid upto 27th March, 1970, reminded the DGOF to expedite the sanction. The Secretary, Department of Defence Production stated during evidence. "That would normally be so. But unfortunately, no reminder seemed to have been sent by the factory at all!

on the occasion of the first tender. This is somewhat odd; it shows the factory was not watching the progress."

It is stated in the extracts of the findings of the Board of Enquiry that "in regard to the lapse in not reminding the DGOF office in respect of the first tender, the exact reasons could not be ascertained due to lapse of time and also since the staff who were dealing with the subject are not available."

1.11. The Committee desired to know that even if the acceptance of the offer had been communicated on 27th March, 1970, a contract would have legally come into existence between the parties. Why, then, did the factory not communicate the acceptance of the offer to the tenderer on 27th March, 1970 itself. The Committee were informed by the Ministry "The transmission of the DGOF's communication to the concerned office/section which was received in the Central Registry of the factory on 27-3-1970 took sometime and action could not therefore be taken on the same day itself."

The Secretary, Department of Defence Production stated during evidence that on 27th March, 1970, the letter was diarised in the central registry. According to the factory's procedure it was put up to the various officers concerned, it was received back in the appropriate section on 2nd April, 1970. In reply to a question, the witness has stated that 'the issue of the letter on the 10th April makes no sense'.

It was admitted by the Secretary, Department of Defence Production during evidence that there was a possibility of some foul play and he was about to suggest a confidential enquiry as the records did not give much information. In a subsequent note, the Ministry have stated that the matter has been referred to the CBI and their findings will be communicated on receipt of their report.

1.12. After the tenderer declined to conclude the deal on the ground that the validity of the offer in question had expired on the 27th March, 1970, the scrap was re-tendered in June/July, 1970. The highest offer received this time was Rs. 14.661 per tonne. The tender offer were valid upto 9th December, 1970. The tender were opened on 11th September, 1970. The factory forwarded recommendation to DGOF for acceptance on 8th October, 1970 and DGOF advised telegraphically acceptance of the offer to factory on 28th November, 1970. The factory received this telegram on 30th November, 1970 and communicated acceptance to the tenderer telegraphically on 9th December, 1970 (the last day of the validity of

the offer). But the tenderer revoked the offer on the 13th December, 1970 on the ground that the validity period had expired.

1.13. The Committee were informed during evidence that the tenderer's letter refusing to accept the offer was received in the factory on 18th April, 1970. The factory intimated the refusal to DGOF on 13th May, 1970 and the scrap was re-tendered on 26th June, 1970.

Asked why the recommendations were delayed by the factory till 8th October, 1970 on tenders opened on 11th September, 1970, the Ministry, in a note, stated: "In the case of the 2nd tender, 16 firms had applied for tender forms but offers from only 5 firms were received by the due date. Since the response was poor, it was felt that allowing for the postal delays, some late quotations with better offers might be received. Hence it was considered advisable to hold over submission of proposals for some time. The rest of the time was taken up in examining the offers, preparing draft proposals on the prescribed proforma, typing and other procedural matters."

When pointed out whether it was a correct or regular procedure to keep the tender open after the closing date, the Secretary, Department of Defence Production stated "Normally, I will say no. When you fix a date, you close it on that date. There is no question of waiting for other offers to come."

The Secretary admitted during evidence that prior to the Board of Enquiry, no explanation was asked from them about this irregularity.

1.14. The following statement of chronological events indicate the time taken at the various stages in according approval for acceptance of the offer at the time of second tender:

Date of forwarding comparative statement of tender to Local Accounts Officer	8-10-1970
Date of forwarding the case to CDA (Fys) by Local Accounts Officer	26-10-1970
Date of forwarding the case by CDA (Fys) to DGOF	7-11-1970
Receipt of the case in the DGOF's office	10-11-1970
Date of submission of the case to DFA (Fys) after examination	18-11-1970
Date of receipt of the concurrence of DFA (Fys)	27-11-1970
Issue of telegraphic approval by DGOF to the factory	28-11-1970

1.15. It was admitted during evidence by the Financial Adviser that the time taken by the Local Accounts Officer in forwarding

the papers to Calcutta was longer and that could have been shorter.

1.16. According to the Audit paragraph, while the factory received the telegram containing sanction issued by the DGOF on 30th November, 1970 but it communicated its acceptance to the tenderer by telegram only on 9th December, 1970, i.e., the date on which the validity of the offer was to expire. The tenderer, however, sent a reply on 13th December, 1970 revoking the offer on the ground that the validity period had expired.

1.17. Explaining the circumstances for issue of the telegram, the Ministry, in a note, stated "The telegram from DGOF was seen by the officer in charge of the factory on 30-11-70 and the communication reached the concerned section at 5.00 P.M. on 8-12-1970. In this connection the comments of the Board of Enquiry which investigated the matter is reproduced below:

'It appears that it is unfortunate that this telegram went to a wrong subgroup and had to be located just one day prior to the last date of the expiry of the tender.'

Telegram addressed to the contractor was issued on 9-12-70."

1.18. The following note furnished by the Ministry, gives details of the movement of telegram of the persons who handled it: "The telegram was issued from the Esplanade Calcutta Telegram Office at 1600 hours on 28-11-70. The telegram received at Ordnance Factory,..... bears the date seal of Post Office on 29-11-70.

As per records, the telegram was seen and initialled by the Officer-in-Temporary Charge of the Factory. The Officer-in-Temporary Charge marked the telegram to Dy. Manager (Provisioning). The telegram was diarised by PA to Officer-in-Temporary Charge on 1-12-70 and was despatched to the Assistant Manager (Provisioning). The Assistant Manager initialled the telegram on 2-12-70 and passed it on to Dy. Manager (Provisioning) who saw and initialled the telegram on the same day (2-12-70). The telegram was then sent by Deputy Manager (Provisioning) to the Section concerned namely Central Purchase/Disposal Group in the Provisioning Section along with other papers through his Orderly as per normal practice.

The telegram was actually initialled by the Head Clerk of Central Purchase/Disposal Group on 8-12-70. On the same day the telegram was put up by Head Clerk to the Chargeman of the Group concerned."

1.19. The Ministry of Defence have furnished the following note explaining the delay in referring the matter to the Ministry of Law immediately after the receipt of firm's letter dated 13th December, 1970 revoking the offer. "Action to refer the case to the Ministry of Law at Calcutta was initiated with reference to the claim made by the firm for returning of Earnest Money deposited by the firm under their letters addressed to the factory dated 10-12-1970, 13-12-70 and 14-2-71. The case was examined in the office of the DGOF and was referred to DFA(Fys) on 19-4-71. DFA(Fys) advised, under his note dated 30-4-71, that apart from the forfeiting of the Earnest Money, the legal validity of disposing the material at the risk and cost of the firm may also be referred to Ministry of Law. Accordingly, a reference was made to Ministry of Law at Calcutta on 7-5-71."

1.20. The following note by DGOF, dated 18th January, 1973 indicates the time taken in obtaining the advice of the Ministry of Law in the matter:—

- (a) On 7-5-1971, the case was put up to the Ministry of Law for their advice.
- (b) On 14-5-1971, before giving their final views on the subject Ministry of Law asked for copies of Invitation to tender, tender, acceptance of tender also all correspondence between the Deptt. and the firm, including copies of all telegrams and letters referred to be placed on the file. Ministry of Law also wished to know the time of despatch of the acceptance to the firm.
- (c) On 25-5-1971 factory was asked to forward copies of all correspondence called for by the Ministry of Law.
- (d) Factory was reminded on 23-6-71, 22-7-71, 2-9-71 and 24-9-71 for submission of relevant documents. On 25-9-71 (received on 4-10-71) forwarded copies of documents called for regretting delay as the case was mislaid at their end.
- (e) D.G.O.F. returned the case to Ministry of Law on 26-10-1971.
- (f) Ministry of Law's advice received under U.O. Note of 28-10-1971.
- (g) Comments of Law Ministry conveyed to OF on 6-11-1971."

1.21. Asked that after 13th December, 1970 when the tenderer refused to accept the contract, why it took four months to refer the matter to the Ministry of Law and why no action was taken to expedite the sale or public auction at the cost of the tenderer, the witness replied. "I don't think that legal position was known clearly at that time, when we went to the Law office, they gave the advice that it may not in order to effect the sale to this firm.... Our procedure is such that selling within 30 days on the spot would probably not be possible in any case..... Under the orders now in force the General Manager can accept the highest bid in any case. So, there is no requirement of sanction or financial clearance. As such, the General Manager is fully within powers to dispose of these things on snap basis..... We have tried to expedite the same procedures and certain orders have also been passed giving delegation of powers and laying down time limits by which these references had to be cleared at various levels."

When asked that on 25th May, 1971, the factory was asked to forward copies of the correspondence to the Ministry of Law and even after four reminders, why the papers were not sent, the witness replied: "We have been told that they misplaced the files and later on they sent the files. It is certainly not a desirable feature."

1.22. The Committee were informed during evidence that at the time of auction of the scrap in February, 1972 while the market price of the scrap was Rs. 13.60 per kg. the reserve price was Rs. 10.00 per kg. and the book value was Rs. 9.06 kg, the scrap was sold at Rs. 9.2 per kg. Asked as to why the scrap was sold even below the reserve price, the witness informed that they have got the discretion to sell it within 20 per cent of the reserve price. In reply to another question about the possible misuse of 20 per cent margin, the witness agreed that "the reserved price, if it is fixed, should not have the latitude of plus or minus."

1.23 Asked when the price offered in the public auction was so low, why the auction was not stopped, the witness stated: "A businessman would stop it straight-away, but this factory is not authorised to do so. Secondly, there is no bar.....as long as it covers the book value, we do not stop the auction. We have been advised to adopt the normal auction procedure. But we are trying to get over it by having an agreement with National Small Scale Industries Corporation. When we are selling it through them, we have a negotiated price and we operate through this price. Speaking for my-

self, if anybody is prepared, I would rather like to go into a long term agreement with them and leave it to them to sell, because they have facilities for sales which we do not have. But, at the same time, I can have a settled price for copper for the public sector undertakings on a long term basis."

1.24. Statements showing the prevailing market price of copper scrap during 1969 to 1972 and the details of the auctions of copper scrap made by the Factory furnished by the Ministry as desired by the Committee are reproduced at Appendices I & II respectively.

1.25. The Committee wanted to know whether the scrap being sold at present could be suitably refined for reuse in the factory. The Ministry of Defence, in a note, have stated: "The specification for Brass to be used for manufacture of Small Arms Ammunition: Cartridge Cases stipulates impurity limits as follows:

Lead	..	.02%	max.
Iron	..	.05%	"
Bismuth	..	.004%	"
Nickel	..	.10%	"
Tin	..	.03%	"
Arsenic	..	.01%	"
Antimony	..	.005%	"
Other impurities	..	.005%	"

2. The question of re-utilisation of SAA Fired Cartg case Scrap for manufacture of new Cartg Cases has been examined in the past, but it has not been possible to do so due to higher lead and antimony contents. These metallic impurities are picked up from the Cap Composition during firing. The presence of these impurities in the fired cartg case scrap renders the brass unsuitable for drawing into fresh cartridge cases and cases manufactured with such scrap are liable to cracks leading to failure of the ammunition. It must be stated that the successful manufacture of Small Arms Ammunition cells for a strict control of the metallurgical specifications of the brass used, within very critical limits.

3. At present for manufacture of SAA Cartridge Cases, use of 70 per cent clean process scrap available in the Ordnance Factories and 30 per cent Virgin Metals has been specified. A small portion of SAA fired cartg case scrap, however, is being utilised in the Ordnance Factories with suitable addition of Zinc and Lead for manufacture of leaded 60/40 Brass required for fuze composition but this

use would account only for a very small portion of the total arisings of the scrap and hence a major portion of the scrap cannot be used against service requirements.

4. The question whether a process by which Small Arms Ammunition Fired Cartg Case scrap can be suitably refined for reuse has also been examined in detail. A project for this purpose was taken up by R&D Orgn. of the Ministry of Defence in collaboration with the Directorate General of Inspection and the DGOF. A process was developed by which the 'objectionable impurities' could be controlled which involved the following stages.

- (i) manual sorting & removal of the cap by mechanical punching.
- (ii) heating the cases to 650 degree C for about 2 hours.
- (iii) pickling in 5-7 per cent Sulphuric Acid, washing with water and drying.
- (iv) melting and casting into ingots.

Although the above process was a technical feasibility on a small scale this was found to be an uneconomical proposition on a large scale. This aspect, however, is further being looked into by the R & D Organisation.

5. The alternative possibility is to process the small arms ammunition cartg cases scrap arising for meeting the civil requirements for which the low percentage of the impurities present in the scrap is not objectionable. The country would, at any rate, have to import Copper & Zinc to meet these civil requirements and diversion of the SAA scrap arisings to meet these requirements would to that extent reduce the import requirements. It has been assessed, keeping in view the comparative economics of refining the scrap to make it fit for reutilisation for service requirements on the one hand and that of pigging the same and supplying to civil requirements on the other, that, it will be in the over all interests to adopt the latter alternative for the present. Accordingly the scrap is being pigged by the Ordnance Factories and is being supplied to Small Scale Industries requiring brass scrap through National Small Scale Industries at prices which are negotiated from time to time."

1.26. The Committee are deeply concerned to note serious delays/lapses in the sale of 21.95 tonnes of copper scrap by an Ordnance Factory which resulted in a loss of Rs. 1.50 lakhs. The scrap was

disposed of at Rs. 9200 per tonne as against the highest offer of Rs. 16133.65 per tonne initially obtained. The following narration of facts would indicate strongly the possibility of collusion with intent to defraud Government:

- (i) The tenders were initially invited in November/December, 1969 and were opened on 29th December, 1969. The factory took as long as 25 days to scrutinise the tenders and forwarding its recommendation to the DGOF. The Secretary, Defence Production, admitted during evidence that he had his own doubts whether the entire period of 25 days should have been spent on this effort.
- (ii) The highest offer of Rs. 16,133.65 per tonne was valid upto 27th March, 1970. The factory did not remind the DGOF at all to bring to his notice the date of expiry of the offer. No satisfactory explanation is forthcoming for this lapse.
- (iii) The DGOF advised the factory by an Express delivery letter on 13th March, 1970 to accept the offer. But factory received the letter only on 27th March, 1970 after a lapse of 14 days. No specific explanation for this unusual delay in transit could be obtained. It is equally strange that a copy of the DGOF's letter endorsed to the Factory's Financial Officers never reached them at all.
- (iv) The acceptance of the offer was not communicated to the tenderer on 27-3-70 itself and it was done only on 10th April, 1970 and the tenderer backed out.
- (v) The tenderer's offer was close to the market rate of copper scrap reported in the Eastern Market Review. There was fall in market rate by Rs. 1,400 per tonne between the period 15th December, 1969 and 23rd March, 1970 which meant a reduction of Rs. 30,730 in the value of 21.95 tonnes of copper scrap to be purchased by him. Therefore, the lapses and delays which led to the tenderers backing out assume significance. The Secretary, Defence Production had to admit during evidence possibility of foul play.
- (vi) The scrap was retendered in June/July, 1970 and the tenders were opened only on 11th September, 1970. It is surprising that tenders were kept open after the closing date.

- (vii) The highest offer on this occasion was Rs. 14,661 per tonne as against the market rate ranging from Rs. 14,500 to Rs. 14,700 during August, 1970 and the beginning of September, 1970. The offer was valid upto 9th December, 1970. There was inordinate delay in recommending the acceptance of the offer.
- (viii) The DGOF advised the Factory telegraphically on 28th November, 1970 to accept the offer. Strangely again the telegram reached the concerned Section of the Factory at 5.00 P.M. on 8-12-70 just a day prior to the expiry of the tender.
- (ix) The Factory communicated the acceptance on the 9th December, 1970 and the tenderer revoked the offer on the ground that the validity period had expired. In this connection it should be noted that there was a fall of Rs. 1300 per tonne in the market rate of copper scrap between the end of July, 1969 and the beginning of December, 1970.
- (x) There was again delay in getting the opinion of Ministry of Law regarding the contention of the tenderer. The opinion could be obtained only in October, 1971. Curiously the factory is reported to have misplaced the files called for by the Ministry of Law. Four reminders had to be sent by the DGOF to the factory but in vain.
- (xi) According to the Ministry of Law a contract had legally come into existence between the parties on 9th December, 1970. Unfortunately earnest money of Rs. 2500 only could be forfeited and the loss sustained by Government could not be recovered owing to delay in arranging resale.

Whatever enquiry was made earlier was clearly of a slipshod nature. The Committee, however, learn that after they took evidence, the case has been handed over to the CBI for investigation, a step which ought to have been taken much earlier. The Committee expect the CBI to go, inter alia, into lapses/irregularities mentioned above expeditiously. The Committee desire that exemplary action (including penal recovery) should be taken against the officers and staff found to have indulged in corrupt practices. The Committee would await a detailed report in this regard.

1.27. Another aspect of the case which causes distress to the Committee is the fixation of the reserve price for auction without due regard to the market rate. The scrap in question was auctioned in February, 1972. The reserve price fixed was only Rs. 10,000 per tonne when the market price was Rs. 13,600 per tonne. The price obtained was Rs. 9,200 per tonne which was slightly higher than the book value of Rs. 9,060 per tonne. The Committee have obtained the details of the auction of copper scrap by this Ordnance Factory during the past 5 years and found that in all the cases the reserve price was very low when compared to the prevailing market rate and the price obtained in some cases was even less than the reserve price but was slightly higher than the book value. This gives an impression that the bidders somehow come to know of the reserve price as well as the book value and bid low. This impression is strengthened by the fact that whenever a tender is invited the quotations received closely followed the market rate. The Committee would, therefore, call for a thorough investigation of the auctions conducted to see whether there was any collusion.

1.28. The market rate of copper scrap was highly fluctuating during this period. It was per tonne Rs. 11,800 on 3-2-1969, Rs. 16,800 on 15-12-1969, Rs. 12,900 on 14-1-1971, Rs. 14,600 on 21-6-1971, Rs. 12,800 on 29-11-1971 and Rs. 15,500 on 19-3-1973. Therefore, Government ought to have been very careful to safeguard their interests without allowing the purchasers to speculate at their cost. Unfortunately the reserve price fixed for auction is close to the book value computed with reference to the cost of acquisition which is totally irrelevant in a widely fluctuating market. The Committee, therefore, stress that the procedure for disposal of scrap and the method of valuation should be rationalised forthwith not only by the Defence Department but also by all the other Departments concerned. The Committee would also in this context recommend that the advisability of Government having their own melting and refining plants should be examined.

1.29. Incidentally the Committee would also like Government to consider setting up a sort of Metal Bank or Clearing House so that it can be ensured that the metal especially non-ferrous, rendered surplus or unfit for a particular use in one organisation can be profitably utilized elsewhere without being disposed of at a loss. The Committee consider this step necessary because non-ferrous metal is becoming costlier and scrapper in the market and it is essential to make the best use of what is already available with the Government.

SALE OF COPPER SCRAP

Audit Paragraph

1.30. On 13th March, 1970 an ordnance factory invited tenders for sale of 72.32 tonnes of copper scrap. The tenders received were opened on 27th May, 1970. They were to remain open for acceptance for 2 months from the date of opening i.e., upto 27th July, 1970. Out of the 4 offers received, the highest offer was from firm 'X' at Rs. 14.177 per tonne. This firm had specified that this rate was inclusive of excise duty, if leviable.

1.31. The offer of the firm 'X' was recommended by the factory authorities on 30th May, 1970 to the Director General, Ordnance Factories, for acceptance. This communication was forwarded through the Controller of Defence Accounts who offered his recommendations on 18th June, 1970 to the Director General, Ordnance Factories. After exchange of some correspondence, the latter directed the factory authorities telegraphically on 10th July, 1970 to get confirmation from the Central Excise authorities that excise duty was not leviable on the scrap. Those authorities had confirmed earlier in January, 1969 that copper scrap which had not undergone any manufacturing process could be cleared without payment of duty. This was known to the factory authorities as well as the Director General, Ordnance Factories. The former pointed out to the latter by telegram on 13th July, 1970 that the confirmation already obtained about non-levy of excise duty held good in this case as well. Again on 23rd July 1970, the factory authorities pointed out telegraphically to the Director General, Ordnance Factories, that fresh confirmation from the Excise authorities was not considered necessary as clear instruction about non-levy of excise duty on such scrap had already been received from the Excise department. The Director General, Ordnance Factories, however, asked the factory on 31st July, 1970 to obtain fresh confirmation from the Excise authorities as advised by him earlier on 10th July, 1970.

1.32. In the meantime, the period of validity of the offer of firm 'X' had expired and the firm declined to extend the validity period of its offer upto 18th August, 1970 as requested by the factory authorities. Subsequently, the Director General, Ordnance Factories, asked the factory on 23rd September, 1970 to invite fresh tenders for sale of the copper scrap. He also directed that it should be made clear in the invitation for tender that no excise duty was leviable on the scrap offered for sale. Accordingly, fresh tenders were invited by

the factory in October 1970 and opened in December, 1970. On the basis of the offers received as a result of the retendering and after obtaining concurrence of the Director General, Ordnance Factories, 62.32 tonnes of scrap were sold at Rs. 11,111.11 per tonne to another firm 'Y' and 10 tonnes at Rs. 11,331 per tonne to another firm 'Z'.

1.33. Central excise duty has never been levied on copper scrap. After the Director General, Ordnance Factories, had received the ordnance factory's communication dated 30th May, 1970, it should have been possible for him to ascertain, in time, from the Central Excise authorities whether excise duty was leviable on the scrap. Had that been done and the offer of firm 'X' accepted before its validity period expired on 27th July, 1970, the sale proceeds would have been more by Rs. 2.20 lakhs as compared with what was realised from sale of the scrap to firms 'Y' and 'Z'.

1.34. The Ministry intimated (December, 1972) that in order to avoid such delays in finalisation of sale offers, remedial instructions had since been issued and that the Director General, Ordnance Factories, was also considering laying down a time schedule for processing of cases at various levels.

[Paragraph 9 of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services)]

1.35. The Committee learnt from Audit as under:--

"The offer of firm 'X' stipulated that the quotation was inclusive of Excise Duty if applicable and while forwarding the CST to the DGOF, CDA (Fys) specially made a point that this condition specified by the Contractor should be taken into account before final acceptance of the offer. It was not clear from CST whether the rates quoted by the two other tenderers were inclusive or exclusive of Excise Duty. It was also not clear whether Excise Duty was payable or not for the sale in question. The DGOF, therefore, made a telegraphic reference to the factory on 24th June, 1970 for obtaining the relevant information. The Factory in reply informed that the rates quoted by the other two tenderers were exclusive of 'Taxes' and regarding Excise Duty this was not payable as per confirmation earlier obtained from the Excise Department. The Factory, however, did not specify the date when this confirmation had been obtained from the Excise authorities.

The Factory, was, therefore, accordingly advised telegraphically on 10th July, 1970 to confirm that the term 'Taxes' referred to was intended as 'Excise Duty' and whether this position as regards the leviability of Excise Duty still held good. The factory was also advised to forward a copy of the Third Schedule enclosed to the relevant tender forms to verify whether an indication regarding payment of Excise Duty existed therein to be paid by the purchaser since the offer of the firm 'X' stipulated inclusive of Excise Duty, if applicable. It was also considered essential to determine what amount of Excise Duty the firm 'X' had included in its offer, if applicable to enable a comparison of the offers made. On 18th July, 1970 the Factory telegraphically informed that the firm 'X' had confirmed that his quotations were Rs. 14,177 if Excise duty was not leviable and Rs. 12,677 if Excise Duty was leviable. In the original telegram received from the Factory it was erroneously mentioned that Excise Duty was leviable, while post copy of the telegram, mentioned that no Excise Duty was leviable. Thus there was a complete variance between the original and post copy of the telegram which caused some amount of confusion. The factory was, therefore, telegraphically requested on 22nd July, 1970 to check up the position and reconcile. The factory was also advised to obtain a fresh confirmation from the Excise Authorities regarding the leviability of the Excise Duty since the decision quoted by them was obtained as early as January, 1969 and simultaneously to request the firm 'X', to extend the validity of their offer till 18th August, 1970. On receipt of this telegram the factory replied stating that the confirmation earlier given by the Excise Department was dated 18th January, 1969 and was of a general nature and, therefore, it could be taken that Excise Duty was not leviable on sale of such scrap and no separate reference to Excise Department may be called for. DGOF, however, was of the view that since the earlier confirmation from the Excise Authorities was as old as 18th January, 1969 a fresh confirmation should be obtained, particularly since another Factory was collecting Excise Duty on copper scrap which was being sold by them."

1.36. As regards the DGOF's view that since the earlier confirmation from the Excise Authorities was as old as 18th January, 1969

a fresh confirmation should be obtained, particularly since the other Factory was collecting excise duty on copper scrap which was sold by them, the Committee were informed:

"The other Factory had paid Central Excise duty on Copper Scrap not because Central Excise duty was leviable on Copper Scrap but because it failed to certify that excise duty was paid on virgin metal from which the scraps had been recovered, *vide* copy of the letter No. V (26A) (30) 67-CaIV/67/5064-A dated 14th May, 1968 reproduced below:

'Please refer to your letter No. 5397/13/S.H(P) dated 26th February, 1968 and 5397/13/S.H.(P) dated 22nd March, 1968.'

In view of the facts that you are not in a position to certify that excise duty was paid on the virgin metals from which the scrap has been recovered, the scrap of copper in question should pay duty as Crude Tariff item No. 26A (I) *i.e.* @ Rs. 1,500 per M/T."

1.37. According to the Audit, DGOF had intimated them on 29th December, 1971 that no arsenical copper scrap had been sold by the other factory during the years 1968-69, 1969-70 and 1970-71.

1.38. The Committee enquired that instead of going into long negotiations and correspondence with the factory, why it was not possible for the DGOF to contact personally the Excise authorities to find out whether the excise duty was leviable or not on the copper scrap. The Secretary, Department of Defence Production stated: "I understand, the DGOF was proceeding on the basis that excise duty would be leviable if on the parent metal from which scrap emanated, they had not paid excise duty... He (D.G.O.F.) did not know the history of it... as to from what sort of metal the scrap had emanated, whether excise duty was paid on that, was not made clear to him..... That is why it was necessary for him to refer it back to the factory."

The Committee asked that when the tenderer himself had quoted Rs. 14,177 if excise duty was not leviable and Rs. 12,677 if excise duty was leviable and the margin being there with the rate of duty at Rs. 1500 per tonne, why was the tender allowed to lapse by going into unnecessary negotiations and correspondence. The witness submitted: "The dilemma arose like this. The highest offer was Rs. 14,177 inclusive of excise duty and (the next offer was) Rs. 13,329 exclusive of excise duty. In order to adjudge the tender, we had to know

whether the duty was leviable or not. Then only we could adjudge which tender was better."

1.40. Asked whether the time of inviting the tender, there was any difficulty in certifying that excise duty was not leviable on this sort of scrap, the Secretary, Department of Defence Production, stated during evidence "There is no reason why the factory should not have declared while calling for tenders that it is not chargeable to excise duty. They in fact reported it later repeatedly, but the contention remained..... The matter will have to be gone into further....if the enquiry reveals that some particular person is responsible for this, action will be taken."

The Ministry, in a subsequent note, have stated: "The matter has been investigated. As per procedure then existing, a specific stipulation was required to be made in the auction/tender notice issued by the Ordnance Factories only in cases where excise duty was leviable. In the case in question, the General Manager Ordnance Factory was of the view that the excise duty was not leviable and hence no specific mention relating to excise duty was made in the tender notice. In view of the above position there has been no lapse on the part of the Factory management in not making a stipulation while calling for tenders to the effect that the scrap was not chargeable to excise duty."

1.41. The following note, furnished by the Ministry of Defence, indicates the steps taken to plug loopholes of the nature brought out in the Audit paragraph: "In the specific case dealt with in the Audit Para, the failure to accept the highest offer received in response to the tender enquiry within the validity period was partly due to the ambiguity regarding leviability of Excise Duty and partly due to procedural delays. The following steps have been taken to avoid similar delays in future:

- (i) Central Board of Excise and Customs have issued instructions clearly laying down the procedure to be followed for ascertaining the excise duty leviable and for the collection of the same, in case of disposal of surplus materials by Ordnance Factories..... This circular has been circulated to all Ordnance Factories for compliance.
- (ii) In order to enable the non-ferrous melting Ordnance Factories, who receive scrap from other factories to be sure whether the scrap in question has already been charged Excise Duty, instructions have been issued by

the DGOF to all Ordnance Factories, to the effect that while despatching scrap, the same should be accompanied by a certificate showing whether the scrap has already borne Excise duty or not.....

- (iii) In order to minimise procedural delays and to ensure that acceptance of offers in respect of advertised tenders for disposal of surplus stores, is finalised within the validity period, the following steps have been taken:
- (a) The procedure has been streamlined and Regional Directors have been authorised to sanction disposals in consultation with the Associated Finance.....
- (b) A time schedule for processing of cases at various levels has been laid down for strict compliance. In this connection a copy of DGOF circular letter No. 212/2/SP/C dated 11th May, 1973 is at Appendix III.

4. A Study Group has been constituted to review the existing procedure in regard to disposal of surplus ferrous scrap/waste items in the Ordnance Factories. A copy of the M of D.O.M. No. 4/19/73/D (Prod) dated 1st December, 1973 is at Appendix IV.

1.42. During evidence, Member, Central Board of Excise and Customs informed the Committee as under:

“the exemption for scrap was available from 1966. There were two exemptions. One was the general notification No. 119 of 1966 dated 16th July, 1966. Now this was subsequently modified providing for an explanation. By this explanation all the scraps in the market is deemed to have discharged the crude stage of duty Rs. 1500 per tonne. That amendment was carried out in Notification 30 of 1967 dated 4th March, 1967”.

To this, the Secretary Department of Defence Production reacted: “that this was not known to D.G.O.F.”

In a subsequent note, the Ministry of Defence *inter alia* stated:—

“Excise duty has been paid in respect of disposal of some cases of Copper Scrap by tender at Metal and Steel Factory Ishapore as indicated below since the factory was not in a position to certify that excise duty had already been

paid on the virgin copper for which the scrap in question arose.

S.No.	Year	Type of Scrap	Quantity	Excise Duty
(i)	1968-69	Copper Scrap Gde. III . .	20 M/T	Rs. 30,000
(ii)	1969-70	Copper Scrap Gde. IV . .	28.211 M/T	Rs. 42,316.50
(iii)	1970-71	Copper Scrap Gde. III . .	199 M/T	Rs. 2,98,500

1.43. The Committee are distressed to find that Government sustained a loss of Rs. 2.20 lakhs as a result of allowing an attractive offer for the purchase of 72.32 tonnes copper scrap from an Ordnance Factory, to lapse. They have noticed the following deficiencies and lapses in this connection:

- (i) Although the Ordnance Factory was clear that the scrap was not liable to excise duty, it was not mentioned in the tender notice for reasons better known to them. The tenderers were, therefore, left in doubt about the position. The sale offer was made less attractive to the tenderers.
- (ii) The highest offer was inclusive of excise duty, if leviable. As the Factory was clear about its non-leviability it should have been brought to the notice of the DGOF while recommending the offer for his acceptance. Unfortunately again this was not done.
- (iii) A lot of time was lost in unnecessary correspondence between the Ordnance Factory and the DGOF and in the meantime the period of validity of the offer expired on 27th July, 1970. . .
- (iv) Significantly enough the telegram sent to the DGOF on 18th July, 1970 by the Factory mentioned that the excise duty was leviable while post copy of the telegram mentioned that no excise duty was leviable which is reported to have caused confusion necessitating further correspondence.

The Committee desire that the above lapses should be thoroughly investigated having regard to the fact that there was fall of Rs. 600 per tonne in the market value of the scrap during the period from the date of invitation of tenders to the date of expiry of the highest offer. As there was a reduction of about Rs. 43,400 in value of 72.32

tonnes of copper scrap to be purchased by him, the tenderer would seem to have manipulated with the help of dishonest officials to see somehow that his tender was not accepted within the period of validity. The Committee, therefore, urge that severe action (including penal recovery) should be taken against the officials found to have indulged in malpractices. They are further of the view that this is also a fit case for a probe by the C.B.I.

1.44. The Member, Central Board of Excise and Customs informed the Committee that by a notification issued on 16th July, 1966, scrap was exempted from excise duty. As per subsequent notification dated 4th March, 1967, all the scrap in the market is deemed to have discharged the crude stage duty at Rs. 1500 per tonne. It is strange that the DGOF is stated to be not aware of this position. The Committee find that excise duty has been paid in respect of disposal of some cases of copper scrap even after 1967-68 since it could not be certified that the duty had already been paid on the virgin copper from which the scrap arose. There would, however, appear to be no question of verifying the payment of crude stage duty after 4th March, 1967. The Committee, therefore, desire that the matter should be gone into, inter alia, for giving suitably revised clear instructions to the lower formations so that the disposal of scrap may not be delayed. Similar action should be taken by the DGS&D, Railway Board and other organisations who are disposing of scrap materials.

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1.45. The Committee note that after they took evidence, Government have constituted a Study Group to review the existing procedures in regard to disposal of scrap in the Ordnance Factories. The steps taken to utilise the scrap as much as possible and to dispose of the balance in the best interests of Government, arising out of the study, may be reported to the Committee.

1.46. The Committee also consider that the entire procedure should be revised so as to reduce the occurrence of delays in the scrutiny of tender and its final acceptance. They note that normally tenderers are expected to keep open their offers for a period of two months and that certain time schedule is laid down recently for the submission of the proposals for accepting. In a widely fluctuating market, it is inappropriate to fix so long a time limit. It should be cut down as much possible to safeguard the interests of Government.

AN ORDNANCE FACTORY

Audit Paragraph

1.47. Paragraph 3 of Annexure III to paragraph 15 of the certificate of the Controller General of Defence Accounts in the Appropriation Accounts of the Defence Services for 1970-71 mentions the big shortfall in production in a new ordnance factory. This is a heavy engineering factory and is one of the factories setting up of which was approved in February, 1963. Owing to difficulties in meeting the foreign exchange cost, it was decided (April, 1964) to execute the project in two phases. Due to non-availability of foreign aid it was decided in October, 1965 to implement phase I in two parts, namely, phase I-A and phase I-B. In phase I-A production of A (with components) two components of B, F and G (both components) was to be undertaken. There were considered priority items and were already in production in other ordnance factories. In phase I-B production of one (remaining) component of B, C (with components), D (two varieties each with components), and E (with components) to be undertaken.

1.48. The civil works for phases I-A and I-B were sanctioned separately and upto March, 1972 about Rs. 14 crores were spent thereon. Civil works have almost been completed (January, 1973) excepting timber store, rest shelters, air-conditioning of tool rooms, foundations for presses in one shop and weighbridge, etc., estimated to cost about Rs. 2 crores more.

1.49. The estimated cost of phase I-A (including Rs. 14.21 crores for civil works) is Rs. 26.14 crores. In March, 1966 sanction was issued for Rs. 11.22 crores for plant and machinery required for that phase. The estimated cost (including Rs. 2.81 crores for civil works) of phase I-B is Rs. 25.44 crores. In October, 1966, sanction was accorded for Rs. 22.27 crores for purchase of plant and machinery for that phase.

1.50. It was decided that a public sector undertaking in India should collaborate with machine tool manufacturers abroad and deliver, tooled up machines for the factory with a plant for progressive indigenisation. Indent action for plant and machinery for phase I-A commenced in April, 1966. Substantial procurement action for plant and machinery for phase I-B had to wait till indigenous designs for almost all the products of that phase were available. At

the time of sanction of that phase in October, 1966, the design of only D was ready. Design of C was available only towards the end of 1969 and early 1970. Provisional design of E was available only towards the middle of 1972—the design has not yet been finalised (January, 1973).

1.51. By March, 1972 about 74 per cent of the machines required for phases I-A and I-B were ordered (by number), 72 per cent of those ordered (53 per cent of the total) were received, 85 per cent of those received (45 per cent of the total) had been installed and 93 per cent of those installed (42 per cent of the total) had been commissioned. Total expenditure on this factory upto March, 1972 was Rs. 26.30 crores.

Phase-I-A

1.52. All the equipments required for production of A, excepting heat treatment plant which is a major equipment, were in position by 1969-70. Initial trial production with imported forgings was done in 1969. The forgings equipment in the forge shop being of a special nature, the design of the building for the shop is special. The building after construction was handed over to the factory authorities towards the end of the first quarter of 1971. Production of A from forgings produced in this factory started in March, 1971. Production of component 1 of A in 1971-72 was only 2.3 per cent of the factory's installed capacity while production of component 2 in that year was 10.7 per cent. Component 2 is easier to produce. Production of component 1 can be stepped up but for two principal difficulties. One is that supply of steel from the producers in the public sector and the private sector has been far from satisfactory. The other reason is that the heat treatment plant ordered on an Indian firm through the Director General, Supplies and Disposals, in November, 1967 and due to be delivered by January, 1969 has not yet been received (January, 1973). This is due to changes in specification and design considered essential. Further, conveyers supplied by an Indian firm could not be put to use after erection as their performance was far from satisfactory. The factory is at present producing component 1 by heat treating the component in furnaces meant for heat treatment of tool steel in the tool room. To some extent assistance is also being taken from a public sector undertaking for heat treatment but this entails transport over a long distance. In December 1971, Rs. 73.12 lakhs worth of A were imported.

1.53. For production of one of the two components of B, action to procure special purpose machines was initiated in 1966. After negotiations about designs, orders for six machines were placed on the public sector undertaking in 1969. After modifications of the designs, four machines were delivered in September, 1971. Orders for the remaining two were cancelled in May, 1971 as the public sector undertaking had asked for price increase which was not accepted. Order for five conventional machines in lieu of one special purpose machine was placed on an Indian firm in July/August, 1971 and these were received in September, 1971. The special purpose machines supplied by the public sector undertaking have been performing erratically. Production of this component of B has been established in the factory by using alternate methods for the operations supposed to be done on the special purpose machines. Its production in 1971-72 was about 2 per cent of the factory's installed capacity. Further, orders for this component are also not adequate.

1.54. Air receivers (required for production of the second component of B) ordered on an Indian firm had also not been supplied (January, 1973) due to non-availability of tested steel. Accordingly, forgings were sent to another ordnance factory for grit blasting till the middle of 1971 after which alternate arrangement was made in this ordnance factory for that purpose. The second component was sent to the inspector in October, 1972 for acceptance. The Ministry has stated (January, 1973) that after it is cleared by the inspector it would be possible to go in for bulk production of this component, but orders for B are inadequate.

1.55. Facilities for production of F have been established. At present, however, there are no orders on this factory for F and, therefore, some of the machines have been retooled for other production.

1.56. Production targets of phase I-A in the factory were revised in April, 1970 and again in April, 1971. Under the second revision in April, 1971 the production target for 1971-72 was only about half of the reduced production target for that year fixed in April, 1970. Actual production in that year was only about half of the reduced production target for that year.

Phase I-B

1.57. Production of two components of C and the one component of B was expected to commence by 1974. The Ministry stated (January, 1973) that it would be possible to commence production of E by 1973 but there had been a fall in demand for that item, require-

ment of which on a long term basis was itself likely to be reviewed. It was decided in October, 1966 not to produce one variety of D. In August, 1968 it was also decided not to produce the other variety of D as it was not acceptable to Army on technical grounds. There has been no production so far under phase I-B.

1.58. As mentioned in paragraph 5 of the Report for 1970-71, due to time taken to put up the factory and the delay in the factory reaching its production capacity, 996 (out of 2677) residential quarters costing Rs. 89.06 lakhs constructed between April, 1965 and July, 1970 for this factory were lying vacant (October, 1971).

1.59. A new ordnance factory to undertake filling has recently been established. The expenditure thereon upto the end of March, 1972 was Rs. 21.73 crores. The shortfall in production of the factory whose operations have been reviewed in the foregoing paragraphs vitally affected production in the newly established filling factory, the production of which in 1971-72 was only about 3.2 per cent of its capacity. Reference to the filling factory has been made in Item 1 of Annexure III of the certificate of the Controller General of Defence Accounts in the Appropriation Accounts of the Defence Services for 1971-72.

[Paragraph 5A of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services)]

General

1.60. The Committee desired to know whether any target date had been fixed for achieving full production in the factory. The Ministry in a note, have stated: "No target date was fixed for achieving full production either in respect of Phase I or Phase II. These were capacities intended to meet a major emergency and production targets could be fixed only on the basis of actual orders in relation to capacities available in other ordnance factories."

The Ministry's reply also did not indicate whether any target date had been fixed for completion of the factory.

1.61. Asked about the total estimated cost of the project in April 1964 when it was decided to execute the project in two phases, the Ministry, in a note, has stated that the total estimated cost of the project for Phase I and Phase II as in April 1964 was Rs. 47.31 crores including Rs. 18.02 crores in foreign exchange. Giving break-up

figures of the cost of Phase I and Phase II, the Secretary, Department of Defence Production stated during evidence that it was Rs. 37.92 crores for Phase I and Rs. 9.39 crores for Phase II.

1.62. According to the Audit paragraph, the cost of Phase I has increased to Rs. 51.58 crores. When enquired about the reasons for increase in the estimated cost of Phase I from Rs. 37.92 crores in April 1964 to Rs. 51.58 crores, the Secretary, Ministry of Defence has stated during evidence: "One reason is the normal rise in prices. Then the figures... were the pre-devaluation figures and there was element of escalation in cost. Then there was also increase in the cost of civil works."

When it was pointed out that the devaluation came only in 1965 and the routine increase in the price did not warrant such a big increase in the cost, the Secretary, Department of Defence Production admitted that "the original estimates were, I am informed, rather rough and based on an indication of cost. The estimates which were ultimately sanctioned were relatively firm."

1.63. The Committee were informed, in a note, by the Ministry that the total expenditure on the factory upto March 1973 was Rs. 38.76 crores (Rs. 14.20 crores on civil works and Rs. 24.55 crores on Plant and Machinery). Asked about the approximate expenditure to complete Phase I, the witness replied during evidence that "our expenditure, as booked upto the present, is of the order of Rs. 38 crores. Our estimate is that we will probably end up with Rs. 55.89 crores or so".

1.64. It has been stated in the Audit paragraph that owing to difficulties in meeting foreign exchange cost, it was decided in April 1964 to execute the project in two phases and due to non-availability of foreign aid, it was further decided in October 1965 to implement Phase I into two parts, namely, Phase I-A and Phase I-B. The Committee desired to know the foreign exchange involved in the first estimate (Rs. 37.92 crores) and in the revised estimate (Rs. 51.58 crores). The Committee were informed during evidence that in the first one Rs. 13.72 crores was the foreign exchange involved and the foreign exchange involved in the revised estimate of Phase I was Rs. 19.62 crores.

When pointed out that Phase I was divided into two phases on the grounds of difficulties in foreign exchange, but in spite of this difficulty, the revised estimate involved more foreign exchange, the

ADGOF stated during evidence: "Our plea is that the revised estimate was more realistic than the earlier estimate of 1964, because it was based on the consultant's report who had obtained various quotations; whereas our estimate was prepared rather in a hurry; and it was not backed by actual quotations."

1.65. The Committee desired to know about the present position of civil works for Phase I-A and Phase I-B. The Ministry of defence, in a note, have stated: "The civil works in Phase I-A have been completed except for some residual work on the Railway Weigh Bridge, construction of dial indicator room-Approach Road, provision of P.F. correction Relays, air-conditioning a portion of Tool Room, Reutilisation of Industrial Water, all sanctioned in 1972. As regards sanctioned civil works for Phase I-B, only 31 residential quarters sanctioned in September, 1972 are incomplete. There are a few other items of civil works estimated at about Rs. 3 crores, which have deliberately been assigned a lower priority. On review quite a few of these items may not finally be constructed."

Asked when is a review proposed to be conducted and what items will be given up, the Defence Production Secretary during evidence, has stated: "some of these items were given up altogether. They are ancillary items like telephone exchange, Reception Office building, Welfare and Personnel Office, cycle sheds etc. Some of these would be built later on and some of these will not be built at all. Actually, the things to be built later on when financial resources become available are the balance of the quarters for which Rs. 190 lakhs have been set apart and some small ancillary buildings."

1.66. It is stated in the Audit paragraph that upto March 1972, 74 per cent of the machines required for Phase I-A and Phase I-B were ordered, 53 per cent of the total machines were received; 45 per cent of the total machines were commissioned. Asked about the latest position regarding receipt, installation and commissioning of machines, the Defence Production Secretary and the ADGOF have informed the Committee during evidence that 1869 machines were required for various shops of the factory. Orders were placed for 1415 machines and 1201 machines had been received. Of these, 1145 machines have been commissioned now.

The Committee desired to know the reasons for delay in receipt of the machines and how soon the rest of the machines will be commissioned. The Secretary, Department of Defence Production informed during evidence: "The reasons for going slow on some of

the items are that we are not sure of the orders or the urgency of the item.... Depending upon the urgency, we are ordering. We propose to review this figure (1869) again so that we can cut down this figure as much as possible."

1.67 As early as February, 1963, the setting up of a heavy engineering factory was approved. Owing to foreign exchange difficulties, it was decided in April, 1964 to execute the project in two phases. In October, 1965, it was again decided to execute Phase I in two parts due to non-availability of foreign aid. The Committee regret that no firm target date appears to have been fixed by Government for completion of the factory. The lack of proper planning and tardy implementation of the project is discussed in the succeeding sections.

1.68. The cost of Phase I of the project was estimated at Rs. 37.92 crores in April, 1964. This was subsequently revised to Rs. 51.58 crores. The actual cost is expected to be of the order of Rs. 56 crores, presumably after dropping construction of certain civil works and cutting down procurement of machines. Thus neither the requirements were assessed properly nor the estimates prepared realistically, which causes concern to the Committee. This is certainly not the way to sanction a project requiring such huge investments and involving considerable precious foreign exchange.

1.69. The Committee find that as against the requirement of 1869 machines for the various shops orders were placed for 1415 out of which only 1201 have been received and 1145 commissioned so far. Giving reasons for going slow on the procurement, the Secretary, Defence Production, stated that the Department were not sure of the demand for the various items, to be produced as well as its urgency. He also informed the Committee that it was proposed to review the requirement of the machines so as to cut it down as much as possible. The Committee regret that the position is so uncertain even after 10 years of conceiving the factory. They desire that the proposed review should be carried out with the utmost expedition and action taken to establish early adequate production of the required items.

1.70. The Committee had also occasion to examine certain other defence projects. They are not at all satisfied with the manner in which the projects were conceived planned and executed. In this connection they would refer to their observations contained in paragraph 2.29 of the 82nd Report and paragraph 2.21 of the 92nd Report (Fifth Lok Sabha). Government ought seriously to consider what

is wrong with the system of planning and execution and take steps to see that the shortcomings are overcome early.

Phase I-A

1.71. The Audit paragraph stated that in Phase I-A production of certain priority items which were already in production in other ordnance factories was to be undertaken. The production target of Phase I-A in the factory was revised in April 1970 and again in April 1971. Under the second revision in April 1971 the production target for 1971-72 was only half of the reduced production target for that year fixed in April 1970. Actual production in that year (1971-72) was only about half of the reduced production target for that year.

1.72. The Committee desired to know that in view of the items being produced in other ordnance factories and reduced demand for these items, whether the rated capacity of the ordnance factory would at all be utilised for the production of these items. The Secretary, Defence Production has stated during evidence as under: "On a general principle, may I say that when we planned for this factory....., we did take into account the capacities which could be utilised from other factories. The Ordnance Factory's production... (A & B) was really planned initially on this basis.

In the mean time, as far as.... (A & B) are concerned, the DGOF was able to switch over some of his other capacities for the production of these armaments. As a matter of fact, most of these ordnance factories have a sort of general capability and they can switch over their production capability for items urgently needed in this manner. That is the reason why we can meet very largely the immediate needs of the Army for these two types of ammunition; there are other sources; but if you take it in the long-term view then Ordnance Factory's capacity becomes necessary."

1.73. The Committee were informed that about 10 to 15 per cent of machines would be meant for specific jobs only, while others could be converted. Explaining the steps for utilising spare capacity, the witness stated: "On the basis of the demands as we can foresee for these various ammunitions, we have a fair load on this factory on a single-shift basis for a continuing period. We have also asked the Ministry of Heavy Industry to find work for this factory, because we feel that the production of civil requirements for various

engineering products can certainly be met by the use of these machinery; we may not be able to produce the entire quantity of civil items, but we should be able to produce certain urgently required items or repetitively required items. The Ministry of Heavy Industry has asked the NIDC, a firm of consultants, which is also a public sector organisation to go into the engineering capacity in the country and we have made a special request that this Ordnance Factory should be high up in the list of priorities for the NIDC in their investigation... It is none of our intention to see any machinery lying idle, allow the skills to deteriorate or see that employment potential is not created."

1.74. Asked as to when the rated capacity of the various items being manufactured in the factory would be reached, the Secretary, Department of Defence Production submitted: "I would like to make one distinction here. When we are dealing with capacity, we are not necessarily dealing with the actual functioning of the factory to a certain level. The capacity in this particular factory was planned on an insurance basis. The amount of orders on this particular factory on which depends the actual level of activity of the factory depends on certain other considerations and how much money Defence is able to allocate for these particular items which are manufactured by this factory and so on and so forth. Although we may be ready with the rated capacity, the actual functioning may be much lower than the rated capacity."

The DGOF added: "As far as... (item 'A') is concerned, we are ready to discharge the rated capacity, but from the point of view of practical running of the factory it would not be advisable to utilise the capacity. We are planning to produce at the rate of..... per month which is equivalent almost to one-shift capacity..... (Component for 'A'): Here we are ready in respect of all operations except heat treatment. There the furnace supplied is defective and the Indian manufacturer who has to set right is on the job. Once that is set right we will have the capacity there also. (Item 'B'): Here also we are set for the manufacture, but the orders are for 5,000 numbers only. (Item 'C'): We have made the pilot samples, but we are not yet ready for full production. We will take six to eight months to get going. (Item 'D'): It was a new case to be manufactured by India. Here we expect to go into production next year. (Item 'G'): We are in a position to manufacture

this, but the orders are not sufficient. (Item 'F'): Although we have got the machinery, we have not produced this item for lack of orders. (Item 'G'): We have not set up any capacity at all, but we are using the capacity for some other item where we are producing less to produce this item. Cartridge cases for (item 'C' and 'B'): For these items we are setting up the capacity. We expect to go into production in case of 'C' in 1974. (Item 'E'): Although it has been sanctioned, we have not bought the machinery. There was some amount of rethinking on this. We expect to get going with some components in the next year with the alternative utilisation of the existing machinery."

1.75. It is stated in the Audit paragraph that all the equipment required for the production of 'A', excepting heat treatment plant which is a major equipment, were in position by 1969-70. Initial trial production was done in 1969 with imported forgings. Production of 'A' from forgings produced in this factory started in March 1971. However, the production of component of 'A' in 1971-72 was only 2.3 per cent of the factory's installed capacity while production of component 2 in that year was 10.7 per cent. One of the difficulties in stepping of the production of component 1 of 'A' is stated to be that the heat treatment plant ordered on an Indian firm through DGS & D. in November 1967 and due to be delivered by January 1969 had not been received till January 1973. Further, conveyers supplied by an Indian firm could not be put to use after erection as their performance was far from satisfactory.

1.76. The Committee were informed during the evidence by the ADGOF that as the heat treatment plant had not been delivered in spite of the fact that 6-7 years had elapsed since the order was placed and this contract had since been cancelled at the risk and cost of the firm after taking advice from the Ministry of Law.

In reply to a query about the cost at which the risk purchase was made and whether extra expenditure was recovered from the firm, the Ministry, in a note, have stated: "After cancellation of the A/T, Ministry of Defence intimated that as satisfactory arrangements had been made for heat treatment of.....with the help of the..... there would be no need for any alternate supply. In view of this no risk purchase action has been taken.

Since no risk purchase was to be effected, the question of recovering extra expenditure from the firm did not arise. However,

the question of recovery of general damages is being considered in consultation with the Ministry of Law."

1.77. As regards supply of defective furnaces for heat treatment, the Committee desired to know whether any penalty was imposed on the firm for the defective supply and whether the defect had since been rectified. The Ministry of Defence, in a written note, have informed: "Three furnaces were supplied by M|s..... On account of the inordinate delay in the commissioning of these furnaces, a notice was issued to the firm on 28th March, 1973 asking them to rectify the furnaces by 30th June, 1973 failing which the furnaces would be rejected and alternate action for procuring suitable furnaces initiated at the firm's risk and cost. The firm was also told that damages for the loss of production due to delay in commissioning the furnaces would also be claimed from the firm. Although the firm had not agreed to these points, they are carrying out rectifications| modifications on the three furnaces. The latest position is that the firm has brought a number of additional equipments for controlling the temperature within the specified limits and upto now one of the three furnaces has been rectified and is on trials at present. The firm would undertake commissioning of the remaining two furnaces on the basis of the trial results on the 1st furnace. Action for imposing any penalty on defective supply would be taken after the results of the present trials are known."

1.78. Regarding the supply of defective conveyors, the ADGOF informed the Committee during evidence that a sum of Rs. 5.77 lakhs out of Rs. 9.45 lakhs had been paid to the firm against the supply of conveyors. They have rejected the equipment after consulting the Ministry of Law.

The Committee wanted to know when the amount was paid and what precise steps had been taken to recover the money. The Ministry of Defence, in a note, have stated: "75 per cent of the cost of the first cool-out conveyor was paid in December, 1970. 75 per cent of the second cool-out conveyor was paid in April 1971. Another Rs. 20,497 was paid in June 1971 as reimbursement of excess liquidated damages deducted while passing 75 per cent payment. 75 per cent of the erection charges for the first cool-out conveyor, i.e., Rs. 56,250 was paid in October 1971. Thus the total amount paid so far is Rs. 5,76,592.

DGS&D was asked to cover the entire amount of Rs. 5,76,592 paid so far to the firm, vide DGOF letter dated 1st January, 1973.

The position in regard to the recovery of Rs. 5,76,592 notified by DGOF from the firm was circulated by DGS & D to all the P & AOs to know whether any payment was due to the firm against DGS & D contracts. The P & AOs have regretted their inability to recover the amount since no payment was due to the firm. The Department of Defence Production were accordingly informed which was addressed to DGOF, Calcutta. The DGOF, Calcutta, vide his letter dated 24th November, 1973 has made another reference to DGS&D for the recovery of the said amount from the firm. On receipt of this communication from the DGOF, the DGS & D referred the case to the Ministry of Law who opined as under:

* * * *

“Before DGS & D takes any action in this matter, they may request DGOF to confirm in writing that there are no orders of the Court staying of restraining Union of India from recovering the aforesaid sum from the bills or payments which may be due to the firm from other contracts. In the light of the reply which may be received from the DGOF the matter can be further considered”.

The above advice of the Ministry of Law has been referred to DGOF vide DGS&D letter dated 22nd December, 1973, whose reply in the matter is still awaited. Further action will be taken by DGS&D on receipt of a reply from DGOF, DGOF has ascertained from M/s. HSL that certain payments are due to the firm from one of their steel plants. The matter has been taken up with the Ministry of Steel to instruct HSL to stop payment of all outstanding payments due to the firm and adjust the same against the payments already made by DGOF to this firm. The reaction of Ministry of Steel is awaited.”

1.79. For production of one of two components of 'B', action to procure special purpose machines was initiated in 1966. Orders for 6 machines was placed on HMT in 1969 and after modifications of the design 4 machines were delivered in September, 1971. As the performance of the special machines supplied by HMT was not satisfactory, alternative methods for production of the component were established in the factory, but its production was only about 2 per cent of the installed capacity in 1971-72. Asked about the total loss on account of the delay and unsatisfactory performance of the special purpose machines, the Ministry of Defence, in a note, stated: “DGOF has been asked to assess in consultation with his accounting authority any loss that has been incurred on account of delay on the part of HMT. The information will be furnished in due course.”

1.80. The Ministry had informed in January, 1973, that the Air Receivers required for the production of second component of 'B' ordered on Indian firm had also not been received due to non-receipt of tested steel by the firm. The Ministry, in a note, stated that six Air Receivers were ordered on 30th December, 1969 and due date of delivery was 31st May, 1970. The ADGOF has informed the Committee during evidence that the firm was able to supply only one Air Receiver in January, 1973 and the balance has not received from them. In reply to question it was stated that the firm was supposed to arrange for the tested steel on their own. Asked whether there was any penalty clause in the agreement, the witness stated: "There will always be likuidated damages clause. Since we have made alternative arrangements in place of these receivers, by using some old boilers, it has not immediately hurt us very much."

1.81. It was stated that orders for 'B' are inadequate. Asked about the reasons for it, the Ministry have stated that this item is being produced in other ordnance factories also. The existing orders for it are not enough to load this factory in addition to two others.

1.82. As regards item 'F', which is a component, the Ministry had informed that the order for the main store is not there at present. The machines for this component, the Ministry added, could be utilised for production of similar components for other stores. It was stated during evidence that this item is meant for ammunition which is not currently being used, in connection with which there was a demand earlier. When asked whether at the time of the estimates this situation was not contemplated, the ADGOF replied that "this particular item was in demand at that time. We are getting orders for this now and we do expect to put these new machines into use."

Phase I-B

1.83. The Committee were informed that there had been no production so far in Phase I-B. In Phase I-B production of one component of 'B', 'C' (with components), 'D', (two varieties each with components) and 'E' (with components) was to be undertaken. Production of 'C' and one component of 'B' was expected to commence in by 1974. As regard 'E', the Ministry informed in January, 1973 that it would be possible to commence production of this item by 1973 but there had been fall in demand for that item, requirement of which on a long term basis was likely to be reviewed. Regarding 'D' it was decided in October, 1966 not to produce one

variety and in August, 1968 it was also decided not to produce other variety of 'D' as it was not acceptable to the user on technical grounds.

1.84. Asked about the reasons for delay in the finalisation of 'C' and 'E', the Ministry of Defence in a note have informed: " 'C' is a completely indigenous store. It is being developed by an Indian Development Team without any foreign assistance and being a pioneering effort, it is naturally taken some time to finalise the design.

1.85. There are two types of 'E'. Design of only one type of 'E' has been provisionally cleared. The other type is yet to be finished. 'E' is a foreign store. However, no licence or know-how has been obtained. This is also being developed by an Indian Development Team and being a difficult store, it has been possible only to develop the indigenous design for one type of 'E' and the design for the other type of 'E' is yet to be developed."

The Committee were informed in a note that the review for the requirement of 'E' on a long term basis was still under consideration by the user. As there were not sizeable order for this item on this factory, there was no firm programme for manufacture of this item yet. The demand of the item, the note added, will depend upon the requirements of the user.

1.86. When enquired as to how the need for the two varieties of 'D' was initially assessed, the Ministry, in a note, have stated that both the varieties of this item are of same calibre but with different ranges. The requirements are assessed on a proportionate basis. The Committee wanted to know the proposals to utilise the capacity created for production of 'D' for which decision had been taken not to produce them. The Ministry of Defence, in a note, have stated: "...the question of setting up capacity for producing the two varieties of 'D' had already been abandoned even at the time of putting up statement of case for Phase I-B. Hence plant and machinery for this store was not procured at all. However, regarding one of the two varieties of 'D', only three presses and cooling chamber had been purchased along with accessories. The total F.O.R. cost of these items was Rs. 68.80 lakhs. These presses can be utilised for production of having similar parameters. Precise details for utilisation of these equipment are under examination."

Phase II

1.87. When asked about the items that were going to be manufactured in Phase II and the estimated cost, the Secretary, Depart-

ment of Defence Production stated: "This is in a state of suspended animation. We have not yet sanctioned it. At the moment the demands for are very low. For we have established the capacity in (another place)..... The build-up of these demands, as of now, seems to be low and, therefore, we are not thinking of implementing Phase II."

1.88. The Committee find that although the factory has gone into production of certain items included in Phase IA, which, however, is nowhere near the targets fixed, there has been no production so far of items included in Phase IB. Capacity for production of a number of items has not yet been established either because of the delay in finalising designs or they have been abandoned as unsuitable to Army. In the case of one item which has been abandoned, plant and machinery procured at the cost of Rs. 68.80 lakhs are idling. In certain other cases the production is either low or nil owing to inadequate demand or lack of demand altogether or due to defect in machines and equipment. The shortfall in production and delay in establishing production in this factory vitally affected production in the newly established filling factory, the production of which was only about 3.2 per cent of its capacity. Both those causes must have also affected equally seriously the production in the connected explosives factories. All this calls for an immediate investigation at Government level. The Committee strongly feel that all the connected projects involving investments of the order of about Rs. 100 crores were neither properly conceived nor planned in depth nor was their execution synchronised. They cannot but deplore this degree of inefficiency and disregard of public money. They would, urge a comprehensive inquiry being carried out forthwith.

1.89. The utilisation of the installed capacity is as low as 2 per cent for certain items. Although the Secretary, Defence Production, has pleaded that the installed capacity should be viewed as a sort of insurance against war-time requirements, the Committee are concerned about the idling of the costly machines as also of the skilled personnel. They were informed that the Ministry of Heavy Industry have been asked to find out work for this factory to meet civil requirements for various engineering products. As the Committee find that the machines, barring 10 per cent to 15 per cent of them, are general purpose ones which could be converted to diversify production to meet civil needs, they desire that the question should be considered on a priority basis to gainfully employ the men and machinery. In fact this question should have engaged the attention of Government from the very beginning.

1.90. A heat treatment plant ordered on a firm in November, 1967 and due to be delivered by January, 1969 had not been delivered even after a lapse of more than 6 years and the contract had to be ultimately cancelled. The question of recovery of general damages from the firm is stated to be under consideration in consultation with the Ministry of Law. The Committee would like Government to come to an early decision in the matter and inform them.

1.91. The Committee regret to find that there was loss of production of a component of an item due to supply of three defective furnaces by an Indian firm and inordinate delay in commissioning them. The firm is still carrying out retifications/modifications to the furnaces. The Committee would like to know the amount of damages recovered from the firm.

1.92. A sum of Rs. 5.77 lakhs was paid between December, 1970 and October 1971, to a firm against supply of conveyors which were later on rejected and the amount has not been recovered from the firm so far. The Committee would like to know how the defective supply was passed on inspection and whether any responsibility was fixed for the negligence. This and the progress in the recovery of the amount should also be reported to the Committee.

1.93. The Committee further note that out of the six Air Receivers to be supplied by a firm in May, 1970 only one Air Receiver was received in January, 1973. The Committee desire that the question of recovering liquidated damages in this case should be considered.

Filling Factory

1.94. The Audit paragraph states the shortfall in the production of this factory has vitally affected production in the newly established filling factory, the production of which in 1971-72 was only 3.2 per cent of its capacity. The expenditure on the filling factory upto the end of March 1972 was Rs. 21.73 crores.

1.95. Referring to item 1 of Annexure III of the certificate of the Controller General of Defence Accounts in the Appropriation Accounts of the Defence Services for 1971-72, the Committee asked as to why no firm date for completion of the filling factory or for the commencement of production or attainment of the rated capacity was indicated in the project report. The Secretary, Defence Production, submitted during evidence: "There were a number of uncertainties in the situation when this factory was planned. There

was the question of . . . aid coming forward, but it was later withdrawn. Then there was the question of getting indigenous collaboration from the HMT to produce as much machinery as possible within the country. All this made the situation rather uncertain. I dare say that this was the main reason why they could not put a definite date as to what machinery would definitely come and by which time the factory will be ready to go into production."

1.96. The Committee were informed that the balancing equipment mentioned in the Appropriation Accounts (Defence) ordered about two years back were expected to be received at any time.

1.97. It was stated in Appropriation Accounts (Defence) 1971-72 that a number of buildings constructed by the State P.W.D. for this factory had already revealed serious structural defects and in certain cases might warrant demolition and reconstruction. Besides, as a result for poor planning and execution by the State P.W.D., the water coverage for fire fighting in the magazines had proved to be inadequate and consequently the magazines could not be utilised. Asked the remedial action taken to rectify the defects and shortcomings, the Secretary, Department of Defence Production submitted: "We are aware of the deficiencies in the buildings and we have asked the CBRI, Roorkee, to investigate into these defects and also to give us their full support. We have also been in touch with the Maharashtra State Government who are our agents for the erection of these buildings. We shall pursue this matter with them as soon as the consultant's report is received."

1.98. In regard to construction of buildings in the factory, the Committee desired to know:

- (a) Whether the Ministry of Defence were consulted in designing the buildings.
- (b) Whether any soil testing was done to determine the load bearing capacity of the land on which the buildings were constructed.
- (c) Whether the buildings were inspected by Civil Engineers of the Ministry of Defence or by any Engineering institution of the Central Government at any time while the construction work was in progress.
- (d) Whether buildings were examined by Civil Engineers before the same were taken over by DGOF.

In a note furnished to the Committee, the Ministry of Defence stated: "A decision was taken in April 1963 that the civil works

connected with the four new Ordnance Factories to be established would be entrusted to the Public Works Departments of the respective State Governments in which the factories to be established. This was because the Military Engineering Service, which is normally the agency to execute civil works for Defence Services, was already over-burdened and were not, therefore, in a position to undertake the factory works without detriment to the Army works entrusted to them. A formal communication was addressed to the Government of Maharashtra on the 29th April, 1963 requesting them to take up construction of civil works in respect of Ordnance Factories at It was indicated in this letter that the entire construction would be to permanent specifications. Dealing with the scope of work, the Maharashtra Government was advised as under:

‘Each factory will provide for construction of factory buildings including magazines in respect of certain factories and a township. The entire construction will be to permanent specification.

The factory buildings will be of different types of construction e.g. steel, R.C.C. and brick, some of them—danger buildings—having earth traverses round them.

The magazines will be of R.C.C. with earth traverses, or semi-underground (built into a hillside).

The township will have all amenities e.g., hospitals, schools, clubs, markets, post-office, parks, police lines etc. with water and electricity supplies and modern sanitation. Water supply scheme will provide for supply at 40 gallons per head of the population (taken as four times the number of employees) with allowances for hospitals, markets, schools, clubs, parks, fire fighting etc.

Utilities for the factories will comprise:

- (i) Water supply
- (ii) Electric Power supply
- (iii) Steam generation and distribution
- (iv) Refrigeration and air-conditioning
- (v) Effluent treatment and disposal
- (vi) Sewage treatment plant
- (vii) Area drainage

- (viii) Roads
- (ix) Arboriculture
- (x) Railways'.

In pursuance of this contract, the Government of Maharashtra constructed 1000 buildings in the Ordnance Factory..... These buildings were taken over during the period 16-1-1967 to 12-8-1968.

There was an agreed procedure laid down for taking over of the buildings under which the State Government had accepted the responsibility for rectifying the defects reported to them and established by joint inspection upto and within a period of three months from the date of final taking over. The responsibility for abnormal repairs attributable to the defects arising as a result of faulty workmanship or use of bad or sub-standard materials was of the State Government upto six months from the date of final taking over.

During 1969, a number of buildings in Ordnance Factory..... developed major defects which would not have arisen except from very serious defects in respect of basic designs/materials used and or execution. The question of removing these serious defects was taken up at the highest level between the Government of India and the Government of Maharashtra. The Maharashtra Government consistently held the view that according to their appreciation the defects were only minor. However, the Maharashtra Government was later persuaded at RM's level to have an independent investigation into the condition of the buildings. An independent Committee of Inquiry of three senior Engineers including a nominee of the Ministry of Defence was appointed in April, 1971. The Committee's findings were that the defects noticed in the buildings were not of a serious nature and could be removed by proper maintenance.

As, however, the number of buildings developing cracks was progressively increasing, the State Government was again addressed to take action for repairing the defective buildings. The State Government did not agree to undertake any responsibility in this behalf as it held that it was beyond the terms of handing and taking over.

The Military Engineering Service authorities who were entrusted with the responsibility of removing the defects were of the view that the defects noticed were due to basic faults in the

design of the constructions and in their view it would not be possible to estimate the cost that would be involved in repairing these buildings satisfactorily. In their view, there were atleast five buildings which were required to be demolished and with passage of time the number of defective buildings may further increase.

In view of the serious nature of the matter, it was decided that an expert investigation over the standard of construction of the buildings in Ordnance Factory.... should be carried out by the Central Building Research Institute, Roorkee. The CBRI have now furnished their findings. Briefly, the CBRI's views are that proper preliminary soil testing had not been carried out with the result the foundations were inadequate. Also, the materials used particularly bricks were sub-standard and the quality of workmanship poor and improper curing of brick had been carried out. In their estimate the cost of repairing 110 defective buildings would be Rs. 9.20 lakhs. It is proposed to take up the matter with the Government of Maharashtra with a view to carrying out the repairs to these 110 defective buildings.

In the aforesaid context, the replies to the four questions raised would be as under:

- (a) The State Government of Maharashtra was informed that the buildings were to be constructed to permanent specifications and were also given broad parameters of our requirements. As the State PWD was an expert engineering organisation and were made aware of our requirements, they were not enjoined to consult Government of India in the designing of buildings. Whatever special information was required to be given was furnished by the DGOF Organisation.
- (b) As the overall responsibility for construction of the factory buildings was entrusted to the State Government it was expected of that Government to ensure that all needful required for constructing buildings to permanent specifications (including soil testing) would be done by that authority. It has now transpired from the report of CBRI that no effective soil testing had been done as the State PWD had calculated the load bearing capacity at a much lower level than warranted by the requirements at site.

- (c) Here again, there was no need for the Ministry of Defence to inspect these buildings during construction as the State Government engineers are themselves expert technical officers. It is understood that normally in such matters one engineering organisation is not expected to supervise the work of another engineering organisation. In this case also the MES did not inspect the civil works carried out by the State Government for the Ordnance Factory.....
- (d) The buildings were taken over by the Officers of DGOF organisation. While taking over they could only make visual inspection and it was not possible for these officers to expect that there were basic defects in the construction by way of inadequate foundation, poor design, use of poor quality materials, etc. Whatever defects that came to their notice by visual inspection were reported to the State Government PWD authorities and got rectified."

1.99. The Committee note with concern that 110 buildings of the Filling Factory constructed by the Public Works Department of the Government of Maharashtra revealed serious structural defects. According to investigations made by the Central Building Research Institute, Roorkee, the defects were due to inadequate soil testing, use of sub-standard and improperly cured bricks; and poor quality of workmanship. The Ministry stated that the matter of carrying out repairs of these defective buildings estimated to cost Rs. 9.20 lakhs has been taken up with the Government of Maharashtra. The progress made in the matter may be reported to the Committee.

PRODUCTION OF ASSAULT BRIDGES

Audit Paragraph

1.100. Manufacture of a specified number of a type of assault bridge was decided upon in principle in April, 1963. An agreement was entered into for this purpose with a foreign firm in February, 1967. Under this agreement the foreign firm was to supply eight bridges and give detailed assembly drawings, component drawings, process and inspection schedule, etc., for establishing indigenous production of the bridges. Production of these bridges was entrusted to this factory in April, 1967. The estimated cost (as revised in July, 1971) of setting up of the facilities for manufacture of the bridges is Rs. 134 lakhs; this does not include cost of setting up facilities for production of aluminium profiles needed for manufacture of the bridge. Total expenditure upto March, 1972 was

Rs. 1.29 crores. The expectation was that two years after commissioning the factory would produce one bridges per month.

1.101. In terms of value the bridge consists of about 70 per cent aluminium parts made of aluminium profiles. Negotiations were going on for purchase of an extrusion press of 9000 tonnes per annum capacity for production of aluminium profiles from another foreign country and a contract had been concluded in December, 1965 for this purpose. The 9000 tonnes press was chosen on normal considerations of extrusion technology. It was decided in November, 1966 that the extrusion press would be installed in this factory so that the aluminium profiles needed for the bridge could be produced in this factory itself. According to sanctions issued in April, 1969 and June, 1969, setting up of the extrusion press (Rs. 655.97 lakhs) with facilities for making aluminium billets for production of 3000 tonnes of aluminium profiles per year initially is estimated to cost Rs. 878.57 lakhs. Production can be increased to 9000 tonnes per annum subsequently with installation of additional ancillary plant facilities. Upto March, 1972 Rs. 4.12 crores were spent for this purpose.

1.102. A detailed study for setting up the facilities for manufacturing the bridge was conducted by the representatives of the foreign firm, who submitted their report in November/December, 1968. This report gave the details of plant and machinery, requirement of billets, production schedule, etc. Thereafter, a team of officers went to the foreign country and placed orders in February, 1970 for the items to be imported from that country. By March, 1972 about 80 per cent of the machines required for setting up facilities (excluding the extrusion press) for manufacture of the bridge had been received and 52 per cent of those received (42 per cent of the total) were installed and commissioned but these had to be installed and commissioned in the maintenance section of the Factory temporarily as the building in which these were to be installed was not ready. The building (estimated cost Rs. 27.16 lakhs) was expected to be ready by September, 1970. Due to delay in completing dust-free ventilation system in the building, after rectification of defects noticed while commissioning the system in November, 1971, it was handed over to the factory by the Military Engineer Services only in May, 1972. The machines were subsequently shifted to the new building.

1.103. The extrusion press and ancillary equipments were received during August, 1968 to June, 1969. But the extrusion press could not be installed as the buildings were not ready till October/November, 1972. The slow progress in building construction was due to

delay in receipt of steel structurals from trade which held up fabrication of components needed for construction of the foundry and the extrusion shops. It is estimated that over the next ten years about 40 per cent of the capacity of the press would be needed for all Defence purposes leaving about 60 per cent spare capacity possible exploitation of which is to be studied and finalised.

1.104. In all nine aluminium alloy assemblies are required for the super structure of the bridge. Five of these assemblies require welding under specially controlled dust-free atmosphere. Since welding technology had to be established to achieve the quality welding required for manufacture of these bridges, production of four of the assemblies which were comparatively easier was started in 1971-72. Of the remaining five assemblies, the proto-types of three (girders) which are the most difficult were prepared in the middle of 1972; these proto-types were cleared for bulk production in October/November, 1972. The proto-types of the other two assemblies were also approved in May/June, 1972. Production of these five assemblies started in 1972-73. Production is being undertaken with imported aluminium profiles. In October, 1971 an import order for Rs. 1 crore worth of aluminium profiles was placed.

1.105. The factory has not produced any bridge so far (January, 1973). Eight such bridges costing Rs. 3.23 crores were ordered (in addition to the eight received under the agreement of February, 1967) on the foreign firm in February, 1970.

[Paragraph 5B of Report of Comptroller and Auditor General of India for the year 1971-72 Union Government (Defence Services)]

1.106. According to the Audit paragraph, the agreement was entered into with the German firm in February 1967 but a report was submitted by them for setting up the facilities only in December 1968. Further their firm offer for plant and machinery, jigs and fixtures was received only in August 1969. Finally, the order was placed in February 1970. Asked about the reasons for delay at each stage since the conclusion of the agreement in February 1967, the Secretary, Defence Production, submitted: "This is part of the... factory; one was fabrication shop and the other was the extrusion press. We have got the know-how in regard to fabrication. As you say, the agreement was signed with them in 1967. After that the DGOF had to plan his construction. For that under the usual procedure the sanction of civil works and the administrative approval were initially issued on the 9th July 1968. But there was some

difficulty in operating the (firm's) contract. The contract provided for sale of machinery on a single tender basis. But we had our doubts about the wisdom of such a procedure later. Instead of going for these machineries from..... as a single piece, we thought we would ask them to tender for each machinery separately so that we can make a comparison and we could choose the machinery ourselves so that we could assure ourselves that we got the cheapest buy. At that time there was a reaction from (the firm). They said that if they are to do that sort of work for us, then it would be a separate agreement and they would have to prepare a project report. On that there was some discussion between us and the Ministry of Finance and we decided this was the best thing to do. So, a second agreement with ... was signed. On the basis of that report, which also showed certain improvement in procedures and technology as related to the original offer in 1968, we went for the purchase of machinery and sanction of civil works. So, we issued the revised administrative approval on the 24th June, 1969. On that basis the work has generally progressed, the buildings are now ready and the machinery has been received and installed."

1.107. Because of the delay in the production of bridges, 8 additional bridges costing Rs. 3.23 crores had to be ordered on the German firm. In reply to a question whether the firm adopted any deliberate dilatory tactic in setting up the facilities for indigenous manufacture, the witness submitted: "The last order for eight was in 1970. So the order for the bridge and the machinery went at the same time. So, there was no possibility of getting these bridges out of the factory. There were urgently required and so they had to be imported."

Regarding the delivery of the 8 bridges ordered in 1970, the Ministry of Defence, in a note, have informed: "The firm was to deliver all the components ordered in February, 1970 in 6 equal batches, the last batch being delivered by 31-3-1971. Some components were delivered late by the firm and they were charged liquidated damages amounting to DM 189,562.69 on account of late delivery. All the components were, however, delivered by the firms by 14-7-1971."

1.108. The extrusion press could not be installed as the buildings were not ready till November, 1972. The slow progress in building, construction was due to the delay in receipt of steel structurals from trade. Regarding the delay in receipt of steel, it was stated during evidence: "... previously when the work was being done by the contractor we were obliged to supply the steel departmentally and

w. had to go through the procedure of indenting on the Iron and Steel Controller and getting it released. So, the time lag was not less than nine months in any case."

Asked about the total requirement of the steel structures and whether this quantity could not be arranged from the indigenous sources even for defence purposes the witness stated: "... the requirement was about 400 tonnes of critical section steel... departmentally I explored the possibility of finding all the steel for priority projects. I found all the steel except for 400 tonnes of particular sections which were not readily available. In fact even the Iron and Steel Controller could not supply them off the shelf. They had to be ordered on the rollers or the main producers to produce these sections and then deliver these to us."

1.109. As regards the present positions of installation and commissioning of the extrusion press, the Ministry of Defence, in a note, have stated: "The Extrusion Press was first tried out in January, 1973 by foreign erection team. After necessary corrections and adjustments performance of the Press was stabilised in June 1973. From July, 1973, production trials are going on to establish production of assault bridge profiles. In the meanwhile, other facilities such as heat treatment furnaces etc., for further processing the extrusions are being installed."

1.110. The Committee were informed that over the next ten years about 40 per cent of the capacity of the extrusion press would be sufficient to meet the defence purposes leaving about 60 per cent spare capacity. Asked whether any study has been made for possible full utilisation of the extrusion press, the Ministry of Defence in a note, have intimated: "Several Ministries/Departments have already been addressed regarding the spare capacity of the Extrusion Press available so that they may inform public sector undertakings under their control to plan their load accordingly. Replies received from certain Ministries/Departments/Public Sector Undertakings are being technically examined by the Directorate General of Ordnance Factories with a view to assessing the utilisation of the spare capacity."

1.111. The Committee regret that there was inordinate delay in establishing the manufacture of assault bridges which was decided upon as early as April, 1963. There was also lack of synchronisation of the civil works and the procurement of machinery. It is distressing that not a single assault bridge could be manufactured upto

January, 1972. In the meantime it is significant that as many as 8 bridges costing Rs. 3.23 crores had to be imported to meet an urgent need. It is unfortunate that although production was planned so far ahead the execution was so unsatisfactory that it could not materialise at a time when the country needed it most. The Committee would like to know the progress achieved in indigenous production against the target of 12 bridges per year two years after commissioning the project and the steps taken to achieve the target.

1.112. A decision to instal the extrusion press needed for the assault bridge was taken in November, 1966. The press and ancillary equipments were received during August, 1968 to June, 1969. but the press could not be installed as the buildings were not ready till October/November, 1972. The slow progress in the construction of the buildings is attributed to the non-availability of about 400 tonnes of critical sections of steel. It is regrettable that this requirement was not thought of well in advance and supplies ensued in time. The matter requires to be examined in consultation with the Ministry of Steel so that procedures would be devised and implemented whereby the critical defence needs could be met in time.

1.113. The Committee desire that the production of assault bridges should be established without further loss of time.

1.114. They have been informed that over the next 10 years about 40 per cent of the capacity of the extrusion press would be sufficient to meet Defence purposes. The possibility of utilising the remaining 60 per cent of the capacity is being explored. Here again the Committee feel that the question of spare capacity should have engaged the attention of Government when they decided to go in for large size press in December, 1965, so that it could be adequately utilised from the date of commissioning of the press. However, the Committee would await the result of this belated attempt.

ESTABLISHMENT OF INDIGENOUS PRODUCTION OF AN ITEM BY AN ORDNANCE FACTORY

Audit Paragraph

1.115. In October, 1964 an ordnance depot placed an indent on the Director General, Ordnance Factories, for supply, by 31st March, 1965, of 3750 numbers of an item required for a weapon, indigenous

production of which has been established. To avoid imports of a long-term basis it was decided that indigenous production of this item should be established in an ordnance factory. The factory was initially hesitant to undertake the task in view of its heavy commitments for other priority items, particularly because production of this item would need manufacture of a number of critical toolings and gauges and the existing capacities in the tool room were required for meeting other priority items. However it was finally decided that the factory should establish production of the item and it was assessed that it would take not less than 18 months to start production. The production cost as assessed by the factory was Rs. 115 each *vis-a-vis* imported cost of Rs. 55. Keeping in view the urgent requirement of the indenter and the time needed for establishment of production, it was decided to import 1000 numbers and manufacture the remaining 2750 numbers in the ordnance factory. The indenter was accordingly intimated by the Director General, Ordnance Factories, in April 1965.

1.116. In October 1965 the Director General, Ordnance Factories, placed an order on a foreign firm for supply of 1000 numbers of the item and the latter supplied them in July 1966. The order for manufacture of 2750 numbers was placed on the ordnance factory in June 1965. This was, however, misplaced by it and manufacture was not undertaken. The indenter also did not make any enquiry about this supply till August 1971, when the Director of Ordnance Services requested the Director General, Ordnance Factories, to supply the balance immediately for operational reasons. In September 1971 the factory intimated that it did not have facilities for manufacture of the item. An order, therefore, was placed in November, 1971 on the foreign firm, which had supplied the item earlier, for supply of 2750 numbers more. In view of extreme urgency, the entire supply was air-lifted from abroad at a cost of Rs. 0.36 lakh.

1.117. Ministry intimated (December 1972) that, in the context of the recasting of priorities that became necessary in the wake of the hostilities in 1965, the factory had to give preference to higher priority items in the production of which the factory continued to remain engaged for a considerable time and that diversion of efforts to undertake manufacture of the item in question would have adversely affected production of higher priority items which would not have been desirable in the overall interest.

[Paragraph 6 of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government (Defence Services).]

1.118. Asked as to why no action was taken to establish the manufacture of the item along with the weapon, the Ministry of Defence stated: "In 1959 two numbers of the weapon were imported from the foreign manufacturers to assist in establishing indigenous production in our own Ordnance Factories. The manufacturer supplied certain Tools and accessories along with these—as per their scale. DGOF was required to supply C.E.S. (Complete Equipment Schedule) items as per this scale against the first order for 60 weapons placed on DGOF. The item in question was not one of those included in the scale given by the foreign manufacturer and as such no demand for this item could be placed on DGOF at that time by the Army. Hence DGOF could not also take this item into consideration while planning the production of the weapon and related ammunition in the Ordnance Factories."

The Ministry added, however, on the basis of user's requirements, Army raised a demand for 1620 Nos. of this item in November, 1961, which was met from import.

1.119. According to Audit, keeping in view the urgent requirement of the indenter and the time needed for establishment of production it was decided to import 1000 Nos. of this item out of the 3750 Nos. required for the weapon and to manufacture the remaining 2750 Nos. indigenously. When enquired whether the possibility of procuring the item from the trade sources in the country was explored, the Ministry have informed: "Army raised an indent for 3750 Nos. on DGOF in October, 1964. The question of indigenous production in the Ordnance Factories was then examined and the lead time for establishing production in the Ordnance Factories was assessed as 18/20 months. Accordingly, a decision was taken to import 1000 numbers for meeting the urgent requirements of the Army and to produce the balance 2750 Nos. indigenously. Since the intention at that stage was to establish production of the item in the Ordnance Factories, no serious effort for procuring the item from trade sources was made. A reference was, however, made in July 1965 to a Madras firm but no favourable response was received."

The Ministry further stated: "Since supplies from the DGOF did not materialise, efforts were made from March, 1968 onwards to locate alternative sources in the trade through Department of Defence Supplies, which resulted eventually in placement of supply orders on 2 local firms through the Department of Defence Supplies."

1.120. It is stated that the order for manufacture of 2750 Nos. of the item was placed on the ordnance factory in June, 1965 but this

was misplaced. Asked if there is no system to keep watch over the orders by the factory till they are executed, the Ministry have intimated: "It is not fully correct that the extract placed in June 1965 was misplaced in the factory. The investigation since carried out have revealed that the extract in question was received and retained by the then General Manager in his office without being released to the concerned section/office with the result that the latter was unaware of the position and this led to the impression that the extract was misplaced. It is presumed that the then General Manager (who expired on 22-4-67) retained the extract without releasing the same for progressing by the concerned section, since he was aware that in the then existing position of workload and resultant recasting of priorities, it was not possible for the factory to undertake this item.

There is a system for watching the progress of extracts placed on the factories. In this case, no watch could be kept since the extract was not acted upon."

1.121. In regard to whether the Director General, Ordnance Factories, kept any watch over the execution of the order, the Committee were informed "As per progress watching system that was prevalent at the time of placement of the extract, in question, the extracts were being watched against indication of priorities such as PX (Operational Priority) P1 & P2. In respect of extracts where no priority is allotted, no close watch was being maintained, and only if when expeditors were received from the indentors, priority allotment was suitably raised. In the present case, no priority was allotted and hence no close watch was maintained on the progress.

The progress watching system has since been revised and Quarterly Computerised Progress reporting has been adopted, which takes care of each and every extract irrespective of priority-category."

1.122. It has been stated that till August, 1971, the indenter also did not make any enquiry about this supply. The Committee enquired whether there was no system in the indenting organisation to keep watch over the receipt of supplies against such orders, the Ministry have informed that "there is a laid down procedure whereby the receipts are watched by the Depots through the media of 'dues in' records". In reply to a query as to why the indenter did not make any enquiry till August, 1971, the Committee have been informed that further investigations have revealed that Central Ordnance Depot . . . issued a reminder to the factory with copy endorsed to the Director General, Ordnance Factories on the 16th March, 1966. This, however, does not appear to have been received either

in the Factory or in the office of the Director-General, Ordnance Factories."

When asked as to why the factory did not inform about its incapability for undertaking the job when the order was placed in June, 1965 itself or immediately thereafter, the Ministry have stated as under: "On receipt of the indent for 3750 Nos. placed on DGOF in October, 1964, the question whether indigenous manufacture of the item in the Ordnance Factories could be undertaken was examined in detail in consultation with the General Manager of the Factory. Although the Factory was initially hesitant to undertake this job, with a view to avoid imports, it was ultimately decided to establish the manufacture of the item in the Factory. As per assessment of the then General Manager the factory had the capability for undertaking the manufacture even if it meant storing the resources of the available tool room capacities. In the context of the above position the question of the Factory intimating lack of facilities at this stage did not arise.

On receipt of urgent expeditor from the Army in August, 1971 the position was reviewed by the Factory in 1971, and the then General Manager expressed the view that it would not be possible to undertake the work in that factory, especially since the manufacture involved extensive toolings jigs and fixtures gauges for intricate alloy steel forgings and machining work for a small quantity."

1.124. The Committee were informed that while the price per piece of the item as per order in 1965 was Sw. Cr. 40 only, the price per piece in the subsequent supply order of 1971 went upto Sw. Cr. 55 per piece and thus the extra expenditure was Rs. 58,930. The Ministry have stated that no investigation had been made for the lapse for which the item had to be imported at higher cost.

1.125. The Committee are concerned to note that the order placed on the Ordnance Factory in June, 1965 for manufacture of 2750 nos. of an item required for a weapon could not be executed as no action was taken by the General Manager of the Ordnance Factory. It is surprising that although the order was important, no one followed it up closely. It is now presumed by the Ministry that the General Manager did so as he was aware that it was not possible for the Factory to undertake the manufacture of this item. Had he intimated the position to the DGOF, alternative sources could have been located. However, as the General Manager has since expired, the Committee suggest that strict instructions should be

issued to the General Managers of the Ordnance Factories that lapses of this type should be avoided.

1.126. An indent for the supply of an item was placed by the Ordnance Depot in October, 1964. Apart from a reminder to the Ordnance Factory with a copy endorsed to the DGOF in March, 1966, which, strangely enough does not appear to have been received by either of them, there was no follow-up by the indenter till August, 1971. The Ordnance Factory having expressed its inability to manufacture, 2750 items had to be airlifted (freight Rs. 0.36 lakhs) from abroad to meet urgent requirements at an extra cost of Rs. 0.59 lakhs. It is clear that the system in operation at present is unsatisfactory or inadequate. Since in this case, it led to considerable expenditure in foreign exchange having to be incurred, the Committee would like Government to examine the procedures and system with a view to taking steps to ensure that costly lapses of this nature do not recur.

1.127. According to the Ministry, the Director General, Ordnance Factories could not take this item into consideration while planning the production of the weapon, because the item in question was not one of those included in the scale given by the foreign manufacturer when two weapons were imported in 1959 to assist in establishing indigenous production. The Committee would like to know whether it was not a breach of contract by the foreign firm and if so, what action was taken.

1.128. The Committee further regret that no serious efforts were made by the DGOF to procure the item from trade in time with the result that the item had to be imported on several occasions. They hope that in future all possibilities of locating indigenous manufacture of defence stores would be explored and in time before placing orders abroad for import.

COST OF MANUFACTURE IN AN ORDNANCE FACTORY

Audit Paragraph

1.129. Episcopes, an optical instrument used in a tank, is produced in an ordnance factory and is also procured from trade. While the price of episcopes purchased from the trade (order was placed on a firm for 400 episcopes in November, 1970 which was increased to 600 in May, 1972) was Rs. 645 each, its cost of production in the ordnance factory (where production had been established by the end of 1966) was Rs. 1,192, Rs. 1,110 and Rs. 1,015 each during 1967-68, 1968-69 and 1969-70 respectively.

1.130. The firm supplied 344 episcopes upto July, 1972 out of 600 ordered. The ordnance factory on which an order for production of 4,600 episcopes was placed during June, 1964 to May, 1968 supplied 2,109 upto March, 1972.

1.131. The Ministry stated (November, 1972) that, as per the estimate framed in July, 1972, the maximum cost (which includes fixed overheads) of the episcopes produced in the factory was Rs. 1,108.56 each, out of which Rs. 486.27 represented fixed overheads and Rs. 196.02 variable overheads. The Ministry added that, as per the latest (September, 1972) cost of manufacture, unit cost of production was Rs. 920.79 while the minimum cost (materials, labour and variable overheads) would be Rs. 559.39 if all the fixed charges were excluded, and that it would be appropriate if this minimum cost was taken as the basis for comparison with the trade cost of Rs. 645. While confirming that quality of the episcopes supplied by trade was not inferior to that produced in the ordnance factory, the Ministry stated that, while comparing the cost of production in the factory and that in trade, several factors such as higher pay scales of workmen and other elements of emoluments in ordnance factories, expenditure on welfare measures, etc., should be taken into account. It was also stated that if orders for articles already established in the ordnance factories and for which capacities existed were diverted to trade, it would result in existing capacity becoming surplus.

[Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1971-72, Union Government Defence Services)]

1.132. The Committee understand from Audit that "the intention at the time of sanctioning the Factory was to get maximum Assemblies including Vision Instruments manufactured at...or Ordnance Factories. A proposal to enter into a separate agreement with U.K. Government for manufacture of Vision and Sighting Instruments at...was dropped. No efforts were made to locate trade sources for the Vision Instruments as the intention was to obtain the requirements from...when additional capacity was created at Ordnance Factory under Phase I and II Augmentation Scheme, for the production of 16 Sets of all Tank Sighting and Vision Instruments including Episcopes No. 7.

1.133. The Committee desired to know as to when was this additional capacity created in the Ordnance Factory, under Phase I &

II of Augmentation Scheme. The Ministry of Defence stated in a note: "The Augmentation scheme was of a general nature catering for additional capacities for various instruments required for the Services including a number of Tank Sighting and Vision Instruments, of which Episcope is one. The scheme envisaged building up capacity for... and was sanctioned in two Phases. Phase I of the scheme was sanctioned on 27th April, 1967 and Phase II of the scheme was sanctioned on 11th June, 1970 and the capacity envisaged was to be built up steadily. While most of machinery items required for the augmentation scheme have since been received and have been commissioned, a few imported items of machinery are yet to be received. However the Factory, is now in a position to achieve the planned capacity for Episcope by slight adjustments of production of other items."

1.134. The Committee were informed that the first IFD on Ordnance Factory was placed in June, 1964, for 600 Nos. The prototype was produced and accepted in 1965. The bulk supply of episcope was commenced in March, 1967. In February, 1973, the Ordnance Factory achieved a production rate of 80 Nos. of Episcope per month.

The total quantity of Episcope produced in the Ordnance Factory till the end of October, 1972 was 2,568 Nos. as against a total order of 4,600 Nos. The latest position of the production of the item by the factory upto 15th August, 1973 is 3023 Nos.

1.135. Asked about the necessity to place the order on the private firm when additional capacity had been created in the Ordnance Factory, the Ministry stated in a note. "The additional capacity planned in Ordnance Factory came into effect gradually over a period of a few years. In the early stages the requirements for the item was being made by import. Since the then available capacity of Ordnance Factory was inadequate to meet the full requirements and with a view to stop imports as early as possible Civil Trade sources were developed pending completion of the augmentation project."

1.138. The Committee desired to know whether before creating additional capacity for manufacture of the Episcope in the Ordnance Factory whether efforts were made to locate trade sources for the items and the feasibility of obtaining from those sources examined. In reply, the Ministry stated: "In 1966, the Optical Instruments required for a number of equipments under production in the Ordnance Factories appeared to present a bottleneck. A decision was, therefore, taken to augment existing capacities within the Ordnance

Factories for meeting the requirements for the Optical Instruments, to match with the main equipments already under production in the Ordnance Factories. The Composite Augmentation Scheme in a Ordnance Factory was accordingly sanctioned. It was not therefore considered necessary at that stage to explore trade sources for the items in question."

1.137. The Committee were intimated that the first order on a trade firm was placed in September, 1966 for 671 Nos. and the supply from this source commenced in December 1969.

As per the order placed on the firm in November, 1970, bulk supplies were to commence from January, 1971 at the rate of 50 units per month. As against the 500 Episcopes ordered, the total quantity supplied by the firm is 354 Nos. upto 31st July, 1973. Asked about the reasons for delay in the supply, the Ministry informed as under:

"Supplies were held up as 'Prism Blanks' and 'Shatter Alloy Castings' had to be obtained by the firms from outside. Prism Blanks are being imported and Shatter Alloy Castings are supplied by DMRL, Hyderabad."

1.138. Asked whether the firm was the only one capable of producing items, the Ministry stated: "Another source had also been located and orders were placed on this firm in October, 1968 for 800 Nos. against which 342 have been supplied upto 31st July, 1973."

1.139. According to Audit paragraph, while the price of the episcopes purchased from the trade was Rs. 645 each, its cost of production in the Ordnance Factory was Rs. 1,192, Rs. 1,110 and Rs. 1,015 each during 1967-68, 1968-69 and 1969-70 respectively.

The Committee desired to that in view of the lesser price offered by trade whether any attempt was made to reduce the cost of production in the ordnance factory. The Ministry furnished the following information:

"As a result of experience of production over the past few years it has been possible to progressively effect some cost reduction as indicated below:

Year	Cost
1967-68 ..	Rs. 1192.13
1968-69 ..	Rs. 1109.68
1969-70 ..	Rs. 1014.67

1970-71 ..	Rs. 1124.75	
1971-72 ..	Rs. 1102.14	
Sept., 1972 ..	Rs. 920.79	Estimated Cost—(Actual cost during 1972-73 was Rs. 1000.36 each).

The Ministry added that periodic revision in dearness allowance percentage as well as quantum of interim relief had, however, partly offset the reduction in cost achieved.

1.140. The Committee find that while the price of the episcopes purchased from the trade was Rs. 645 each, its cost of production in the Ordnance Factory was Rs. 1192.13 in 1967-68 which was progressively brought down to Rs. 1000.36 in 1972-73. Further, the explanation given for such a high cost of production in the Ordnance Factory is not quite convincing. The Committee, therefore, desire that there should be no avoidable duplication of efforts and that the cost structure of the Ordnance Factories' production should be gone into in a scientific manner with a view to bringing down the costs. In this connection they would recall their observations contained in paragraph 2.88 of their 82nd Report (Fifth Lok Sabha).

1.141. The Committee are quite definite that once a line of manufacture is established in the ordnance factory it should not be closed down merely because the item can be procured at a lower rate from private sector units. Instead the Government should study the cost structure of the suppliers in private sector so as to ascertain why is it that the ordnance factory cost is higher and then take action to effect economies particularly in overheads and improve efficiency.

NEW DELHI;

April 5, 1974.

Chaitra 15, 1896 (S).

JYOTIRMOY BOSU,
Chairman,
Public Accounts Committee.

APPENDIX I.

(Vide para 1-24 of the Report)

*Statement showing the rate of copper as reflected in the Eastern Metal market review
(Calcutta rate)*

Month and Date of Issue	Copper Scrap Mixed Rate per 100 Kg. in Rs.
(1)	(2)
<i>February.</i>	
Year 1969	
3rd February	1180.00
10th "	1190.00
17th "	1200.00
24th "	1210.00
<i>March.</i>	
3rd March	1210.00
10th "	1200.00
17th "	1190.00
31st "	1200.00
<i>April.</i>	
7th April	1210.00
14th "	1200.00
21st "	1215.00
28th "	1305.00
<i>May.</i>	
5th May	1320.00
12th "	1310.00
19th "	1315.00
26th "	1380.00
<i>June.</i>	
2nd June	1340.00
9th "	1330.00
16th "	1325.00
30th "	1320.00
<i>July.</i>	
7th July	1330.00
14th "	1335.00
21st "	1330.00
28th "	1340.00

	(1)	(2)
<i>August.</i>		
4th August	1350.00
18th "	1370.00
25th "	1355.00
<i>September.</i>		
1st September	1400.00
8th "	1465.00
15th "	1500.00
22nd "	1525.00
29th "	1525.00
<i>October.</i>		
6th October	1490.00
13th "	1490.00
20th "	1500.00
<i>November.</i>		
3rd November	1480.00
10th "	1495.00
17th "	1500.00
24th "	1520.00
<i>December.</i>		
1st December	1520.00
8th "	1550.00
15th "	1680.00
22nd "	1600.00
29th "	1610.00
<i>Year 1970</i>		
<i>January</i>		
5th January	1620.00
13th "	1625.00
26th "	1635.00
<i>February.</i>		
2nd February	1640.00
9th "	1610.00
16th "	1615.00
23rd "	1580.00
<i>March.</i>		
2nd March	1560.00
16th "	1535.00
23rd "	1540.00
30th "	1540.00

	(1)	(2)
<i>April.</i>		
6th April		1540·00
13th „		1540·00
20th „		1550·00
27th „		1550·00
<i>May.</i>		
4th May	1545·00
11th „	1550·00
18th „	1530·00
25th „	1545·00
<i>June.</i>		
1st June]	1500·00
22nd „	1540·00
29th „	1510·00
<i>July.</i>		
6th July	1550·00
13th „	1485·00
20th „	1490·00
27th „	1500·00
<i>August.</i>		
17th August	1470·00
24th „	1460·00
31st „	1450·00
<i>September.</i>		
7th September	1450·00
14th „	1440·00
21st „	1440·00
28th „	1430·00
<i>October.</i>		
5th October	1435·00
19th „	1425·00
26th „	1410·00

	(1)	(2)
<i>November.</i>		
9th November	1410.00
16th "	1390.00
23rd "	1360.00
30th "	1370.00
<i>December.</i>		
7th December	1370.00
14th "	1370.00
21st "	1350.00
28th "	1310.00
<i>Year 1971</i>		
<i>January.</i>		
4th January	1290.00
11th "	1300.00
18th "	1310.00
25th "	1320.00
<i>February.</i>		
1st February	1335.00
8th "	1350.00
15th "	1330.00
22nd "	1330.00
<i>March.</i>		
1st March	1330.00
8th "	1310.00
15th "	1300.00
22nd "	1335.00
29th "	1355.00
<i>April.</i>		
5th April	1360.00
12th "	1365.00
19th "	1365.00
26th "	1370.00
<i>May.</i>		
3rd May	1350.00
10th "	1345.00
17th "	1350.00
24th "	1360.00
31st "	1360.00

(1)	(2)
<i>June</i>	
7th June	1410.00
14th "	1410.00
21st "	1460.00
28th "	1460.00
<i>July</i>	
5th July	1460.00
12th "	1450.00
19th "	1450.00
26th "	1410.00
<i>August</i>	
2nd August	1420.00
9th "	1415.00
16th "	1410.00
23rd "	1410.00
30th "	1430.00
<i>September</i>	
6th September	1440.00
13th "	1440.00
20th "	1440.00
27th "	1440.00
<i>October</i>	
11th October	1420.00
18th "	1420.00
25th "	1410.00
<i>November</i>	
1st November	1360.00
8th "	1380.00
15th "	1300.00
22nd "	1300.00
29th "	1280.00
<i>December</i>	
6th December	1280.00
13th "	1280.00
20th "	1360.00
27th "	1360.00

(1)	(2)
<i>Year—1197</i>	
<i>January.</i>	
3rd January	1360·00
10th "	1370·00
17th "	1400·00
24th "	1410·00
31st "	1340·00
<i>February.</i>	
7th February	1360·00
21st "	1370·00
28th "	1360·00
<i>March.</i>	
6th March	1375·00
13th "	1360·00
20th "	1370·00
<i>April.</i>	
3rd April	1360·00
10th "	1360·00
17th "	1370·00
24th "	1360·00
<i>May.</i>	
1st May	1375·00
8th "	1400·00
15th "	1375·00
22nd "	1400·00
29th "	1390·00
<i>June.</i>	
5th June	1400·00
12th "	1400·00
19th "	1390·00
26th "	1385·00
<i>July.</i>	
3rd July	1390·00
10th "	1400·00
17th "	1380·00
24th "	1360·00
31st "	1365·00

(1)	(2)
<i>August.</i>	
7th August	1365.00
14th "	1360.00
21st "	1365.00
28th "	1360.00
<i>September.</i>	
4th September	1360.00
11th "	1360.00
18th "	1370.00
25th "	1375.00
<i>October.</i>	
2nd October	1380.00
9th "	1400.00
16th "	1380.00
30th "	1370.00
<i>November.</i>	
6th November	1360.00
13th "	1370.00
20th "	1375.00
27th "	1380.00
<i>December.</i>	
4th December	1380.00
11th "	1380.00
18th "	1370.00
25th "	1370.00
YEAR—1973	
<i>January.</i>	
1st January	1370.00
8th "	1375.00
15th "	1380.00
22nd "	1390.00
29th "	1390.00
<i>February.</i>	
26th February	1450.00
<i>March.</i>	
5th March	1520.00
12th "	1520.00
19th "	1550.00
26th "	1550.00

APPENDIX II

(Vide para 1.24 of the Report)

Sr. No.	Date of auction	Material	Qty. in kgs.	Book value	Reserve price	Price obtained	Name of Auctioneer	Date of intimation to Auctioneer	Name of successful Bidder	Market rate of Copper Scrap mixed as reflected in the Eastern Metal Review in Rs. per 100 kgsms.
1.	4-2-69	(a) Non-ferrous mixed scrap Gr. IV—Tinner Copper.	1652.90	10,440	10,000	11,300		8-1-69		Rs. 1180 (3-2-69)
		(b) Non-ferrous mixed scrap IV—Tinned Copper wire.	172	172	350	1,600	..			
2.	15-1-70	(a) Non-ferrous Metal Scrap IV—Mixed copper turning.	7943.32	70,059.20	70,000	1,11,500		20-12-69		1620 (5-1-70) 1625 (1281870)
		(b) Non-ferrous metal scrap IV—Tinned Copper Wire.	60.00	829.00	600					
		(c) Copper Scrap Gr. IV	620.00	3608.40	5,000					
		(d) Non-ferrous metal scrap Gr. IV	123.20	994.22	950	15,000			Dr.	
		(e) Non-ferrous metal scrap Gr. II	322.50	2167.20	3,000					

3.	30-11-70	Non-ferrous mixed scrap Gr. IV—Mixed Copper turning.	5,000	44,100	57,500	46,700	..	2-11-70	1390 (16-11-70) 1360 (23-11-70) 1370 (30-11-70)
4.	28-6-71	(a) Non-ferrous mixed metal scrap IV—Mixed Copper turning. (b) Non-ferrous mixed metal scrap IV—Tinner Copper Wire.	10,000	88,200	93,400			17-5-71	1410 (7-6-71) 1460 (21-6-71) 1460 (21-6-71)
5.	30-8-71	Non-ferrous metal scrap Gr. IV(C)—Mixed Co- pper Turning.	10,000	88,200	1,00,000	90,000		26-7-71	1410 (16-8-71);23 1430 (30-8-71)
6.	17-2-72	Copper Scrap Gr. III	30,000	2,71,800	3,00,000	2,76,000		13-1-72	1360 (7-2-72) 1370 (21-2-72)
7.	4-4-72	Copper Scrap Gr. III	5,000	45,300	50,000	63,500		11-1-72	1360 (3-4-72)
8.	9-10-72	Non-ferrous metal scrap Gr. IV—Mixed Copper Turnings.	6,000	54,360	60,000	66,000		25-8-72	1380 (2-10-72) 1400 (9-10-72)

NOTE.— (a) Since a very large number of bidders attended all the auctions no record of the actual number was maintained. The bidders were escorted to the site of the auction by the Security Staff and were watched by the Security staff until they left factory premises.
 (b) Reserve prices were fixed by a Board of Officers consisting of two technical officers of the factory & one Accounts officer on the basis of condition of the scrap, price obtained a previous sales & the prevailing market rate of similar types of scrap.
 (c) Market rate of identical quality of scrap is not available. The market rates of Copper scrap as reflected in Eastern Market Review are indicated in Col. 11.

APPENDIX III

(vide Para 1.41 of the Report)

No. 212|2|SP|C

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE

D.G.O.F. 6, Esplanade East,
Calcutta-1, the 11th May, 1973.

To

All Factories,

SUBJECT: *Procedure for disposal of surplus stores and waste products etc. in Ordnance Fys.;*

REFERENCE: *This office circular letter No. 212|2|SP|C, dated 1st August, 1972.*

Normally factories ask for offers submitted in response to their advertised tenders for disposal of surplus stores etc. to remain open for a period of 2 months from the date of opening of the tenders. After preparation, the CSTs alongwith their recommendations are to be forwarded to the DGOF|RD concerned through Accounts channel for final decision. In this connection your attention is drawn to this office circular letter No. 109|SP|D, dated 23rd April, 1971.

2. Despite the clear instructions issued under the above quoted circular, instances have come to notice where the factories have furnished CST to this office without giving the required informations|particulars either in the CST or in their letters forwarding the proposal thereby causing difficulties|delay in finalising such proposal expeditiously. To obviate unnecessary back references it is again impressed that while forwarding your proposals regarding disposal of surplus stores etc. on the basis of advertised tender all the relevant information|particulars as laid down in the above quoted circular dated 23rd April, 1971 are duly furnished.

3. In this connection your attention is invited to this office circular letter No. 212|2|SP|C, dated 29th September, 1972. The Factories have been instructed to submit the proposals to their res-

pective RDs for disposal of surplus stores, waste products etc. against advertised tenders.

In order to ensure that finalisation of the proposal is made within the validity period of the offer, the following time schedules should be strictly adhered to henceforth:—

Submission of proposal in respect of advertised tender requiring decision of RDs.

(i) From the date of opening of the tenders, the proposal should be submitted by the factory to their respective LAO within 5 days.

(ii) The LAO on receipt of factory's proposal will transmit the same with their comments to the Internal Financial Adviser within 7 days.

The Internal Financial Adviser on receipt of the proposal from the LAO would forward the same to the R.D. concerned within 7 days.

(iv) The RD concerned will communicate his decision to the factory concerned within 3 days after receipt of proposal from the Internal Financial Adviser.

(v) The Factory concerned will communicate their decision to the parties concerned within 3 days from the date of receipt of decision from the R.D.

Submission of proposal in respect of advertised tender requiring decision of DGOF

(a) From the date of opening of the tenders, the proposal should be submitted by the factories to their LAO within 5 days.

(b) The LAO on receipt of Factory's proposal will transmit the same with their comments to the CDA|Fys. within 7 days.

(c) The CDA (Fys.) on receipt of the proposal from the LAO would forward the same to DGOF within 7 days.

(d) The DGOF will refer the case of DFA|Fys. within 4 days.

(e) DFA|Fys. will return the case to the DGOF within 3 days.

(f) DGOF will communicate the decision to the factory within 4 days.

(g) The factory concerned will communicate the decision to the parties concerned within 3 days from the date of receipt of the decision from the DGOF.

4. In cases where the validity period is less than the period of 2 months and the offer is considered attractive and valid in all respects, such cases should be dealt with on most expeditious manner and proposal should be submitted forthwith ignoring the aforesaid time schedule, so that the case is finalised within the validity period.

5. As regards Excise Duty, instructions contained in Central Board of Excise and Customs, New Delhi letter No. F.23|6|70|C. 6, dated 20th June, 1972 circulated under this office letter No. 212|XX|V|III|2|SP|C, dated 15th September, 1972 should be rigidly followed.

6. Kindly acknowledge receipt.

Sd/-

I. B. BHOSH,

ADGOF|SP,

For Director General, Ordnance Factories.

APPENDIX IV

(Vide para 1.42 of the Report)

No. F.4|19|73|D(Prod)

GOVERNMENT OF INDIA

MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION

New Delhi, the 1st December, 1973.

OFFICE MEMORANDUM

SUBJECT: Formation of study group to review the procedure for disposal of scrap|waste material.

It has been decided to constitute a study group to review the existing procedure in regard to the disposal of surplus (a) Ferrous and (b) Non-ferrous scrap|waste items in the Ordnance Factories and to make suitable recommendations to the Government.

2. The membership of the study group will be as follows:

- (i) Shri Siri Ram—RD(NR) Convenor
- (ii) Shri R. N. Datta—DDGOF
- (iii) Shri A. N. Bhattacharya—DFA(Fys.)
- (iv) Shri R. Krishnamurthy—JCDA (Fys.)
- (v) Shri I. B. Ghosh—ADGOF (Member Secretary).

3. Terms of reference of the study group will be as follows:—

(i) To determine the types of (a) Ferrous and (b) Non-ferrous scrap|waste products arisings in the Ordnance Factories and their average annual quantum.

(ii) To examine whether there is scope for (a) their reutilisa-tion in the Ord Fys. or (b) utilisation in other Government De-partments|Public Undertakings and if so, to indicate the mode of their disposal.

(iii) To lay down the guidelines to determine the best mode of disposal of the scrap|waste products that cannot be utilised in the Ord Fys|other Government Departments| Public Undertakings, i.e., whether by auction, open tender or running contracts.

(iv) to determine;

- (a) whether there is any scope for further modification of the existing powers of GM|RD in respect of scrap|waste materials.
- (b) whether the existing time schedule in respect of disposal by tender|auction requires any further modification.
- (c) whether the existing procedure for the fixation of reserve price for auction sales provides adequately for taking into account the market rate|Market trends of prices and whether this procedure requires any modification to safeguard the Government's interests and any inbuilt system can be introduced for watching market rates| trends as guidance for auction|tender sales.
- (d) whether the powers of the auction Supervising Officer to accept bids below the reserve price requires any modification.
- (e) whether the existing procedure of acceptance of offers against tenders requires any modification to ensure the maximum realisation of revenue, dependent on market rate.

The study team may make a test check of a few cases in this connection to examine how far the market rates|market trends have taken into consideration while fixing reserve prices. The study team may also hold discussions with MMTC.

(v) Any other relevant points relating to disposal of non-ferrous scrap|waste products.

4. The Study Group will submit their report within three months.

Sd/- (AMAR CHAND),
Under Secy. to the Govt. of India.

DGOF Calcutta

DFA (Fys), Calcutta

CDA (Fys), Calcutta

Copy to:— FADS

CGDA

Addl. DGOF (OEF)

RD (CR)

Members (by name).

APPENDIX V

Summary of main Conclusions/Recommendations

Conclusion/Recommendation

S. No.	Para No.	Ministry/Department Concerned	Conclusion/Recommendation
1	2	3	4
1	1-26	Defence Production	<p>The Committee are deeply concerned to note serious delays in the sale of 21.95 tonnes of copper scrap by an Ordnance Factory which resulted in a loss of Rs. 1.50 lakhs. The scrap was disposed of at Rs. 9200 per tonne as against the highest offer at Rs. 16133.65 per tonne initially obtained. The following narration of facts would indicate strongly the possibility of collusion with intent to defraud Government:</p> <p>(i) The tenders were initially invited in November/December, 1969 and were opened on 29th December, 1969. The factory took as long as 25 days to scrutinise the tenders and forwarding its recommendation to the DGOF. The Secretary, Defence Production, admitted during evidence that he had his own doubts whether the entire period of 25 days should have been spent on this effort.</p> <p>(ii) The highest offer of Rs. 16,133.65 per tonne was valid upto 27th March, 1970. The factory did not remind the DGOF at all to bring to his notice the date of expiry of</p>

the offer. No satisfactory explanation is forthcoming for this lapse.

(iii) The DGOF advised the factory by an Express delivery letter on 13th March, 1970 to accept the offer. But factory received the letter only on 27th March, 1970 after a lapse of 14 days. No specific explanation for this unusual delay in transit could be obtained. It is equally strange that a copy of the DGOF's letter endorsed to the Factory's Financial Officers never reached them at all.

(iv) The acceptance of the offer was not communicated to the tenderer on 27th March, 1970 itself and it was done only on 10th April, 1970 and the tenderer backed out.

(v) The tenderer's offer was close to the market rate of copper scrap reported in the Eastern Market Review. There was fall in market rate by Rs. 1400 per tonnes between the period 15th December, 1969 and 23rd March, 1970, which meant a reduction of Rs. 30,730 in the value of 21.95 tonnes of copper scrap to be purchased by him. Therefore, the lapses and delays which led to the tenderers backing out assume significance. The Secretary, Defence Production had to admit during evidence possibility of foul play.

(vi) The scrap was retendered in June/July 1970 and the tenders were opened only on 11th September, 1970. It

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is surprising that tenders were kept open after the closing date.

(vii) The highest offer on this occasion was Rs. 14,661 per tonne as against the market rate ranging from Rs. 14,500 to Rs. 14,700 during August, 1970 and the beginning of September, 1970. The offer was valid upto 9th December, 1970. There was inordinate delay in recommending the acceptance of the offer.

(viii) The DGOF advised the Factory telegraphically on 28th November, 1970 to accept the offer. Strangely again the telegram reached the concerned Section of the Factory at 5.00 P.M. on 8th December, 1970, just a day prior to the expiry of the tender.

(ix) The Factory communicated the acceptance on the 9th December, 1970 and the tenderer revoked the offer on the ground that the validity period had expired. In this connection it should be noted that there was a fall of Rs. 1300 per tonne in the market rate of copper scrap between the end of July, 1969 and the beginning of December, 1970.

(x) There was again delay in getting the opinion of Ministry of Law regarding the contention of the tenderer. The

Opinion could be obtained only in October, 1971. Curiously the factory is reported to have misplaced the files called for by the Ministry of Law. Four reminders had to be sent by the DGOF to the factory but in vain.

(xi) According to the Ministry of Law a contract had legally come into existence between the parties on 9th December, 1970. Unfortunately earnest money of Rs. 2500 only could be forfeited and the loss sustained by Government could not be recovered owing to delay in arranging resale.

Whatever enquiry was made earlier was clearly of a slipshod nature. The Committee, however, learn that after they took evidence, the case has been handed over to the CBI for investigation, a step which ought to have been taken much earlier. The Committee expect the CBI to go, *inter alia*, into lapses/irregularities mentioned above expeditiously. The Committee desire that exemplary action (including penal recovery) should be taken against the officers and staff found to have indulged in corrupt practices. The Committee would await a detailed report in this regard.

Another aspect of the case which causes distress to the Committee is the fixation of the reserve price for auction without due regard to the market rate. The scrap in question was auctioned in February, 1972. The reserve price fixed was only Rs. 10,000 per tonne when the market price was Rs. 13,600 per tonne. The price

Defence Production

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obtained was Rs. 9,200 per tonne which was slightly higher than the book value of Rs. 9060 per tonne. The Committee have obtained the details of the auction of copper scrap by this Ordnance Factory during the past 5 years and found that in all the cases the reserve price was very low when compared to the prevailing market rate and the price obtained in some cases was even less than the reserve price but was slightly higher than the book value. This gives an impression that the bidders somehow come to know of the reserve price as well as the book value and bid low. This impression is strengthened by the fact that whenever a tender is invited the quotations received closely followed the market rate. The Committee would, therefore, call for a thorough investigation of the auctions conducted to see whether there was any collusion.

The market rate of copper scrap was highly fluctuating during this period. It was per tonne Rs. 11,800 on 3rd February, 1969, Rs. 16,800 on 15th December, 1969, Rs. 12,900 on 14th January, 1971 Rs. 14,600 on 21st June, 1971, Rs. 12,800 on 29th November, 1971 and Rs. 15,500 on 19th March, 1973. Therefore, Government ought to have been very careful to safeguard their interests without allowing the purchasers to speculate at their cost. Unfortunately the reserve price fixed for auction is close to the book value computed with reference to the cost of acquisition which is totally irrelevant in a widely fluctuating market. The Committee therefore, stress

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Defence Production

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that the procedure for disposal of scrap and the method of valuation should be rationalised forthwith not only by the Defence Department but also by all the other Departments concerned. The Committee would also in this context recommend that the advisability of Government having their own melting and refining plants should be examined.

Incidentally the Committee would also like Government to consider setting up a sort of Metal Bank or Clearing House so that it can be ensured that the metal especially non-ferrous, rendered surplus or unfit for a particular use in one organisation can be profitably utilized elsewhere without being disposed of at a loss. The Committee consider this step necessary because non-ferrous metal is becoming costlier and scarcer in the market and it is essential to make the best use of what is already available with the Government.

The Committee are distressed to find that Government sustained a loss of Rs. 2.20 lakhs as a result of allowing an attractive offer for the purchase of 72.32 tonnes copper scrap from an Ordnance Factory, to lapse. They have noticed the following deficiencies and lapses in this connection:

- (i) Although the Ordnance Factory was clear that the scrap was not liable to excise duty, it was not mentioned in the tender notice for reasons better known to them. The tenderers were, therefore, left in doubt about the position. The sale offer was made less attractive to the tenderers.

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(ii) The highest offer was inclusive of excise duty, if leviable. As the Factory was clear about its non-leviability it should have been brought to the notice of the DGOF while recommending the offer for his acceptance. Unfortunately again this was not done.

(iii) A lot of time was lost in unnecessary correspondence between the Ordnance Factory and the DGOF and in the meantime the period of validity of the offer expired on 27th July, 1970.

(iv) Significantly enough the telegram sent to the DGOF on 18th July, 1970 by the Factory mentioned that the excise duty was leviable while post copy of the telegram mentioned that no excise duty was leviable which is reported to have caused confusion necessitating further correspondence.

The Committee desire that the above lapses should be thoroughly investigated having regard to the fact that there was fall of Rs. 600 per tonne in the market value of the scrap during the period from the date of invitation of tenders to the date of expiry of the highest offer. As there was a reduction of about Rs. 43,000 in value of 72.32 tonnes of copper scrap to be purchased by him, the tenderer would

seem to have manipulated with the help of dishonest officials to see somehow that his tender was not accepted within the period of validity. The Committee, therefore, urge that severe action (including penal recovery) should be taken against the officials found to have indulged in malpractices. They are further of the view that this is also a fit case for a probe by the C.B.I.

6 1.44 Defence Production/Finance/
Supply/Railways

The Member, Central Board of Excise and Customs informed the Committee that by a notification issued on 16th July, 1966, scrap was exempted from excise duty. As per subsequent notification dated 4th March, 1967, all the scrap in the market is deemed to have discharged the crude stage duty at Rs. 1500 per tonne. It is strange that the DGOF is stated to be not aware of this position. The Committee find that excise duty has been paid in respect of disposal of some cases of copper scrap even after 1967-68 since it could not be certified that the duty had already been paid on the virgin copper from which the scrap arose. There would, however, appear to be no question of verifying the payment of crude stage duty after 4th March, 1967. The Committee, therefore, desire that the matter should be gone into, inter alia, for giving suitably revised clear instructions to the lower formations so that the disposal of scrap may not be delayed. Similar action should be taken by the DGS & D, Railway Board and other organisations who are disposing of scrap materials.

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The Committee note that after they took evidence, Government have constituted a Study Group to review the existing procedures

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in regard to disposal of scrap in the Ordnance Factories. The steps taken to utilise the scrap as much as possible and to dispose of the balance in the best interests of Government, arising out of the study, may be reported to the Committee.

The Committee also consider that the entire procedure should be revised so as to reduce the occurrence of delays in the scrutiny of tender and its final acceptance. They note that normally tenderers are expected to keep open their offers for a period of two months and that certain time schedule is laid down recently for the submission of the proposals for acceptance. In a widely fluctuating market, it is inappropriate to fix so long a time limit. It should be cut down as much possible to safeguard the interests of Government.

As early as February, 1963, the setting up of a heavy engineering factory was approved. Owing to foreign exchange difficulties, it was decided in April, 1964 to execute the project in two phases. In October, 1965, it was again decided to execute Phase I in two parts due to non-availability of foreign aid. The Committee regret that no firm target date appears to have been fixed by Government for completion of the factory. The lack of proper planning and tardy implementation of the project is discussed in the succeeding sections.

The cost of Phase I of the project was estimated at Rs. 37.92 crores in April, 1964. This was subsequently revised to Rs. 51.58

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Defence Production

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crores. The actual cost is expected to be of the order of Rs. 56 crores, presumably after dropping construction of certain civil works and cutting down on procurement of machines. Thus neither the requirements were assessed properly nor the estimates prepared realistically, which causes concern to the Committee. This is certainly not the way to sanction a project requiring such huge investments and involving considerable precious foreign exchange.

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The Committee find that as against the requirement of 1869 machines for the various shops orders were placed for 1415 out of which only 1201 have been received and 1145 commissioned so far. Giving reasons for going slow on the procurement, the Secretary, Defence Production, stated that the Department were not sure of the demand for the various items, to be produced as well as its urgency. He also informed the Committee that it was proposed to review the requirement of the machines so as to cut it own as much as possible. The Committee regret that the position is so uncertain even after 10 years of conceiving the factory. They desire that the proposed review should be carried out with the utmost expedition and action taken to establish early adequate production of the required items.

12. 1.70

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The Committee had also occasion to examine certain other defence projects. They are not at all satisfied with the manner in which the projects were conceived, planned and executed. In this connection they would refer to their observations contained in paragraph 2.29 of the 82nd Report and paragraph 2.21 of the 92nd Report

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(Fifth Lok Sabha). Government ought seriously to consider what is wrong with the system of planning and execution and take steps to see that the shortcomings are overcome early.

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Defence Production

The Committee find that although the factory has gone into production of certain items included in Phase IA, which, however, is nowhere near the targets fixed, there has been no production so far of items included in Phase IB. Capacity for production of a number of items has not yet been established either because of the delay in finalising designs or they have been abandoned as unsuitable to Army. In the case of one item which has been abandoned, plant and machinery procured at the cost of Rs. 68.80 lakhs are idling. In certain other cases the production is either low or nil owing to inadequate demand or lack of demand altogether or due to defect in machines and equipment. The shortfall in production and delay in establishing production in this factory vitally affected production in the newly established filling factory, the production of which was only about 3.2 per cent of its capacity. Both these causes must have also affected equally seriously the production in the connected explosives factories. All this calls for an immediate investigation at Government level. The Committee strongly feel that all the connected projects involving investments of the order of about Rs. 100 crores were neither properly conceived nor planned in depth nor was their execution synchronised. They cannot but deplore this

degree of inefficiency and disregard of public money. They would, urge a comprehensive inquiry being carried out forthwith.

The utilisation of the installed capacity is as low as 2 per cent for certain items. Although the Secretary, Defence Production, has pleaded that the installed capacity should be viewed as a sort of insurance against war-time requirements, the Committee are concerned about the idling of the costly machines as also of the skilled personnel. They were informed that the Ministry of Heavy Industry have been asked to find out work for this factory to meet civil requirements for various engineering products. As the Committee find that the machines, barring 10 per cent to 15 per cent of them, are general purpose ones which could be converted to diversify production to meet civil needs, they desire that the question should be considered on a priority basis so gainfully employ the men and machinery. In fact this question should have engaged the attention of Government from the very beginning.

A heat treatment plant ordered on a firm in November, 1967 and due to be delivered by January, 1969 had not been delivered even after a lapse of more than 6 years and the contract had to be ultimately cancelled. The question of recovery of general damages from the firm is stated to be under consideration in consultation with the Ministry of Law. The Committee would like Government to come to an early decision in the matter and inform them.

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| 16. | 1.92 | Defence Production | <p>The Committee regret to find that there was loss of production of a component of an item due to supply of three defective furnaces by an Indian firm and inordinate delay in commissioning them. The firm is still carrying out rectifications/modifications to the furnaces. The Committee would like to know the amount of damages recovered from the firm.</p> |
| 17 | 1.92 | -do- | <p>A sum of Rs. 5.77 lakhs was paid between December, 1970 and October 1971, to a firm against supply of conveyors which were later on rejected and the amount has not been recovered from the firm so far. The Committee would like to know how the defective supply was passed on inspection and whether any responsibility was fixed for the negligence. This and the progress in the recovery of the amount should also be reported to the Committee.</p> |
| 18. | 1.93 | -do- | <p>The Committee further note that out of the six Air Receivers to be supplied by a firm in May, 1970, only one Air Receiver was received in January, 1973. The Committee desire that the question of recovering liquidated damages in this case should be considered.</p> |
| 20. | 1.99 | -do- | <p>The Committee note with concern that 110 buildings of the Filling Factory constructed by the Public Works Department of the Government of Maharashtra revealed serious structural defects. According to investigations made by the Central Building Research Institute, Roorkee, the defects were due to inadequate soil testing, use of sub-standard and improperly cured bricks; and poor quality</p> |

of workmanship. The Ministry stated that the matter of carrying out repairs of these defective buildings estimated to Cost Rs. 9.20 lakhs has been taken up with the Government of Maharashtra. The progress made in the matter may be reported to the Committee.

21 1.111

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The Committee regret that there was inordinate delay in establishing the manufacture of assault bridges which was decided upon as early as April, 1963. There was also lack of synchronisation of the civil works and the procurement of machinery. It is distressing that not a single assault bridge could be manufactured upto January, 1973. In the meantime it is significant that as many as 8 bridges costing Rs. 3.23 crores had to be imported to meet an urgent need. It is unfortunate that although production was planned so far ahead the execution was so unsatisfactory that it could not materialise at a time when the country needed it most. The Committee would like to know the progress achieved in indigenous production against the target of 12 bridges per year two years after commissioning the project and the steps taken to achieve the target.

22 1.112

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A decision to instal the extrusion press needed for the assault bridge was taken in November, 1966. The press and ancillary equipments were received during August, 1968 to June, 1969, but the press could not be installed as the buildings were not ready till October/November, 1972. The slow progress in the construction of the buildings is attributed to the non-availability of about 400 tonnes of critical sections of steel. It is regrettable that this requirement was not thought of well in advance and supplies ensured in time.

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The matter requires to be examined in consultation with the Ministry of Steel so that procedures would be devised and implemented whereby the critical defence needs could be met in time.

The Committee desire that the production of assault bridges should be established without further loss of time.

23 1.113

Defence Production

24 1.114

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They have been informed that over the next 10 years about 40 per cent of the capacity of the extrusion press would be sufficient to meet Defence purposes. The possibility of utilising the remaining 60 per cent of the capacity is being explored. Here again the Committee feel that the question of spare capacity should have engaged the attention of Government when they decided to go in for large size press in December, 1965, so that it could be adequately utilised from the date of commissioning of the press. However, the Committee would await the result of this belated attempt.

25 1.125

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The Committee are concerned to note that the order placed on the Ordnance Factory in June, 1965 for manufacture of 2750 Nos. of an item required for a weapon could not be executed as no action was taken by the General Manager of the Ordnance Factory. It is surprising that although the order was important, no one followed it up closely. It is now presumed by the Ministry that the General Manager did so as he was aware that it was not possible for the Factory to undertake the manufacture of this item. Had he intimated the position to the DGOF, alternative sources could have been

located. However, as the General Manager has since expired, the Committee suggest that strict instructions should be issued to the General Managers of the Ordnance Factories that lapses of this type should be avoided.

An indent for the supply of an item was placed by the Ordnance Depot in October, 1964. Apart from a reminder to the Ordnance Factory with a copy endorsed to the DGOF in March 1966, which, strangely enough does not appear to have been received by either of them, there was no follow-up by the indenter till August, 1971. The Ordnance Factory having expressed its inability to manufacture, 2750 items had to be airlifted (freight Rs. 0.36 lakhs) from abroad to meet urgent requirements at an extra cost of Rs. 0.59 lakhs. It is clear that the system in operation at present is unsatisfactory or inadequate. Since in this case, it led to considerable expenditure in foreign exchange having to be incurred, the Committee would like Government to examine the procedures and system with a view to taking steps to ensure that costly lapses of this nature do not recur.

According to the Ministry, the Director General, Ordnance Factories could not take this item into consideration which planning the production of the weapon, because the item in question was not one of those included in the scale given by the foreign manufacturers when two weapons were imported in 1959 to assist in establishing indigenous production. The Committee would like to know whether it was not a breach of contract by the foreign firm and if so what action was taken.

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The Committee further regret that no serious efforts were made by the DGOF to procure the item from trade in time with the result that the item had to be imported on several occasions. They hope that in future all possibilities of locating indigenous manufacture of defence stores would be explored and in time before placing orders abroad for import.

Defence Production

28 1. 128

The Committee find that while the price of the episcopes purchased from the trade was Rs. 645 each, its cost of production in the Ordnance Factory was Rs. 1192.13 in 1967-68 which was progressively brought down to Rs. 1000.36 in 1972-73. Further, the explanation given for such a high cost of production in the Ordnance Factory is not quite convincing. The Committee, therefore, desire that there should be no avoidable duplication of efforts and that the cost structure of the Ordnance Factories' production should be gone into in a scientific manner with a view to bringing down the costs. In this connection they would recall their observations contained in paragraph 2.88 of their 82nd Report (Fifth Lok Sabha).

29 1. 140

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The Committee are quite definite that once a line of manufacture is established in the Ordnance factory it should not be closed down merely because the item can be procured at a lower rate from private sector units. Instead the Government should study the cost structure of the suppliers in private sector so as to ascertain why it is that the Ordnance factory cost is higher and then take action to effect economies particularly in overheads and improve efficiency.

30 1. 141

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WEST BENGAL		32.	Lakshmi Book Stores 42, Municipal Market, Janpath, New Delhi.
21.	Grantholoka, 5/1, Ambica Mookherjee Road, Belgharia, 24-Parganas.	33.	Bahree Brothers, 188, Lajpat Rai Market, Delhi.
22.	W. New Man & Company Ltd; 3, Old Court House Steet, Calcutta,	34.	Jaina Book Depot Chhapparwals Kuan, Karol Bagh, New Delhi.
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30.	The Central News Agency, 23/90, Connaught Place New Delhi.		
31.	The English Book Store, 7-L, Connaught Circus, New Delhi.		

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